Here's To Your Wealth!

Weekly Market Update from Potomac Wealth Advisors, LLC

May 12th , 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."

Recognized by:

Private Wealth Magazine
as a member of their *Inaugural All-Star Research Team (2012)*

Washington Business Journal
as one of *Washington's Premier Wealth Advisors (2011, 2012, 2013)*

NABCAP
as one of the *Top Wealth Managers* in the Washington,

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." But what is important to note is that 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 - other than it is often followed by significant volatility.

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.

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)

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

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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. 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!

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,

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.
* 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.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Stock investing involves risk including loss of principal.

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