APT FINANCIAL MANAGEMENT

LEO A. PITRE, MBA, CFP®, CEP®

501 CANAL BOULEVARD • THIBODAUX, LOUISIANA 70301 • (985) 227-7114

APT Financial Management
Weekly Market Commentary
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The Markets

Russian President Vladimir Putin sure has stirred up a hornets' nest. Why is annexing the Crimean peninsula and, possibly, Ukraine such a priority for the Russian leader? When asked, Putin has indicated Russia's military influence is necessary to protect Russian-speaking populations in Ukraine. However, *The Economist* has a different take on Putin's actions:

> "Russia's economic stagnation has exposed the limits of Mr. Putin's political and economic model, which relied on rising oil revenues and allowed him to buy the support of the elite and the acquiescence of the population at large. Real disposable incomes, which rose by 12 percent in 2007, on the eve of the war with Georgia, are forecast to rise by 3 percent this year. The Kremlin faced a choice between political liberalization and mobilization of the country by the means of war and repression. Mr. Putin has chosen the latter. Confrontation with the West is one of the main goals of Mr. Putin's operations. Any sanctions imposed will allow him to blame Russia's economic downturn on the West, though that may not placate the ruling class, with its cash stashed abroad in property and bank accounts."

No matter what Mr. Putin's motivation really is, he faces clear opposition from the international community. Last week, a United Nations Security Council resolution was introduced which stated Sunday's referendum in Crimea – a vote to determine whether Crimea would remain part of Ukraine or join Russia – had no validity and could not form the basis for any alteration of the status of Crimea. The resolution was supported by 13 of 15 member nations. China abstained from voting and Russia vetoed the resolution.

Perhaps more importantly, the economic consequences of Russia's actions have been quite harsh. According to *Barron's*, the ruble has fallen to a record low against the U.S. dollar. As a result, the Russian central bank has spent $28 billion to support the currency and has increased short-term interest rates by 1.5 percentage points, pushing yields on 10-year bonds to nearly 9.75 percent. In addition, capital is fleeing Russian markets. During the past three weeks, the MICEX equity index, in U.S. dollar terms, has lost about one-third of its value relative to its 2013 high.

Russia's failure to back away from Crimea unsettled U.S. markets last week and gave the Federal Reserve pause when its holdings of U.S. Treasury securities for foreign and official accounts fell by more than $100 billion (for the week ended Wednesday). Since Russia had threatened to sell its U.S. Treasury bonds if sanctions were imposed, some believe the drop was Russian muscle-

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flexing. Others suggest Russia hasn't divested itself of its U.S. holdings; it simply moved them outside of the United States so the assets wouldn't be vulnerable to sanctions.

Data as of 3/14/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.0%	-0.4%	17.8%	12.4%	19.6%	5.2%
10-year Treasury Note (Yield Only)	2.6	NA	2.0	3.4	3.0	3.8
Gold (per ounce)	3.7	15.3	-12.7	-0.9	8.5	13.3
DJ-UBS Commodity Index	-0.9	7.3	-2.4	-6.1	4.7	-0.9
DJ Equity All REIT TR Index	0.0	7.9	3.7	11.1	29.3	8.6

Notes: 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.

HOW QUICKLY DO WE ADOPT NEW TECHNOLOGY? More quickly all the time, it seems. *MIT Technology Review* looked at the time it took for nine different technologies to fully saturate the U.S. market. They started back in 1876 and looked through 2010, breaking the process into three phases:

- **Traction**: The period from consumer availability to10 percent market penetration
- **Maturity**: The period from 10 percent to 40 percent market penetration
- **Saturation**: The period from 40 percent to 75 percent market penetration (the point at which new demand typically slows)

Some innovations, like the original telephone and electricity, took time to saturate markets. Alexander Graham Bell's patented telephone took 25 years to gain traction, another 39 years to reach maturity, and almost a full century before the market for landlines was saturated. Electricity also was slow to reach saturation. Both technologies were hampered by infrastructure issues, like running enough cable and wire to provide services to businesses and homes.

Newer technologies have been and are being adopted far more rapidly. Television took more than a decade to gain traction, but progressed through maturity to saturation in less than a decade. The mobile phone caught on a lot faster than landlines, becoming mainstream in less than half the time. That's nothing compared to smart phones which took about 10 years to reach maturity. Tablets appear to be catching on even faster. In fact, in a separate 2012 article, *MIT Technology Review* pointed out, "Mobile devices outsold PCs last year for the first time, and top smart-phone apps need little more than a year to win the kind of audience it used to take technologies decades to reach."

The mobile revolution is progressing rapidly, and some businesses still need to prepare. According to *Forrester Research*, as reported via *CSO.com*, about 15 percent of employees are accessing sensitive data that may include client information, non-public financial data, intellectual property,

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or corporate strategies from their own devices rather than those provided by their employers. As a result, many firms need a more scrupulous identity management strategy, not to mention a chief mobility officer.

Weekly Focus – Think About It

"Success is not final, failure is not fatal: it is the courage to continue that counts."
--*Winston Churchill, British Prime Minister*

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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* This newsletter was prepared by Peak Advisor Alliance. Peak Advisor Alliance is not affiliated with the named broker/dealer.
* The MICEX Index is a capitalization-weighted composite index calculated based on prices of the 50 most Russian stocks.
* 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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