RBF Weekly Market Commentary
July 7, 2014

The Markets

Happy birthday, United States of America!

U.S. stock markets gave Americans plenty of reason to celebrate over the Fourth of July weekend. The Dow Jones Industrials Average earned 'oohs' and 'ahhs' from investors and pundits as it shot above 17,000 last week (a significant gain from March 2009 when it traded in the mid-6,000 range). *Barron's* pointed out the Standard & Poor's 500 Index was no slouch either having closed "above its 200-day trading average for more than 400 consecutive trading days, the second longest streak in the last 50 years."

The Telegraph observed, however, market highs sometimes cause investors to engage in emotional behaviors like anchoring – assigning random meaning to numbers or milestones. The online publication suggested some investors may decide the Dow surpassing 17,000 means the market is overvalued and they should sell even though they have no specific evidence to support the idea of overvaluation. Not everyone agrees that's the way investors will roll. Experts told MarketWatch.com they expect the new high to spark buying rather than selling particularly if herd instincts are set off. Herding describes a situation in which investors gravitate toward specific investments because everyone else is doing it.

These emotion-driven investment behaviors can lead to investment mistakes. The Telegraph also suggested it's better to choose a tangible valuation measure when trying to determine whether a company's shares are fairly valued. A valuation measure they recommended is dividend yield: the dollar amount of the dividends a company pays investors each year divided by the company's share price. In late June, Yahoo! Finance reported, "There is now an extraordinary crowding of big U.S. stocks around the 3% dividend yield level, a threshold that seems to exert a gravitational pull as investors bereft of easy sources of income bid up equities until they yield just a bit more than the 10-year Treasury note."

Emotions also were running high during the second quarter for reasons having nothing to do with markets. A publicly-traded social media site let it be known it had conducted a psychological experiment on about three-quarters of a million users without their express knowledge. The study's over-the-top name, *Experimental Evidence of Massive-scale Emotional Contagion through Social Networks*, brings Austin Powers movies to mind.

Bond markets, as they have throughout much of 2014, continued to confound investors and analysts. According to *Barron's*, last week's strong jobs report, which is credited with pushing stock markets to new highs, may have given investors a déjà vu moment when 10-year Treasury yields rose and then settled back down. The bond market had responded to the Labor Department's May report in almost the same way. Strong domestic economic news pushed rates higher and then they retreated. Foreign demand for U.S. Treasuries was thought to be the reason rates pulled back.

Also, during the second quarter, the Federal Reserve confirmed and reconfirmed the ongoing need for accommodative monetary policy. Recently, Chairwoman Janet Yellen said, "…monetary policy has powerful effects on risk taking. Indeed, the accommodative policy stance of recent years has supported the recovery, in part, by providing increased incentives for households and businesses to take on the risk of potentially productive investments. But such risk-taking can go too far, thereby contributing to fragility in the financial system." She also said she saw no immediate need to tighten monetary policy by raising interest rates.

The World Bank expects the global economy to gain momentum during 2014. Its June report found economic growth in developing countries is likely to be disappointing this year coming in below 5 percent largely because of first quarter's weakness. Developed market economies have fared better year-to-date. The Euro Area is expected to grow modestly during 2014. Expectations for the United States were revised lower after first quarter's contraction, but our economy is expected to grow during the remainder of 2014.

Data as of 7/3/14	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	1.3%	7.4%	22.9%	14.1%	17.2%	5.9%
10-year Treasury Note (Yield Only)	2.7	NA	2.5	3.1	3.5	4.5
Gold (per ounce)	0.0	9.7	5.4	-4.1	7.2	12.7
DJ-UBS Commodity Index	n/a	n/a	n/a	n/a	n/a	n/a
DJ Equity All REIT Total Return Index	-0.3	16.1	12.6	10.8	23.7	9.4

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.

HARVARD DOES IT. MIT DOES IT. UNIVERSITY OF CHICAGO AND STANFORD DO IT. It doesn't cost a fortune either. In fact, it's often free. The world's best colleges and universities (along with organizations like The World Bank, Museum of Modern Art (MoMA), and National Geographic) are offering massive open online courses (MOOCs) as well as interactive online classes. The offerings are available to anyone with Internet access anywhere in the world.

As *The Economist* tells it, rising costs, changing labor markets, and disruptive technology are conspiring to overthrow higher education as we know it, and the revolution could send colleges and universities down a path previously taken by print newspapers. The success of online education is uncertain, however. It's held back, in part, by lack of a formal system of accreditation, although some universities have begun to accept MOOC credits toward their degrees.

> "Traditional universities have a few trump cards. As well as teaching, examining, and certification, college education creates social capital. Students learn how to debate, present themselves, make contacts… The answer may be to combine the two... Students could spend an introductory year learning via a MOOC, followed by two years attending university and a final year starting part-time work while finishing their studies online. This sort of blended learning might prove more attractive than a four-year online degree."

Needless to say, the revolution in education could have significant implications for parents and students who are contemplating the costs of higher education as well as workers who need to develop new skills to find places in the labor force.

Weekly Focus – Think About It

"Education is not the filling of a pail, but the lighting of a fire."

--*William Butler Yeats, Irish poet*

Best regards,

Tony Kalinowski

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Sources:
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