Will the market start to drop when the Fed raises interest rates?

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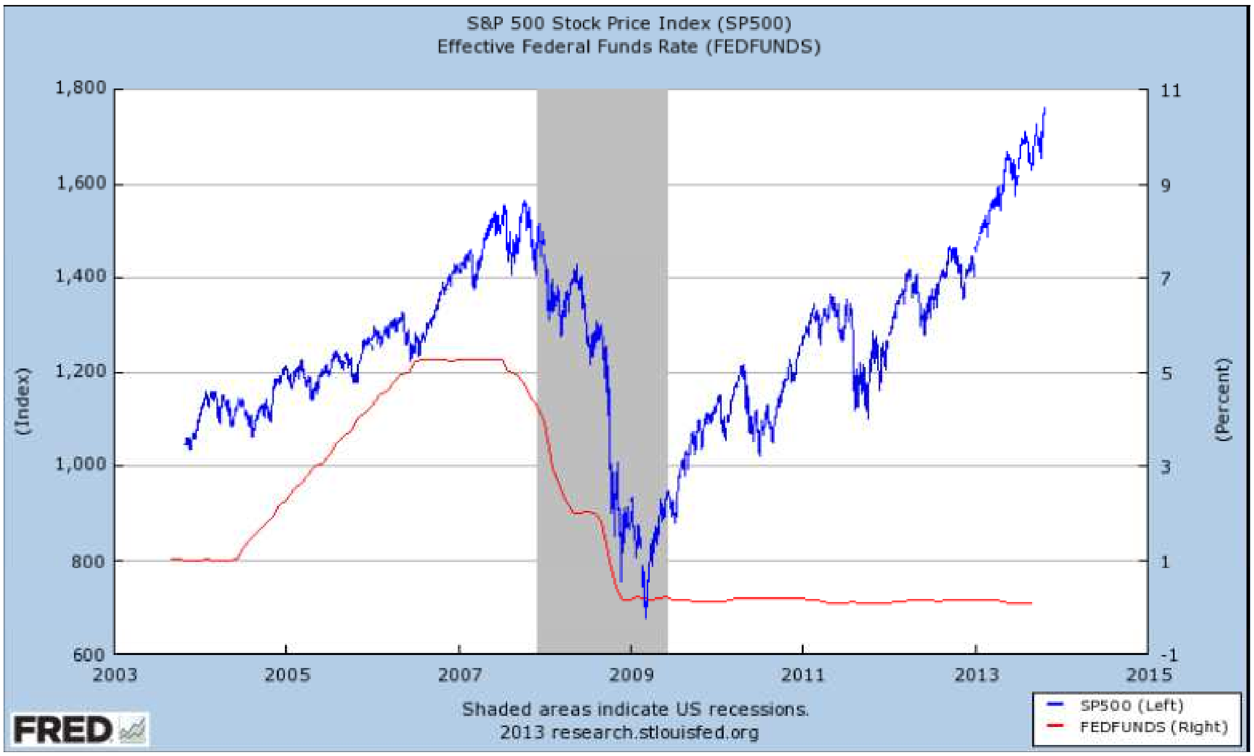
Maybe not as indicated by the chart below from FRED (Federal Reserve Economic Data). The blue line is the S&P 500 and the red line is the Fed Funds Rate; both are shown from 1/2003 to 10/2013.

If you will recall, the period from 2004 to 2006 saw a 4% increase in the Fed Funds Rate from 1% to 5%. During this same period of rising interest rates, the S&P 500 climbed nearly 28%. It is also quite obvious that the S&P 500 has done very well since the Fed Funds Rate was effectively reduced to zero after the '08-'09 crisis.



It is important to remember that interest rates are just one factor impacting the market. In fact, Dr. Steve Sjuggerud comments in his recent "Daily Wealth" newsletter, "I expect investors to interpret this move just as they did in 2004-2006 – as a signal that the economy is finally back on its feet again."

There is no way to know what lies in the future. We agree with many economists and Dr Sjuggerud that "[We] don't expect the Federal Reserve to raise interest rates any time soon. I believe we'll see low rates through 2015 at least." So, there may be some hope that rising rates in the future will not signal the beginning of a decline in the S&P 500.

We are in the midst of a slow, persistent recovery across the US and many global economies. By focusing on your long term goals and properly diversifying your portfolio, it will be easier to ride out the inevitable rise and fall of the markets. We are always here to help you assess your personal situation and provide appropriate, personalized guidance as needed.