

An Update On The Recovery In Financials

S&P 500 Financials Index & Various Subsectors

S&P 500 Indices	10-Yr. High (Date)	% Off High Value As of 9/6/16
Insurance Brokers	9/6/16	0.00%
Property & Casualty Insurance	6/30/16	-0.69%
Asset Management & Custody Banks	5/20/15	-13.13%
Diversified Banks	2/22/07	-15.73%
Life & Health Insurance	10/9/07	-16.49%
Consumer Finance	12/30/14	-23.52%
Financials (Sector Index)	2/20/07	-35.28%
Regional Banks	2/20/07	-44.66%
Multi-Line Insurance	6/4/07	-78.48%

Source: Bloomberg. As of 9/6/16. Past performance is no guarantee of future results.

View from the Observation Deck

1. Those investors seeking “deep” value opportunities in a stock market trading near its all-time high may want to look into financial stocks.
2. Financial companies have been in recovery mode since the 2008-2009 financial crisis. As indicated in the chart, some industries have fared better than others in that process.
3. For example, Insurance Brokers stood at their 10-year high on 9/6/16. From 9/18/08 through 5/27/09 (crisis period high and low for the subsector), the S&P 500 Insurance Brokers Index declined by 36.0% (not shown in chart). While certainly a serious decline, it was far less of a drop than the 57.7% plunge sustained by the S&P 500 Regional Banks Index over the same period (not shown in chart), according to Bloomberg.
4. Regulatory changes have slowed the recovery process for banking institutions, in our opinion. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in July 2010.
5. The basic premise of the law is to reduce the level of risk exposure in the U.S. financial system, especially with respect to banking institutions, in an effort to prevent another crisis situation.
6. Dodd-Frank turned six years old in July 2016. It has yet to be fully implemented, according to *Forbes*. Its future form could be influenced by which political party wins the presidential election in November, in our opinion.
7. Commercial banks can benefit from higher interest rates moving forward, according to *The Wall Street Journal*. Many interest rates that banks charge on loans are directly tied to the Federal Reserve’s target rate. The Fed’s next meeting is on 9/21 and 9/22.

This chart is for illustrative purposes only and not indicative of any actual investment. The illustration excludes the effects of taxes and brokerage commissions and other expenses incurred when investing. Investors cannot invest directly in an index. The S&P 500 Financials Index is a capitalization-weighted index comprised of U.S. financial companies in the S&P 500 Index. The S&P 500 Financial Index Subsector Indices are capitalization-weighted and comprised of S&P 500 constituents representing a specific financial subsector.

