

MONEYLETTER *Hotline*

Welcome to the Hotline for Wednesday, December 14, 2016

The Federal Reserve Open Market Committee (FOMC) raised interest rates by 25 basis points this afternoon. It was only the second increase since June of 2006. The Committee cited tighter labor conditions and expectations that inflation is headed toward their 2% target. Policymakers expect three additional hikes in 2017.

This move was completely expected. Although the market is trading off today, keep in mind US stocks have been on a steady march higher since early November. We don't expect this rate increase to do any serious damage to stock prices.

Consistent with that, we recommended last week that subscribers in all nine model portfolios shift 10% from bond funds to domestic stock funds. While Fed policy is pretty much baked into bond prices right now, the trend in interest rates is up. That's not a trend we want to fight when it comes to the bond market (floating rate issues excepted). In addition, the economic outlook is improving with fiscal stimulus likely on tap next year.

The specific fund exchanges recommended for our model portfolios are outlined in last week's Hotline.

New Fund Changes – For domestic stock funds, there is one new Buy this week: PowerShares Zacks MicroCap ETF (ticker: PZI). There are two new Holds: iShares Morningstar Mid Cap Value (JKI) and Neuberger Berman Large Cap Value Investor (the fund is closed, NPRTX). There is one new Sell this week: Meridian Growth Legacy (closed, MERDX).

For international stock funds, there are no new Buys this week. There are three new Holds: SPDR S&P China ETF (GXC), Guinness Atkinson Asia Focus (IASMX), and Guinness Atkinson China & Hong Kong (ICHKX). There are no new Sells this week.

Thank you for visiting the MONEYLETTER Hotline. The next Hotline will be available on our website in the Member Area at 11pm (EST) on Wednesday, December 21st and it will be emailed on Thursday morning December 22nd.