

# FINANCIAL MANAGEMENT

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## APT Financial Management Weekly Market Commentary May 12, 2014

### The Markets

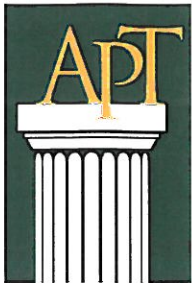
“Gonna take a sentimental journey...Gonna set my heart at ease...Gonna make a sentimental journey...To renew old memories.” If you’re a fan of Ella Fitzgerald or Frank Sinatra, then you probably recognize these lyrics. Although we rarely think of them as such, the ups and downs of stock and bond markets are sentimental journeys. They reflect the thoughts and attitudes of investors toward particular companies, investments, and markets. *Investopedia* explains it like this:

“Market sentiment is the feeling or tone of a market, or its crowd psychology, as revealed through the activity and price movement of the securities traded in that market. For example, rising prices would indicate a bullish market sentiment, while falling prices would indicate a bearish market sentiment. Market sentiment is also called "investor sentiment" and is not always based on fundamentals.”

The *American Association of Individual Investors* (AAII) measures investor sentiment by polling their membership each week. The long-term average is 39 percent bullish, 30.5 percent neutral, and 30.5 percent bearish. Last week, 28.3 percent of its members were bullish, 28.7 percent were bearish, and 43 percent were neutral.

According to *Yahoo! Finance*, that’s the highest level of investor neutrality in more than a decade and may indicate a sharp move up or down is coming soon. “Going back to 2005, AAII neutral sentiment has pushed to 38 on four distinct prior occasions... Looking at the S&P 500 a month later showed greater than 4 percent moves each time over the subsequent 30 days.”

The article, which was published last week, failed to mention the AAII neutral sentiment measure has surpassed 38 on eight occasions since the start of 2014. A quick inspection of S&P 500 pricing indicates markets have moved by 1 to 6 percent during the subsequent month (although we are not yet 30 days from some of those dates). Regardless of the number of times investor neutrality has pushed to 38 or above, or the sharpness of the subsequent market moves, not all of those moves have been in the same direction so it’s hard to predict what this bout of neutral sentiment may indicate.



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| Data as of 5/9/14                       | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | -0.1%  | 1.6%  | 15.5%  | 11.7%  | 15.6%  | 5.6%    |
| 10-year Treasury Note (Yield Only)      | 2.6    | NA    | 1.8    | 3.1    | 3.2    | 4.8     |
| Gold (per ounce)                        | 0.8    | 7.5   | -11.9  | -4.9   | 7.2    | 13.2    |
| DJ-UBS Commodity Index                  | -0.7   | 8.0   | 0.3    | -5.8   | 2.4    | -0.9    |
| DJ Equity All REIT TR Index             | 1.4    | 14.4  | 1.5    | 11.0   | 22.5   | 10.9    |

S&P 500, Gold, DJ-UBS Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT TR Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods. Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

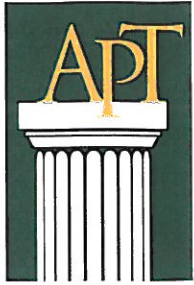
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

**DOUBLE, DOUBLE, TOIL, AND TROUBLE...** During the twentieth century, the world's population doubled not once, but twice. While it is not expected to double again in this century, according to *The Economist*, the number of older people is expected to double. By 2035, 13 percent of the world's population – about 1.1 billion people – will be age 65 or older. Assuming no major diseases, disasters, or world wars, demographers at the United Nations predict the global population will reach nine billion by 2045. That's a lot of people!

Demographic changes are likely to have a powerful effect on global economies. In the United States, the leading edge of the Baby Boom generation is entering retirement. According to *National Geographic*:

“The end of a baby boom can have two big economic effects on a country. The first is the “demographic dividend” – a blissful few decades when the boomers swell the labor force and the number of young and old dependents is relatively small and there is thus a lot of money for other things. Then the second effect kicks in: The boomers start to retire. What had been considered the enduring demographic order is revealed to be a party that has to end. The sharpening American debate over Social Security and last year's strikes in France over increasing the retirement age are responses to a problem that exists throughout the developed world: how to support an aging population.”

The old-age dependency ratio, which compares the number of older people (above age 64) in a country to the working population (people aged 15 to 64), was 20:100 in the United States during 2012. By 2035, the United Nations predicts the ratio will be 44:100. How will our aging population affect economic growth? Some economists believe economic growth will slow in countries with high ratios; others say that older, well-educated people will work longer and retire later so aging will have little effect. A third group anticipates persistent economic stagnation. So, what can we expect? It all depends on “changes in the size of the workforce; changes in the rate of productivity growth; and changes in the pattern of savings.” Stay tuned!



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## Weekly Focus – Think About It

“It seems essential, in relationships and all tasks, that we concentrate only on what is most significant and important.”

*--Soren Aabye Kierkegaard, Danish philosopher and theologian*

Best regards,

Leo A. Pitre, MBA, CFP®, CEP®

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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- \* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
- \* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- \* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- \* Gold represents the London afternoon gold price fix as reported by the London Bullion Market Association.
- \* The DJ Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- \* The DJ Equity All REIT TR Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

- \* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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