SYMPHONY
FINANCIAL SERVICES, INC.

Market Commentary
October 10, 2016

Dear Investors:

Was it good news or wasn't it?

The U.S. unemployment rate ticked higher last week. The September jobs report showed the United States added 156,000 new jobs in September. That was 16,000 fewer than economists were expecting and 11,000 fewer than were added in August, according to *Barron's*.

That doesn't sound like good news, does it?

On the other hand, the report showed more people are working and looking for jobs. Also, wages increased so people are earning more. *The Wall Street Journal* wrote:

> "The report – marked by a slight uptick in the unemployment rate to 5 percent – largely fit the narrative Fed Chairwoman Janet Yellen laid out for the labor market after the central bank's September policy meeting. People are rejoining the labor force in search of work. Many of them are finding jobs, but not all…Ms. Yellen sees the return of workers to the job search process as a healthy sign."

That sounds like good news, right?

The jobs report seemed to support the conclusion of *The New York Times* that there are two economic realities in the United States, "…healthy hiring and falling unemployment on the one hand, millions of economically sidelined Americans on the other…"

Uncertainty surrounding the jobs report caused U.S. stock markets to fall last week.

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Data as of 10/7/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	5.4%	7.9%	8.7%	13.3%	4.8%
Dow Jones Global ex-U.S.	-0.4	3.3	1.4	-1.6	3.5	-0.2
10-year Treasury Note (Yield Only)	1.7	NA	2.1	2.6	2.1	4.7
Gold (per ounce)	-4.7	18.6	10.1	-1.6	-5.3	8.2
Bloomberg Commodity Index	0.4	9.0	-5.0	-12.6	-9.6	-6.2
DJ Equity All REIT Total Return Index	-5.2	6.7	10.4	11.9	15.1	5.5

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

IS IT A CYCLICAL ROTATION?

Economic growth may not be predictable, but it tends to follow a pattern that is known as a business or economic cycle. Periods of recession (when the economy contracts) are followed by periods of growth (when the economy expands).

Some companies and market sectors tend to perform better during economic expansions. They're known as cyclical companies, and they make goods or deliver services – entertainment, automobiles, vacations, and so on – that people want to buy when they're feeling prosperous. Generally, people feel prosperous during periods of economic expansion. Other companies are called 'defensive.' They offer goods or services – food, beverages, personal products, and so on – that people need regardless of their wealth or economic conditions.

In recent months, we've seen what may be a rotation from defensive market sectors into cyclical ones. *Financial Times* explained the shift in U.S. markets:

> "The shift signals investors are worrying about high prices for the defensive, dividend-paying stocks that were in heavy demand in the first half as worries over the outlook for the global economy dominated…Indications of a potential rate increase this year and hopes that economic growth was improving were making unloved, cyclical parts of the market look more attractive."

If you look at returns for the first three quarters of the year, cyclical stocks and defensive stocks delivered almost the same performance. Through September 30, 2016, the MSCI ACWI Cyclical Sectors Index was up 4.8 percent and the MSCI ACWI Defensive Sectors Index was up 4.7 percent. The trend appears when you look at the numbers during the third quarter. During July, August, and September, cyclical sectors were up 8.2 percent and defensive sectors were down 0.7 percent!

It appears to be a cyclical rotation.

Weekly Focus – Think About It

"We know what we are, but know not what we may be."

--William Shakespeare, British playwright

Best regards,

John Y. Kim, J.D., LL.M.
President

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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*Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
*The MSCI all Country World Index is an unmanaged, free float- adjusted, market capitalization-weighted index composed of stocks of companies located in countries throughout the world. It is designed to measure equity market performance in global developed and emerging markets. The index includes reinvestment of dividends, net of foreign withholding taxes.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

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Sources:

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