Here's To Your Wealth
March 11, 2015

The Markets:

It appears good news is bad news on Wall Street these days. When news of a strong February jobs report broke this past Friday, the stock market reacted by heading downward-not what we would expect on good news. The economy is adding jobs and wages are rising (albeit slowly.) As readers of ***Here's To Your Wealth!*** recall, one reason we believe the Fed has not raised rates is the ongoing weak labor market.

Should the Fed see a recovery in jobs, they may raise interest rates and start taking our economy off of "zero-percent-interest-rate" life support. This could be a long time coming though; we are still dealing with low workforce participation numbers (the number or percentage of Americans looking for work,) and real wages remain stagnant with many lower to middle class families struggling. But there is (finally) a glimmer of hope for those with the lowest paying jobs: Walmart has joined TJ Maxx, Starbucks, In and Out Burger, and other companies that will now pay above the federal minimum wage level. So rising wages would be stimulative for demand and helpful for those who are getting raises, but the Fed could see this as another

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sign the labor market is firming, which in turn could cause them to raise interest rates.

While several of America’s largest companies are raising wages for their lowest paid workers, the uneven nature of this recovery can be seen in the pay packages of America’s CEOs. In 2014, ten CEOs had total compensation packages of close to $50 million or more. Most of this was from the beneficial effects of their stock incentives. The rise in the stock market is creating wealth at a rapid pace and fueling the income inequality debate. To be sure, the wealth effect from the stock market is one factor in our overall economic recovery, but the wealth disparity in our country is real. Even Lloyd Blankfein, the CEO of Goldman Sachs who made $23 million last year, was discussing it in Davos, Switzerland a few months ago (probably after he got off his private jet.)

Weekly Update for the Week Ending March 6, 2015

Index	Last Week			One Month		Year-to-Date	
	Close	**Net Change**	**% Change**	**Net Change**	**% Change**	**Net Change**	**% Change**
Dow Jones Global Index	327.24	-5.59	-1.68%	3.58	1.11%	6.38	1.99%
Dow Jones Industrial Average	17856.78	-275.92	-1.52%	32.49	0.18%	33.71	0.19%
S&P 500 Index	2071.26	-33.24	-1.58%	15.79	0.77%	12.36	0.60%
Nasdaq Composite Index	4927.37	-36.16	-0.73%	182.97	3.86%	191.32	4.04%
S&P MidCap 400 Index	1486.62	-19.91	--1.32%	9.73	0.66%	34.18	2.35%
Russell 2000 Index	1217.52	-15.85	-1.29%	12.06	1.00%	12.82	1.06%
MSCI EAFE Index (EFA w/o divs)	63.81	-1.29	-1.98%	1.31	2.10%	2.97	4.88%
MSCI Emerging Markets Index (EEM w/o divs)	39.26	-1.48	-3.63%	-0.56	-1.41%	-0.03	-0.08%
BofA Merrill Lynch US High Yield Master II Index	1075.56	-4.44	-0.41%	9.99	0.94%	27.38	2.61%
Data Source: Investors FastTrack							

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Currency Wars:

One factor that might keep our interest rates low for a while is that foreign countries are aggressively keeping their interest rates low. While they say they are lowering interest rates to stimulate economic growth, another benefit is that their exports become more competitive. With our zero percent interest rates and other actions known as "Quantitative Easing," we lost any moral high ground to challenge the Bank of Japan and the European Central Bank-who are now lowering their rates and stimulating themselves out of their recession.   With the German ten-year bond trading at around .40%, there is consensus that the U.S. may not be able to raise rates simply because the difference between U.S. rates and those of trading competitors like Germany is already putting us at a competitive disadvantage.

If some of this sounds like a lot of mumbo jumbo, the bottom line is that we live in a global economy and low interest rates help make a country’s exports more competitive. If we raise our rates, we put our exporters at a competitive disadvantage-and that would not be good for U.S. company earnings nor (in all likelihood) their stock prices. So a stronger dollar, which might sound good, could actually be the headwind that starts to derail our stock market rally.

Quote of the Day:

" The first panacea of a mismanaged nation is manipulation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists."

~Ernest Hemingway

Potomac Wealth Advisors, LLC

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 ***Dow Jones Global Indexes (DJGI)*** is a family of international equity indexes, including world, region, and country indexes and economic sector, market sector, industry-group, and subgroup indexes created by Dow Jones Indexes a unit of Dow Jones & Company best known for the Dow Jones Industrial Average.

The indexes are constructed and weighted using market value-weighted index. They provide 95 percent market capitalization coverage of developed markets and emerging markets. More than 3000 DJGI indexes provide data on more than 5500 companies around the world. Market capitalization is float-adjusted

*The ***DJIA*** is a widely followed measurement of the stock market. The average is comprised of 30 stocks that represent leading companies in major industries.

* The ***Standard & Poor's 500*** (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.

*The ***NASDAQ*** Composite Index is a market-valued weighted index, which measures all securities listed on the NASDAQ stock market.

*The ***S&P Mid Cap 400 Index*** This Standard & Poor’s index serves as a barometer for the U.S. mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3 billion dollars. Stocks in this index represent household names from all major industries including energy, technology, healthcare, financial and manufacturing.

*The ***Russell 2000 Index*** is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index
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* The ***MSCI EAFE*** Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Barra,[1] a provider of investment decision support tools; the EAFE acronym stands for **Europe, Australasia and Far East.**

* The MSCI ***Emerging Markets Index***s a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

*The **Merrill Lynch US High Yield Master II Index** (H0A0) is a commonly used benchmark index for high yieldcorporatebonds. It is administered by Merrill Lynch . The Master II is a measure of the broad high yield market, unlike the Merrill Lynch BB/B Index\ which excludes lower-rated securities.

** Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.*

**The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.*

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