

The investment process is a combination of setting goals, determining strategy and monitoring performance. While the first two components are relatively static, performance is not. Individual investments and the stock market in general are influenced by a number of factors. These factors are tracked by what analysts call economic indicators — reports that present verifiable data to help investors get a sense of where the economy is headed.

## THE DATA-INFORMED INVESTOR

### Overview

The performance of an individual stock may be driven by company fundamentals, a corporate announcement or developments within its industry. However, broader movements within the stock market more often are driven by changes in the economy, investor sentiment and widespread trends across various market sectors. Dozens of key economic indicators signal changes in the direction of the economy. These regular reports are monitored to help investors, market analysts and wealth managers make day-to-day decisions about when, where and how to invest money.<sup>1</sup>

Leading economic indicators, which include data for employment, company profits, and supply and demand, can forecast the rise and fall of the business cycle. For example, corporate profits tend to increase during an economic expansion, slow down once the economy peaks and decrease as the economy shrinks. By reviewing the economic indicators that reveal when these events begin to take place, investors can decide whether and when to sell as the market ticks upward, hold steady or buy when prices decline.<sup>2</sup>

The following is an overview of the regular data releases generally considered the most reflective of the current economy with indications for the future.

### Gross Domestic Product (GDP)

Used as one of the primary indicators to measure the health of a country's economy, gross domestic product (GDP) reflects the sum total monetary value of all finished goods and services produced within the country during a specific time period.

### Price Indexes

The Consumer Price Index (CPI) is published each month by the Bureau of Labor Statistics to gauge inflation by tracking the prices of some of the most common goods and services purchased by urban consumers — such as food, transportation, clothing and medical care.

The Producer Price Index (PPI) measures the price changes of products from a broader cross section of industries in the goods-producing sectors of the U.S. economy.<sup>3</sup>



## Jobless Claims Report

The jobless report, published each week by the Department of Labor, also acts as an indicator of the economy. For example, unemployment filings tend to increase when the economy weakens. While released weekly, the reports are generally assessed as a four-week moving average (MA) to balance out variances from week to week. Note, too, that the report does not track job losses by part-timers, self-employed people and contract employees because they do not qualify for unemployment benefits.

## Housing

We often hear about a report referred to as “housing starts.” This is the New Residential Housing Construction Report, which is released by the Census Bureau and the Department of Housing and Urban Development (HUD). It details the number of new building permits issued, which serves as an economic indicator in terms of an increase or decrease in new construction activity (supply). For example, new construction tends to pick up early in the expansion phase of the business cycle.

Another leading economic indicator from the real estate sector is the Existing Home Sales Report, compiled by the National Association of Realtors. This report reflects new demand for home sales, with considerable seasonal variance. Together, the two provide a general picture of the housing sector as well as mortgage interest rates and overall consumer confidence.

## Consumer Confidence Index (CCI)

Speaking of confidence, the Consumer Confidence Index (CCI) measures perceptions and attitudes of the general population. Although it relies on a small sampling of consumers (5,000 U.S. households), it has proved surprisingly accurate in projecting consumer spending. The CCI is considered a valuable measure because consumer spending represents 70 percent of the economy. A continuing uptick in confidence can be a positive indicator for stronger economic growth.<sup>4</sup>

## Purchasing Managers' Index (PMI)

Another indication of consumer confidence and buying patterns is reflected in the Purchasing Managers' Index (PMI). This report compiles data (new orders, inventory levels, production, supplier deliveries and employment) from purchasing executives at approximately 300 companies in the manufacturing sector. A surge in new orders may indicate a pending increase in customer prices, and vice versa. For context, a PMI of more than 50 demonstrates that the manufacturing sector has expanded compared to the prior month. The PMI has a strong historical track record for predicting GDP growth.<sup>5</sup>



## Stock Market Indices

While investors have access to the broader stock market, performance benchmarks are generally composed of a representative collection of stocks with similar traits, such as market capitalization or sector. A particular stock market index is computed into a weighted average representing the underlying stocks and used to compare returns of specific investments or sectors. The following are some of the most popular stock market indices:<sup>6</sup>

