RAI WEALTH

Commentary

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The Markets

"…bubbling crude; oil that is, black gold, Texas tea."

The decline in oil prices accelerated during the fourth quarter of 2014. The main culprit was a supply and demand imbalance. Increased production in the United States, which is currently the biggest oil producer in the world, means there is an ample supply of oil. However, slowing growth in China and other countries, along with relatively warm winter weather in the United States, has lowered demand.

Oil prices are also affected by expectations. The Organization of Petroleum Exporting Countries' (OPEC's) fourth-quarter decision to maintain production levels and market share (rather than lowering production and pushing prices higher) has created an expectation that prices may remain low for some time.

Low oil prices are expected to be a boon for the world economy, consumers, and countries (like India) that are heavily dependent on oil imports. However, low prices are a detriment to countries that are heavily dependent on oil exports and could result in financial crises and geopolitical upheaval. *The Economist* reported analysts believe Russia needs oil to be priced at $100 a barrel to meet its 2015 budget. Venezuela, which was in financial trouble before oil prices fell, needs oil at $120 a barrel to finance its spending, and Iran needs prices even higher, at $136 a barrel.

Big trouble in Russia
Like Mentos® and soda pop, a currency crisis fizzed up in Russia during the fourth quarter. *The Economist* said:

"In the world of central banking slow, steady, and predictable decisions are the aim. So when bankers meet in the dead of night and raise interest rates by a massive 6.5 percentage points it suggests something is going very wrong. It is: the Russian currency crisis many feared is now a reality… and the mood in Moscow close to panic. Russians are right to worry: they are heading for a lethal combination of deep recession and runaway inflation."

Retailers have begun re-pricing their goods daily and ruble jokes are proliferating, according to *The Moscow Times*. One example, "I'm investing my life savings in the Euro." "Don't you mean Euros?" "No, just one Euro. It's all I can afford."

Déjà vu Greece
The potential for a Euro crisis reared its ugly head (again). Greek markets took a decidedly pessimistic turn when the country's government decided to hold elections. At issue are promises Alexis Tsipras, presidential candidate of the Syriza party, made about rolling back austerity measures and cancelling a portion of Greek debt. If Tsipras is elected, Greece might leave the Euro.

Signs of volatility in U.S. markets
Markets sparked and popped a bit in the United States during the fourth quarter. Investors, who had been unconcerned about the possibility of short-term market volatility for much of 2014, had a change of heart during October – the same month the Federal Reserve ended quantitative easing.

The Chicago Board Options Exchange's Volatility Index (VIX), which is also known as Wall Street's fear gauge, rose into the 20s (above its long-term historic average of 19.6) for several days. Stock markets experienced big swings, too, and then things settled back down. The VIX shot higher for a few days in December, as well. Experts say these microbursts may continue into 2015.

Data as of 1/2/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.5%	0.0%	12.4%	17.2%	12.7%	5.5%
10-year Treasury Note (Yield Only)	2.1	NA	3.0	2.0	3.8	4.2
Gold (per ounce)	-1.1	-2.3	-2.0	-9.8	0.9	10.6
Bloomberg Commodity Index	-2.5	-0.5	-17.2	-10.4	-6.1	-3.2
DJ Equity All REIT Total Return Index	0.2	1.4	30.1	16.6	17.1	8.6

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.

WHEN YOU WERE YOUNGER, YOU MAY HAVE HEARD OLDER relatives marvel over the high cost of everything from automobiles to aluminum foil. It's worth taking a look back, once in a while, and acknowledging exactly how significantly the world has changed.

Let's begin by picturing the United States at the beginning of the twentieth century. One-quarter of households had running water and outhouses were more prevalent than flush toilets. Few people owned homes. Less than 10 percent of households had gas or electric lights, 5 percent had telephones, about 1 percent owned a car, and nobody owned a television because they didn't exist yet.

Approximate household income:
• **1901:** Average household income was about $750 a year. Almost 96 percent of households had income earned by men, 8.5 percent had income earned by women, and 23 percent had income earned by children.
• **1960 thru 1961:** Average household income was about $6,691 a year. Almost 34 percent of women and 83.3 percent men were working. Almost 39 percent of heads of household were craftsmen and machine operators, and 27 percent were professionals, managers, or proprietors.
• **2013:** The mean after-tax household income in the United States was $56,352.

Approximate household expenses:
• **1901:** The average family spent about $769 a year: $327 on food, $108 on clothing, $179 on housing, and $155 on anything else. On average, households spent 2.5 percent more than they earned. Just 19 percent of families owned homes; 81 percent rented.
• **1960 thru 1961:** The average family spent about $5,390 a year: $1,310 on food, $561 on clothing, and $1,590 on housing. Almost three-fourths of Americans owned cars. Fifty-three percent of families owned homes.
• **2013:** Mean household spending was about $51,100: $17,148 was spent on housing; $9,004 on transportation; $6,602 on food; $3,737 on utilities, fuels, and public services; $3,631 on healthcare; $1,604 went to clothing; and so on. About 64 percent of households owned homes.

It's true. Times really have changed.

Weekly Focus – Think About It

"A bird doesn't sing because it has an answer, it sings because it has a song."
--*Maya Angelou, American author and poet*

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* 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 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.
* 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.
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* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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~~http://www.bls.gov/opub/uscs/~~ (*Scroll down and click on "PDF" for Chapters 1901*)
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~~http://www.bls.gov/cex/#tables~~ (*Scroll down and under "CURRENT COMBINED EXPENDITURE, SHARE, AND STANDARD ERROR TABLES," click on "PDF" for "Age of reference person"*)
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