

## Commentary

### The Markets

About 25 years ago, Peter Jennings interrupted *General Hospital* to tell the nation Coca-Cola had decided to bring back its original recipe. The nation was thrilled and sales soared.

The Federal Reserve's impending rate hike is about as popular as the New Coke; however, no soap operas were interrupted last week when the Open Market Committee statement indicated rates would remain in "the current target range" for a "considerable" period of time after quantitative easing ends.

Investors embraced the news pushing both the Dow Jones Industrial Average and the Standard & Poor's 500 Index up more than 1 percent for the week.

On the surface, it appears everything is in perfect order. However, experts cited by *Barron's* warned investors to pay attention to the subtleties of the Fed's statement which seems to indicate monetary policy may be tightened faster than markets expect:

"Investors should keep an eye on the nuances of the Fed statement... The Fed's estimates for the funds rate moved up again to a median of 1.38 percent, instead of 1.13 percent at year-end 2015, and rose also for 2016 and 2017. Such rises suggest that Fed Chair Janet Yellen might face increasing dissent from both rate hawks and centrists on the Fed's Open Market Committee."

Also of note last week, the Organization for Economic Cooperation and Development (OECD) reduced its economic growth forecasts for the United States and other advanced economies and recommended various economic policy changes suited to the needs of each country.

*Reuters* reported the organization has also recommended the implementation of measures designed to prevent multinational firms from shifting profits to low-cost tax countries. The topic was a point of discussion at the G20 summit last weekend. The measures could help countries recoup billions of tax dollars and potentially affect the balance sheets of companies targeted.

Data as of 9/19/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.3%	8.8%	16.7%	18.6%	13.6%	6.0%
10-year Treasury Note (Yield Only)	2.6	NA	2.8	1.9	3.5	4.1
Gold (per ounce)	-1.0	1.5	-10.7	-12.1	4.1	11.7
Bloomberg Commodity Index	-1.5	-5.0	-8.1	-8.3	-0.9	-2.0
DJ Equity All REIT Total Return Index	-0.2	15.1	11.0	14.3	15.7	8.8

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.

**A PHARMACIST HAS A HEADACHE.** Does she choose the name brand aspirin or the store brand? That's the subject of a working paper (*Do Pharmacists Buy Bayer? Informed Shoppers and the Brand Premium, August 2014*) written by a pair of economics professors at the University of Chicago Booth School of Business and their co-authors. The team found: (Page 24)

"More informed shoppers buy more store brands and fewer national brands. Consumer information plays a quantitative role in health categories where our estimates imply that expenditures and market shares would change significantly if all households behaved like expert shoppers. By contrast, the role of consumer information is smaller in food and drink categories where our estimates suggest much smaller gaps between expert and non-expert shopping behavior."

How much less would Americans spend if everyone were an expert shopper? Currently, we pay about \$196 billion for packaged consumer goods (medications, juice, frozen foods, etc.) each year. If we bought store brands rather than name brands, we'd save about \$44 billion dollars annually. (Page 2) That's quite a chunk of change.

So, why do we buy premium brands? It may be because we believe they're better. *Freakonomics Radio* recently held a peanut butter and jelly (PB&J) sandwich taste test. Tasters were told one sandwich was made with premium brands of PB&J and the other with store brands. The tasters universally preferred the premium-brand sandwich.

As it turns out, both sandwiches were made with identical store-brand ingredients.

Consumers' inclination toward national brands may reflect advertising-induced misinformation, according to some economists; other economists suggest premium products may indeed offer greater value to consumers. The working paper concluded, "...A more informed population of consumers might change whether and how much firms choose to advertise their products as well as which products are introduced to the market." (Pages 2 and 24)

Now, getting back to the original question, it turns out 92 percent of pharmacists buy store-brand headache remedies. Just 74 percent of the rest of us do (although that statistic is somewhat skewed since doctors, nurses, and other healthcare professionals tend to buy store brands more often than other people). Either way, it's a big difference.

### Weekly Focus – Think About It

"Oh yeah, I'll always buy the most expensive golf ball, because if there's even the tiniest chance that there's a little magic in there, then I want that magic."

--Steve Levitt, Co-author of "Freakonomics"

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\* 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.

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\* 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.

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