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Market Month: August 2014



The Markets

Investors regained an appetite for risk in August, seeming to focus on generally encouraging Q2 economic data and corporate earnings reports rather than tensions overseas. The optimism took the S&P over 2,000 for the first time and gave the index its 32nd record close of 2014. Both the Dow industrials and the small caps of the Russell 2000 regained positive territory for the year, while the Nasdaq widened its year-to-date lead. And despite global conflicts, the Global Dow rebounded from its losses of the previous month.

Despite some volatility during the month, gold ended August at \$1,285 an ounce, not far below where it began. The price of oil slid roughly \$2 a barrel to end just under \$96 a barrel. And the benchmark 10-year Treasury yield fell to a level it hasn't seen in more than a year as demand pushed prices up.

Market/Index	2013 Close	Prior Month	As of 8/29	Month Change	YTD Change
DJIA	16576.66	16563.30	17098.45	3.23%	3.15%
Nasdaq	4176.59	4369.77	4580.27	4.82%	9.67%
S&P 500	1848.36	1930.67	2003.37	3.77%	8.39%
Russell 2000	1163.64	1120.07	1174.35	4.85%	.92%
Global Dow	2484.10	2579.30	2618.91	1.54%	5.43%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.04%	2.58%	2.35%	-23 bps	-69 bps

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

The Month in Review

- The U.S. economy grew slightly faster during the second quarter than previously thought. The Bureau of Economic Analysis said the 4.2% initial estimate of gross domestic product was revised upward from 4% primarily because of an increase in the value of commercial construction and business investment in equipment. Meanwhile, corporate after-tax profits rebounded from Q1's -16.3% decline, rising 8.3% during Q2.
- The unemployment rate remained at its lowest level in almost six years (6.2% in July), which is more than a full percentage point below a year earlier. The Bureau of Labor Statistics also said the 209,000 new jobs added to payrolls in July roughly equaled the average monthly job gains over the last year.
- Despite the improved job market, the Federal Reserve still had plenty of leeway to maintain the measured pace at which it's been winding down bond purchases. Assuming the process continues at its current pace, new bond purchases are expected to come to a halt in October. And at the Federal Reserve's annual Jackson Hole symposium, Chair Janet Yellen cited continued slack in the labor market as one reason not to accelerate any interest rate increases.
- A 318% increase in orders for commercial aircraft led to a 22.6% surge in durable goods orders in July. The Commerce Department said that excluding transportation, orders actually fell 0.8%, while business

Key Dates/Data Releases

9/2: ISM manufacturing report, construction spending

9/3: Factory orders, Fed "beige book" report, auto sales

9/4: ISM services report, balance of trade, business productivity/costs, European Central Bank meeting

9/5: Unemployment/payrolls

9/9: JOLTS job turnover report

9/12: Retail sales

9/15: Industrial production, Empire State manufacturing survey

9/16: Wholesale inflation, international capital flows

9/17: Consumer inflation, FOMC meeting

9/18: Housing starts, Philly Fed manufacturing survey

9/19: Leading economic indicators, quadruple witching options expiration

9/22: Home resales

9/24: New home sales

9/25: Durable goods orders

9/26: Q2 GDP (final)

9/29: Personal income/spending

9/30: Home prices

investment in equipment was down 0.5% after a strong gain the previous month. Also, the Federal Reserve said a surge in auto manufacturing helped push industrial production to its sixth straight month of gains.

- The housing recovery seemed to be leveling off. Sales of new homes fell 2.4% in July, according to a Commerce Department report. That raised questions about the state of the housing market, especially since the National Association of Realtors® had reported the previous week that home resales had actually risen 2.4% during the month. Meanwhile, home prices in cities measured by the S&P/Case-Shiller 20-City Composite Index gained 1% in June, but all 20 cities experienced slower annual growth rates for the first time since February 2008. However, the future could be more promising; the Commerce Department said both housing starts and building permits were up strongly in July.
- Increases in the cost of food and shelter were partly offset by lower airline fares and the first decline in energy costs since March. The 0.1% increase in the Consumer Price Index was the smallest since February, according to the Bureau of Labor Statistics, and wholesale prices rose by the same amount. Meanwhile, the Commerce Department said retail sales were essentially flat for the month.
- Tensions stemming from the conflict over Ukraine continued to escalate. Russia banned many food imports from Europe, the United States, and several other countries in retaliation for tougher Western economic sanctions. Russian officials also raised the specter of increased retaliation against U.S. corporations after they shuttered eight McDonald's restaurants for alleged sanitary violations.
- The eurozone economic recovery stalled in Q2 as both Germany and Italy saw declines (Italy actually fell back into recession) and unemployment remained at 11.5%. However, the larger 28-member European Union's GDP increased by 0.2%, and European Central Bank President Mario Draghi expressed willingness to consider additional economic stimulus, possibly as early as the ECB's September 4 meeting.

Eye on the Month Ahead

Investors will watch to see if equities can sustain gains after light trading volumes rise to more typical levels once traders return to their desks from vacation. As the anticipated end of QE3 draws nearer, traders will focus on the Fed's September 17 announcement; any guidance on the timing of future interest rate hikes could move markets.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. Market indices listed are unmanaged and are not available for direct investment.

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