- Dow — The Dow Jones Industrial Average (DJIA) is represented by the stocks of 30 of the largest and most well-known companies in the United States. Large swings in this index are generally a strong indicator of movement throughout the entire market.
- S&P 500 — The Standard & Poor's 500 Index is more diverse and is composed of 500 of the most widely traded stocks in the U.S. across an assortment of sectors. Because it represents about 80% of the total value of the U.S. stock market, the S&P 500 index represents much of the movement in the U.S. stock market as a whole.
- Wilshire 5000 — The Wilshire 5000 is composed of almost all publicly traded companies with headquarters in the U.S. It is extremely diverse and includes stocks from every industry.
- Nasdaq — The Nasdaq Composite Index is best known for representing technology stocks, although it also includes stocks from the financial, industrial, insurance and transportation industries, with some companies based outside the U.S. The index hosts both small and large firms as well as many speculative companies with small market capitalizations.
- Russell indices — The Russell 3000 is an index of the U.S. stock market's 3,000 largest publicly traded companies. The Russell 2000 is a market-capitalization-weighted index that is composed of the 2,000 smallest stocks in the Russell 3000.

***“Nothing has more impact on the direction of asset prices than economic conditions and how central banks respond to those conditions. Period.”<sup>7</sup>***

## Final Thoughts

As consumers and investors, we are continually bombarded with news and information designed to help us make better decisions. Unfortunately, there's such a thing as information overload, which can make it impossible to analyze so much data. As a result, we often end up doing nothing. When it comes to being a data-informed investor, it's important to remember that the leading economic indicators and other analyses support just one of the three components related to our investment success.



The primary component is determining our investment goals, which is guided by more subjective data such as how much money we would like to accumulate, by when and how much risk we're willing to take to achieve those goals. Next, it's a good idea to work with an experienced financial advisor to determine an asset allocation strategy designed to help meet those goals. This not only encompasses different asset classes, such as stocks, bonds and cash instruments, but also various types of products such as annuities or other insurance-based contracts that can provide a guaranteed payout.

Finally, it's important to monitor investment decisions on an ongoing basis to ensure that your strategy remains on target to meet your objectives. For this, staying abreast of data-driven reports may give us the best opportunity to predict how the economy and stock markets will perform in the future and further guide our investment decisions.

---

<sup>1</sup> FINRA. March 16, 2016. "Key Economic Indicators Every Investor Should Know." <http://www.finra.org/investors/key-economic-indicators-every-investor-should-know>. Accessed Jan. 24, 2018.

<sup>2</sup> Bruce Allen. Investopedia. "Leading Economic Indicators Predict Market Trends." <https://www.investopedia.com/articles/economics/08/leading-economic-indicators.asp>. Accessed Jan. 24, 2018.

<sup>3</sup> FINRA. March 16, 2016. "Key Economic Indicators Every Investor Should Know." <http://www.finra.org/investors/key-economic-indicators-every-investor-should-know>. Accessed Jan. 24, 2018.

<sup>4</sup> Bruce Allen. Investopedia. "Leading Economic Indicators Predict Market Trends." <https://www.investopedia.com/articles/economics/08/leading-economic-indicators.asp>. Accessed Jan. 24, 2018.

<sup>5</sup> Investopedia. "Purchasing Managers' Index - PMI." <https://www.investopedia.com/terms/p/pmi.asp>. Accessed Jan. 24, 2018.

<sup>6</sup> Kate Schick. Investopedia. Jan. 15, 2018. "An Introduction to Stock Market Indices." <https://www.investopedia.com/insights/introduction-to-stock-market-indices/>. Accessed Jan. 24, 2018.

<sup>7</sup> Landon D. Whaley. Investopedia. March 17, 2017. "Why Investors Should Be Data Dependent." <https://www.investopedia.com/advisor-network/articles/why-investors-should-be-data-dependent/>. Accessed Jan. 24, 2018.

*Investment advisory services offered only by duly registered individuals through AE Wealth Management, LLC. The advisory firm providing you this report is an independent financial services firm helping individuals create retirement strategies using a variety of investment and insurance products to custom suit their needs and objectives and is not an affiliate company of AE Wealth Management, LLC.*

*Investing involves risk, including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. Any references to protection benefits, guarantees or lifetime income generally refer to fixed insurance products, never securities or investment products. Insurance and annuity product guarantees are backed by the financial strength and claims-paying ability of the issuing insurance company.*

*The information and opinions contained herein provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed by AE Wealth Management. This information is not intended to be used as the sole basis for financial decisions, nor should it be construed as advice designed to meet the particular needs of an individual's situation. None of the information contained herein shall constitute an offer to sell or solicit any offer to buy a security or insurance product.*

