

# FINANCIAL MANAGEMENT

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## **APT Financial Management Weekly Market Commentary August 11, 2014**

### **The Markets**

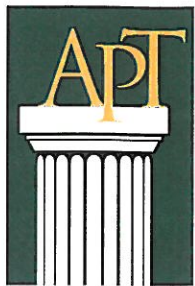
During the dog days of summer, a triple dip – three melting scoops of frozen goodness perched precariously on a waffle cone – can be delicious. There are other kinds of triple dips that are a lot less welcome, though. Just look at Italy.

Last week, the *Italian National Institute of Statistics* released its preliminary estimate of productivity in the third largest Eurozone economy. It showed Italy's economy contracted (again) during the second quarter of 2014. That puts Italy firmly in triple-dip territory, according to *The Washington Post*:

“The greatest trick the devil ever pulled was convincing Italy to join the euro. It hasn't grown since. After its GDP fell 0.2 percent, Italy is stuck in a triple-dip recession. Yes, *triple*: its economy started shrinking in 2008, relapsed in 2011, and now again in 2014. Although, at this point, it's probably more accurate to just call this a depression. After all, Italy's economy has contracted 11 of the previous 12 quarters. It's been enough to wipe out almost all its growth the past 14 years.”

Much of the rest of Europe is faring somewhat better than Italy, but growth is not robust. *Reuters* reported Germany's economy, the largest in Europe, is expected to show stagnant growth during the second quarter of 2014 as the crisis in Ukraine and sanctions on Russia take their toll. German exports to Russia have fallen and German business leaders have said tens of thousands of jobs may be at risk.

All eyes will be on Europe during the next few weeks as second-quarter preliminary growth numbers are released. Experts may have their fingers crossed, hoping the unprecedented package of stimulus measures announced by the European Central Bank (ECB) a couple of months ago will offset the negative effects of geopolitical tensions. However, *Bloomberg* opined that policy changes often take a while to make a difference. In the meantime, European economies may be vulnerable to risks like geopolitical unrest in Ukraine and the Middle East.



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Data as of 8/8/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.3%	4.5%	13.8%	19.9%	13.9%	6.1%
10-year Treasury Note (Yield Only)	2.4	NA	2.6	2.3	3.8	4.2
Gold (per ounce)	1.4	9.0	0.9	-8.2	6.8	12.6
Bloomberg Commodity Index	0.2	1.3	1.9	-6.0	-0.4	-1.3
DJ Equity All REIT Total Return Index	0.7	16.8	14.7	20.1	18.0	9.6

S&P 500, Gold, Bloomberg 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 Total Return 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.

**QUICK! WHAT'S THE FASTEST GROWING COUNTRY IN LATIN AMERICA?** Nope, it's not Brazil. The gross domestic product (GDP) growth forecast for Brazil was lowered from 2.2 percent in January 2014 to 1.8 percent in June 2014, according to *The Economist*. That means Brazil is expected to grow more slowly than the United States this year.

It's not Peru, "a country that has enjoyed Asian-style growth averaging 6.4 percent a year in 2003-13." Peru's growth has benefited from the country's role as a major producer of gold and copper. During 2014, Peru dropped to second place in Latin America's economic growth contest.

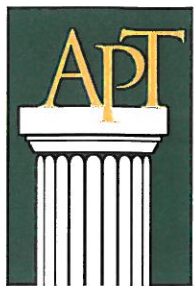
So, who's in first? Here are a few hints:

- It's between Ecuador and Venezuela
- It has a coastline on both the Pacific Ocean and the Caribbean Sea
- It's the second most bio diverse country in the world (In addition to having lots of butterflies, orchids, and amphibians, it has more bird species than Europe and North America combined.)
- Americans of a certain age may remember it as the epicenter of the 1980s war on drugs (Think cartels and FARC guerillas.)

That's right. Colombia's economy is expected to deliver the fastest growth in Latin America during 2014 – and its vibrancy is unrelated to drugs. Like Peru, Colombia is a beneficiary of the commodity lottery. Its main exports are oil and coal whose prices have held up better than those of gold and copper in recent years. In addition, *The Economist* reported the country has benefitted from a variety of reforms and development efforts including:

"A law in 2012 cut onerous payroll taxes (while raising income tax on the better-off). The result is that formal-sector jobs are growing at 8 percent a year, while the large informal sector has started to shrink, which ought to boost productivity.





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Ambitious, albeit delayed, private-public partnerships in roads and railways should see investment of up to \$25 billion by 2018.”

The country’s leaders also implemented a fiscal rule that has reduced the public-sector deficit to less than 1 percent of GDP.

Colombia’s economic growth potential is mitigated by the risks of its ongoing civil conflict. President Juan Manuel Santos was re-elected after campaigning on a promise to negotiate peace with FARC guerillas.

## Weekly Focus – Think About It

“Positive anything is better than negative nothing.”

*--Elbert Hubbard, American writer*

Best regards,

Leo A. Pitre, MBA, CFP<sup>®</sup>, CEP<sup>®</sup>

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.

\* Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments, and exports less imports that occur within a defined territory.

\* 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 afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

- \* The Bloomberg 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 Total Return 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.
- \* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
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