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# Employment numbers complicate Federal Reserve decision

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The September employment report came in showing a meager gain of 142,000 jobs. This was much lower than the 200,000 expected. To make matters worse, the August numbers were revised down by 60,000 jobs. The Fed has been saying that it will rely on this data when it makes its decision to raise interest rates, and this report can't be good.

The unemployment rate remained about even at 5.1 percent, largely because the labor participation rate continues its downward trend as people drop out of the workforce. In addition, many people are underemployed, working part time when they want full-time employment.

Of course, in utilizing these statistics, one has to factor in the unreliability of government reports, such as the downward revision of 60,000 jobs for August's report. It is estimated that these reports can be off by 75,000 jobs in either direction, which is quite a wide swing when the reports usually track around 200,000.

The weak jobs report sent the market down, only to recover later in the day. The market had a 450-point round trip in one session, another example of the volatility that we have seen and as I have been forecasting to continue. This is a repeat of the bad-news-is-good and good-news-is-bad scenario that we have been following. The more bad news there is, the less likely the Fed is to raise interest rates, which keeps money cheap and the dollar weak. If news is good, the Fed is more likely to raise rates, which is bad for the market short term. If the news is bad, the Fed will likely leave rates low, which is good for the markets short term. However, long-term rates need to be normalized. The low rates are like heroin to the market. It may feel good for a while, but the long-term effects are bad.

Why are the markets so weak? There are several reasons. Perhaps the first is that the markets have experienced a long, generally upward trend broken by sharp corrections. After such a long uptrend, it would be normal to have corrections. A correction does not mean a bust or a bear market. This year we have seen repeated all-time highs in the market, and now we are witnessing the market come off of those highs. This is normal. It's also healthy because it keeps the market from overheating and keeps investors from becoming too greedy.

Another reason for market declines is that weak holders are pulling out of the market. As fear spreads, short-term investors and nervous nellies take their money out of stocks and equity mutual funds. The withdrawal from mutual funds causes the funds to sell stocks to meet withdrawals, which only exacerbate the decline.

Furthermore, the liquidation is from the most liquid stocks and those that have the most gains, further depressing stock averages. Also short sellers, like sharks sensing blood in the water, short stocks, further driving them down. The SEC has exacerbated this short selling by banning the "uptick rule" which required

that stocks could only be shorted after an up trade, an uptick. The rule, adopted in 1938, was reversed in 2007.

Another reason for the markets' weakness is the moribund economy. We have had a long-term weak recovery. There are many reasons for this, but government regulation and mismanagement would have to be at the top of the list for the weak recovery and income inequality. A strong dollar has been a drag on U.S exporters. Add to this that the global economy is struggling and tugging on the U.S. Emerging markets are deteriorating and dragging down the global economy. The U.S. by itself may not be able to pull the rest of the world up.

Why even remain in equities? Our firm remains – indeed, even emphasizes equities – because it is still the best place to be. Cash earns nothing. Fixed income earns little more and promises to go down in value as interest rates rise. Our emphasis is still on U.S. equities, shunning international and emerging markets. The U.S. equity market is still the best house on a bad block.

Citibank's chief strategist, Tobias Levkovich, has predicted that the market will increase by nearly 15 percent by the end of the year. His reason is the banks' Panic/Euphoria model, which serves as a contrarian indicator.

"We have been in a panic for five weeks, which yields a 96 percent probability that the market will be up a year from now," he said.

Our best advice is to invest for the long term, be diversified in prudent investments, and take no more than 4 percent per year out of retirement funds.

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