# RBF Weekly Market Commentary
# June 22, 2015

## The Markets

You're probably familiar with the seven-year itch. Not the movie with Marilyn Monroe, but the concept that relationships can lose their luster after seven years.

That may be what happened last week in China. Investors got itchy and the Chinese stock market suffered its worst week since 2008. The Shanghai Composite lost more than 13 percent during the week, and the Shenzhen Composite was down 12.7 percent, according to *MarketWatch*. The previous Friday, the Shenzhen had closed at a record high.

Prior to last week's correction, China's stock markets had been VERY popular. So popular, Chinese firms were seeking to delist from American stock exchanges and relist their shares on Chinese exchanges, reported *The Economist*. Plus, the Chinese government rolled out the red carpet (and waived profitability requirements) for new firms seeking to list on local stock exchanges.

In their enthusiasm to participate in rising markets, some Chinese companies are reinventing themselves on paper. *The Economist* wrote:

> "But the wider trend is clear. At least 80 listed Chinese firms changed names in the first five months of this year. A hotel group rebranded itself as a high-speed rail company, a fireworks maker as a peer-to-peer lender, and a ceramics specialist as a clean-energy group. Their reinventions as high-tech companies appear to have less to do with the gradual rebalancing of China's economy than with the mania sweeping its stock market. The Shenzhen Composite Index, which is full of tech companies, has nearly tripled over the past year."

June has been a tough month for China. Earlier in the month, MSCI decided not to add China's A-shares, which are denominated in China's renminbi, to its emerging markets index because of issues related to Chinese markets' accessibility.

Greece hasn't been faring all that well either. The European Central Bank extended an emergency $2 billion loan to the Greek government. The Greek people, anticipating Greece may not reach an agreement with its creditors, which could trigger default and an exit from the Euro, withdrew more than $1 billion from the country's banking system in one day.

| Data as of 6/19/15 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| Standard & Poor's 500 (Domestic Stocks) | 0.8% | 2.5% | 7.7% | 15.8% | 13.6% | 5.7% |
| Dow Jones Global ex-U.S. | -0.4 | 5.0 | -5.3 | 8.4 | 4.5 | 3.3 |
| 10-year Treasury Note (Yield Only) | 2.3 | NA | 2.6 | 1.6 | 3.2 | 4.1 |
| Gold (per ounce) | 1.7 | 0.4 | -6.9 | -9.5 | -0.8 | 11.1 |
| Bloomberg Commodity Index | -0.7 | -4.3 | -26.7 | -8.8 | -4.9 | -4.7 |
| DJ Equity All REIT Total Return Index | 1.7 | -1.8 | 8.7 | 11.2 | 13.1 | 7.4 |

S&P 500, Dow Jones Global ex-US, 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.

**IP! IP! OORAY!** Greg Ip, Chief Economics Commentator at *The Wall Street Journal*, was blogging about business cycles. He wrote, "After a perplexing start to the year, the economy is starting to make sense…[Recently released data] has begun to help solve three puzzles that have hung over the U.S. and global economies in the last year." The three puzzles were:

1. **There was no surge in consumer spending in the United States.** Despite a mammoth drop in oil prices, retail sales were weak and contributed relatively little to first-quarter growth. However, May retail sales numbers were strong and numbers for March and April were revised upward. So, consumers appear to be spending. (The final revision to gross domestic product (GDP), which was released in late May, showed GDP grew by 0.2 percent during first quarter.)

2. **When workers are in short supply, wages should rise – but they haven't.** Unemployment is at about 5.5 percent. Employers have jobs open and are seeking qualified applicants. Yet, hourly earnings had barely improved at all. The Bureau of Labor Statistics' Employment Cost Index showed private workers' compensation grew 2.8 percent for the 12-month period ending March 31, 2015. That was a big improvement over the previous year's growth. Government workers realized a 2.1 percent increase for the same time period, which was a modest improvement over the previous year.

3. **The bond market hadn't priced in a rate increase.** Federal Reserve guidance has been pretty clear. When employment and inflation numbers align, the Fed will begin to tighten monetary conditions by raising the Fed funds rate. Regardless, bond market rates hadn't moved higher – until recently. Yields on 10-year Treasuries rose from 1.87 percent in early April to about 2.4 percent by mid-June.

Ip summarized, "…in many ways, the world is behaving as it should. If so, then the next stage is for stock and bond investors to finally realize the era of zero rates is coming to an end and re-price accordingly. Do not expect that to be a smooth process… That the world is behaving normally, however, is not the same as saying it's back to normal."

## Weekly Focus – Think About It

"Change is the law of life. And those who look only to the past or present are certain to miss the future.

*--John F. Kennedy, 35th President of the United States*

Securities offered through Triad Advisors, Inc., Members FINRA/SIPC.

* These views are those of Peak Advisor Alliance, and not the presenting Representative or the Representative's Broker/Dealer, and should not be construed as investment advice.
* This newsletter was prepared by Peak Advisor Alliance. Peak Advisor Alliance is not affiliated with the named broker/dealer.

* International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.
* 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 Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* 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.
* MSCI is an investment research firm that provides indices, portfolio risk, and performance analytics and governance tools to institutional investors and hedge funds.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth 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.
* Stock investing involves risk including loss of principal.


Sources:
http://www.huffingtonpost.com/jennifer-nagy/the-sevenyear-itch-fact-o_b_2443171.html
http://www.marketwatch.com/story/china-shares-fall-into-correction-territory-2015-06-19
http://www.economist.com/news/business/21654581-chinese-firms-listed-american-stock-exchanges-are-starting-go-home-red-tide-ebbs?fsrc=permar|text4 (*or go to* http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/06-22-15_TheEconomist-A_Red_Tide_Ebbs-Footnote_3.pdf)
http://www.economist.com/news/finance-and-economics/21652337-economic-dangers-chinas-manic-bull-market-goring-concern (*or go to* http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/06-22-15_TheEconomist-A_Goring_Concern-Footnote_4.pdf)
http://www.marketwatch.com/story/china-stocks-will-have-to-wait-to-join-big-msci-index-2015-06-09
http://www.npr.org/sections/thetwo-way/2015/06/20/415990263/greece-pledges-new-proposal-to-resolve-debt-crisis
http://blogs.wsj.com/economics/2015/06/12/greg-ip-three-economic-puzzles-are-now-less-puzzling/

https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
http://www.bls.gov/news.release/eci.nr0.htm
http://finance.yahoo.com/q/hp?s=%5ETNX+Historical+Prices
http://www.brainyquote.com/quotes/quotes/f/frederickd121068.html?src=t_change