



Weekly Investment Commentary

Volume 3

Edition 38

September 16, 2016



David N. Frazier

Stocks Headed Lower, Stay Primarily in Cash and Low-Risk Income Securities

September 16, 2016 (10:00 am U.S. Eastern Time)

After falling sharply on September 9, U.S. stocks traded in a volatile sideways pattern during the week of September 12-16, with the Dow Jones Industrial Average falling by only 74 points (0.4%), the S&P 500 Index also declining by only 0.4% and the Nasdaq Composite Index declining by a mere 0.3% as of 10:00 am Eastern Time on Friday, September 16, as compared to the prior week's close.

In contrast, the European Economic and Monetary Union Index ("EMU") had declined by 2.6%, Japan's Nikkei 225 Index had fallen by 3.3%, China's Shanghai Composite Index had dropped by 2.5% and India's BSE Sensex had declined by 1.3% from their respective closes on Friday, September 9. During that same period, Brazil's Bovespa pulled back considerably but then rallied this past Thursday, closing the week down only 0.2%, as compared to its prior week's close.

With the latest readings on economic indicators for the United States suggesting that the country's pace of economic growth will decline for the sixth consecutive quarter for the three months ending September 30, 2016, I expect U.S. stock prices, in general, to resume their September 9 downturn during the coming week and to trend lower during the month ahead. However, in the event that Donald Trump were elected on November 8 as the next U.S. President, I would expect U.S. stocks to trend substantially higher than their current levels during 2017.

In regard to the readings on some key indicators, data released on September 15 by the U.S. Department of Commerce reveal that, on a seasonally-adjusted basis, sales at U.S. retail stores declined during August, as compared to the prior month, after slowing considerably during July. On a year-over-year basis, retail sales rose during August at the slowest pace since February 2014.

Meanwhile, the Federal Reserve reported on September 15 that industrial production at U.S. factories, mines and utilities also declined during August, as compared to the prior month. On a year-over-year basis, industrial production declined for the 12th consecutive month during August, falling by 1.1%, as compared to the same month a year ago.

In regard to economic developments abroad, the statistical office of the European Union reported on September 14 that industrial production at Eurozone factories, mines and utilities declined, on a seasonally-adjusted basis, during July for the first time since December 2015, falling by 0.5%, as compared to the same month a year ago.

Separately, Japan's Ministry of Economy, Trade and Industry reported on September 14 that industrial production in Japan declined for the fifth consecutive month during July, falling by 4.2%, as compared to the same month a year ago.

On a positive note, new orders for machinery placed by Japan's manufacturing companies rose for the second consecutive month during July, the latest month for which data are available. That's a very positive development, with orders for manufacturing machinery being a reliable leading economic indicator for Japan's economy. Hence, there's a good chance that Japan's pace of economic growth will increase over the next couple of months.

Meanwhile, China's National Bureau of Statistics reported on September 13 that industrial production at China's factories, mines and utilities rose by 6.3%, while sales at the country's retail store rose by 10.6%, during August, as compared to the same month a year ago. The substantial increase in China's industrial production and retail sales suggest that the pace of economic growth in China will also increase over the next couple of months.

Financial Market Developments

In regard to developments in the worldwide financial markets, persons who invest in stock mutual funds withdraw massive amounts of money from those funds during the past two months. Specifically, the Investment Company Institute, which collects data on thousands of mutual funds around the globe, estimates that mutual fund investors withdrew \$37.255 billion from stock mutual funds during August after withdrawing the largest amount of money since January 2008 from those funds during July.

And, data collected by State Street Global Investors, which collects information on thousands of institutional investment portfolios around the world (i.e. pension funds, endowment funds and insurance company funds) indicate that those investors became much more pessimistic during August regarding the future direction of stocks, with those investors reducing their allocations to growth and cyclical stocks and increasing their allocations to so-called "defensive stocks" substantially during August.

Meanwhile,, the latest reading on our proprietary Sector Performance Index trended lower over the past four weeks, indicating that U.S. stock prices, in general, will move lower over the next few weeks.

Recommendations

As a result of the mixed economic developments and negative financial market developments mentioned in the sections above, I'm advising my firm's clients and persons who subscribe to our **Weekly Investment Commentary** to continue to allocate the majority of their financial market assets to cash-like investments (i.e. money-market securities) and to a few relatively-safe, yet high-paying dividend securities, including **Gabelli Equity Trust Inc. Series H Cumulative Preferred Stock (GAB-PH)**, **Welltower Inc. (HCN)**, and **Nuveen S&P 500 Buy-Write Income Fund (BXM)**.

Additionally, I'm advising our clients and subscribers to continue to hold their positions in **JPMorgan Alerian MLP Index ETN (AMJ)** and **E-TRACS Alerian MLP Infrastructure ETN (MLPI)**.

Although crude oil prices pulled back during the week ended September 16, statistics issued by the U.S. Energy Information Administration indicates that the worldwide demand for oil and other petroleum products rose more than the worldwide supply of petroleum products over the past two months, and that the demand for oil rose above the supply of oil during the first half of September.

In light of the positive demand-supply relationship mentioned above, and my research indicating that the exchange-value of the U.S. dollar will decline over the next few weeks, I expect oil and gas prices to rebound and for AMJ and MLPI to move higher over the next couple of months. And, my research indicates that oil and gas prices, and both AMJ and MLPI, will trend substantially higher than their current levels during the year ahead.

This report is published by Frazier & Mayer Research, LLC. This publication is intended solely for informational purposes and should not be construed, under any circumstances, by implication or otherwise, as an offer to sell or a solicitation to buy, sell or trade in any securities herein named. The information contained in this report has been obtained and compiled from sources deemed to be reliable. However, we do not guarantee the completeness, accuracy, and/or usefulness of that information. That information should be used as references only with your own discretion. The owner, publisher, and editors of this report are not responsible for any errors and/or omissions.

The content of this report should not be construed, under any circumstance, as an express or implied promise, guarantee, or implication that you will profit from or that any potential investment losses can or will be limited in any manner whatsoever. Any investment or trade recommendation made in this report is taken at your own risk for your own account. Frazier & Mayer Research, LLC does not guarantee, and readers of this report should not assume, that the future performance of our investment and/or trade recommendations will equal the past performance of those recommendations. The publisher of this report and/or its principals, officers, employees, associates, or affiliates may, at any time, invest in and trade the securities covered in this report. You are prohibited from copying or redistributing this report without obtaining express written permission from Frazier & Mayer Research, LLC.

Published by Frazier & Mayer Research, LLC

6489 Chasewood Drive, Suite C

Jupiter, FL 33458