# RBF Weekly Market Commentary
# June 2, 2014

## The Markets

If you're a fan of home renovation TV shows then you're probably familiar with the types of bad news home inspections can uncover. Last week, the Commerce Department inspected its previous estimate for real gross domestic product (GDP) growth during the first quarter of 2014 and found some bad news. As it turns out, the rate of economic growth in the United States declined by 1 percent rather than increasing slightly, as previously thought.

The revision sparked debate among economists and politicians about the health of the U.S. economy. According to *The Guardian*, some economists found the revised numbers difficult to reconcile because they seem to contradict other first quarter economic data – such as expansion of non-farm payrolls, healthy manufacturing activity, and stronger retail sales – which indicate a more positive growth trend.

News that the U.S. economy might have shrunk slightly didn't deter investors at all. The Standard & Poor's 500 Index finished the week at a new record high. This could mean investors are confident economic growth will rebound in the second quarter of 2014 or it may reflect a belief economic weakness in the United States will encourage a more stimulative monetary policy.

*The Wall Street Journal* suggests signs of slower growth in the United States and Europe are behind the resurgent popularity of emerging markets. If you recall, investors pulled about $60 billion from emerging countries early in 2014 as they worried these markets would be affected negatively by the U.S. Federal Reserve's less stimulative monetary policy. In May, a *Reuters'* poll found 51 investment houses in the United States, Japan, and Europe had reduced their cash positions to the lowest levels since last November and invested the proceeds in emerging markets.

One expert cited by *The Wall Street Journal* called the rush into emerging markets a "global chase for yield." No matter what you call it, last Friday, Morgan Stanley Capital International's emerging markets stock index rose to its highest level since October 2013. It was up 3 percent for the year.

| Data as of 5/30/14 | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|---|---|---|---|---|---|
| Standard & Poor's 500 (Domestic Stocks) | 1.2% | 4.1% | 16.3% | 12.7% | 15.3% | 5.6% |
| 10-year Treasury Note (Yield Only) | 2.5 | NA | 2.1 | 3.1 | 3.7 | 4.7 |
| Gold (per ounce) | -3.2 | 4.1 | -11.5 | -6.6 | 5.0 | 12.2 |
| DJ-UBS Commodity Index | -1.4 | 6.4 | 1.9 | -7.0 | 0.7 | -1.5 |
| DJ Equity All REIT Total Return Index | 0.9 | 15.1 | 8.0 | 10.3 | 21.3 | 10.0 |

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 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.

**HOW DO YOU MAKE A PEANUT BUTTER AND JELLY SANDWICH?** If you've ever been asked to write clear instructions for a seemingly simple task, you know the challenge is in the details. To illustrate how to make a PB&J, you start with bread, peanut butter, jelly (in a squeezable bottle), and a knife. Then you need to remember to tell the reader to open the bread bag, unscrew the top of the peanut butter jar, and turn the jelly bottle upside down before squeezing it. You have to provide a lot of very concise information.

Communicating financial and investment ideas effectively also can be challenging. It appears a significant number of Americans are not receiving all of the information they may need. For several years, the *Financial Industry Regulatory Authority's* (FINRA) *Investor Education Foundation* has employed a five-question quiz to evaluate financial literacy. The questions include fundamental concepts related to financial knowledge and decision-making. If you want to test yourself, take the quiz at [www.financialcapability.org](http://www.financialcapability.org).

In 2012, about 30 percent of Americans were able to answer three of the five quiz questions correctly. That was about the same number of questions that were answered correctly when the quiz was first offered in 2009. The percentage of respondents who were able to answer four or five quiz questions correctly varied significantly by generation:

- 24 percent of Millennials (born between early 1980s to early 2000s)
- 38 percent of Gen Xers (born between early 1960s to early 1980s)
- 48 percent of Baby Boomers (born between 1943 to early 1960s)
- 55 percent of the Silent Generation (born between 1925 to 1942)

When a similar quiz was offered to people in countries throughout the world, financial literacy was linked (in all countries) to retirement planning or participation in private pension plans. In most countries, people who were financially literate were more likely to plan for retirement which requires an understanding of interest rates, risk, and diversification.

If someone you care about would benefit by knowing more about financial matters, please give us a call. We would be happy to sit down and talk with them about a specific topic or recommend some good reading materials.

## Weekly Focus – Think About It

"Courage is the most important of all the virtues, because without courage you can't practice any other virtue consistently. You can practice any virtue erratically, but nothing consistently without courage.

--*Maya Angelou, American author and poet*

Best regards,

Tony Kalinowski

*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 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 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 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.
* 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:
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