



**Here's To Your Wealth!**  
**Weekly Market Update from**  
**Potomac Wealth Advisors, LLC**  
**May 5th , 2014**

## The Markets

Sometime this year, you may have the opportunity to experience an event that's even more rare than a lunar or solar eclipse - an economic eclipse. The United States has had the world's largest economy since we surpassed Britain back in 1872, but our economy is about to be overshadowed by China's.

A lot of folks were anticipating an economic eclipse sometime around the end of this decade. As it turns out, the event horizon may be much, much shorter. Last week, The World Bank released its International Comparison Program (ICP) report. Every six years, in an effort to measure the real size of the world economy, the ICP surveys countries and measures their relative economic might. The ICP report was the final analysis of data collected during 2011. It found, at that time, the U.S. had the world's biggest economy. It also established that China's economy had grown much faster than ours between 2005 and 2011. China's economic growth has continued to exceed that of the United States. As a result, China's economy is expected to eclipse that of the United States during 2014. The U.S. economy will be the second largest and behind us will be India. The ICP also noted that:

- The six largest middle-income economies (China, India, Russia, Brazil, Indonesia, and Mexico) account for 32.3 percent of world Gross Domestic Product (GDP)
- The six largest high-income economies (United States, Japan, Germany, France, United Kingdom, and Italy) account for



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Private Wealth Magazine  
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 (2011, 2012, 2013)

NABCAP  
 as one of the *Top Wealth*  
*Managers* in the Washington,  
 DC Metropolitan Region (2011,  
 2012,2013)

SmartCEO Magazine  
 as a *Top Wealth Manager*  
 (2012)

Consumers' Research Council  
of America  
 as one of *America's Top*  
*Financial Planners* (2008 -  
 2012)

DC Magazine  
 as a *Five Star Wealth*  
*Manager* (2012)

32.9 percent of world GDP

- Asia and the Pacific, including China and India, account for 30 percent of world GDP
- The European Union and countries in the Organization for Economic Cooperation and Development (OECD) account for 54 percent of world GDP
- Latin America comprises 5.5 percent of world GDP (excluding Mexico, which is an OECD country, and Argentina which did not participate in the ICP survey)

Some people are unsettled by the news. Among them, apparently, are members of China's National Bureau of Statistics (NBS). According to The Washington Post, the NBS expressed reservations about the study's methodology and did not endorse the results as official statistics. As with solar and lunar eclipses, the event may be notable, but its effects are unclear.

Data as of 5/2/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.0%	1.8%	17.8%	11.4%	16.5%	5.4%
10-year Treasury Note (Yield Only)	2.6	NA	1.6	3.3	3.2	4.5
Gold (per ounce)	-1.5	6.6	-12.8	-6.0	7.1	12.6
DJ-UBS Commodity Index	-1.0	8.7	3.9	-7.8	3.4	-1.0
DJ Equity All REIT TR Index	1.9	12.8	0.9	9.8	21.2	10.2

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.

**So, you've heard U.S. companies are fabulously profitable and sitting on record piles of cash.** It's true.

According to Moody's Investors Service, non-financial U.S. companies had hoards of cash at the end of 2013 - about \$1.64 trillion. That's about 12 percent more than the previous year's record-setting \$1.46 trillion. Technology, healthcare/ pharmaceutical, consumer product, and energy companies held the most cash.

Why are profits at U.S. companies so high? The Economist offered several possible explanations:

1) Corporate executives favored capital and not labor in recent years. An expert cited by The Economist suggested, "...Had pay

Financial Advisor Magazine  
as an *All-Star Research  
Manager (2012)*

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kept pace with productivity in recent years, profit margins would be around their historic average, not close to a 50-year high;" 2) When the U.S. dollar loses value, which it has, the foreign earnings of American companies get a lift; and 3) Firms have limited their capital expenditures on equipment, software, and other items. As a result, depreciation charges have fallen making companies look more profitable.

Why aren't companies spending? It has a lot to do with overseas profits and tax rates, according to The Wall Street Journal's MoneyBeat. It reported, "Growth in the cash stockpiles, however, came largely from operations overseas. Instead of bringing that money back to the U.S. and paying taxes as high as 35% upon repatriation, companies borrowed money in the U.S. bond market, where interest rates were historically low. The report calls that strategy 'a form of synthetic cash repatriation.'"

The stark reality is companies are profitable, but they're also sporting a lot of debt. During the past three years, corporate debt has risen by \$3.67 for every \$1 of cash growth, according to a report from Standard & Poor's Rating Services which was cited by The Wall Street Journal. That's okay when interest rates are low, but may not prove to be so great when interest rates in the United States move higher.

## Weekly Focus - Think About It

"I never considered a difference of opinion in politics, in religion, in philosophy, as cause for withdrawing from a friend.

--Thomas Jefferson, American President

Best regards,

*Mark*

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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*Diversification and asset allocation do not guarantee against loss. They are methods used to manage risk.*

- \* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
- \* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
- \* 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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