

## Commentary

October 27, 2014

### The Markets

After a week that left investors wondering what's next – much like fishermen on a lake as the wind kicks up and the water gets choppy – the wind settled and the fish started biting. U.S. stock markets posted their best weekly returns in almost two years last week. When all was said and done, investors were \$900 billion richer on paper, according to experts cited by *Barron's*.

One of the most interesting things about the week was that little changed. The Eurozone's precarious economic state did not stabilize. The Middle East remained in an uproar. The Russia-Ukraine conflict persisted, complete with sanctions. Ebola continued to be a threat, although vaccines are in the works. The pace of growth in China did not accelerate. In fact, a working paper published by the *National Bureau of Economic Research* suggested:

"There are substantial reasons that China and India may grow much less rapidly than is currently anticipated. Most importantly, history teaches that abnormally rapid growth is rarely persistent, even though economic forecasts invariably extrapolate recent growth. Indeed, regression to the mean is the empirically most salient feature of economic growth."

Some things related to China changed last week, though. It launched a new infrastructure bank along with 20 other countries, including India. The bank is intended to complement or rival the World Bank, depending on whose rhetoric you believe.

So, why did markets bounce? *Barron's* said it had a lot to do with the Federal Reserve. As monetary policy has become less easy and volatility has picked up, "turbulence was in the direction of deflation, with commodities – especially crude oil – sliding and government bond yields plunging further around the globe." Enter St. Louis Fed President James Bullard who suggested quantitative easing could be extended, if economic data supported it.

In other words, weak inflation numbers could shape Fed policy and delay interest rate increases. That was the story the numbers on the Chicago Mercantile Exchange told, anyway. The probability of the Fed raising rates by September 2015 declined sharply last week, moving from 81 percent to 42 percent. The market's strong positive response has been dubbed the 'Bullard Bounce.'

Data as of 10/24/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	4.1%	6.3%	12.1%	16.1%	12.7%	6.0%
10-year Treasury Note (Yield Only)	2.3	NA	2.5	2.2	3.5	4.0
Gold (per ounce)	-0.1	2.6	-8.3	-9.3	3.2	11.1
Bloomberg Commodity Index	-0.7	-7.3	-8.3	-7.6	-2.9	-3.0
DJ Equity All REIT Total Return Index	3.2	21.2	13.8	15.5	17.8	8.9

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.

**FOURTH PLACE!** When it comes to financial literacy, the *International Financial Literacy Barometer* indicates the United States ranks fourth out of 28 countries. If you're thinking those sophisticated Europeans must have an edge on us, you're wrong. The top five countries were Brazil, Mexico, Australia, United States, and Canada.

The rankings were determined by the answers to five questions:

- 1. Do you have and follow a household budget?** The best budgeters were in Brazil, Japan, Australia, South Africa, and Canada. The United States placed sixth.
- 2. How many months worth of savings do you have set aside for an emergency?** The best savers were in China, Taiwan, Hong Kong, Japan, and Canada. The United States placed seventh.
- 3. How often do you talk to your children ages 5-17 about money management issues?** Parents who talked most frequently about money with their children were in Mexico, Brazil, Serbia, Bosnia, and Lebanon. The United States placed sixth.
- 4. To what extent would you say teenagers and young adults in your**

**country understand money management basics and are adequately prepared to manage their own money?** More adults in Vietnam, Indonesia, India, Colombia, and Mexico believed kids understood financial basics than in other countries. The United States placed 27th.

5. **At what age do you think governments should require schools to teach financial literacy to children so they can better understand money management issues?** People in Brazil, Morocco, Thailand, Belarus, and Egypt wanted to talk with kids about money at the earliest ages. Americans said the government should require children to learn about money at about age 12. That put us in 21st place.

It's remarkable we placed fourth when our ranking on individual questions was lower in every instance. Our final ranking was higher, in part, because the first three questions were weighted more heavily than the latter two.

If you're interested in educating your children about money, a good place to start (with younger children) may be with the Tooth Fairy. In 2014, the Tooth Fairy left 8 percent less, on average, under kids' pillows than in 2013. American children received about \$3.40 per tooth. Ask your children why that might be? Are kids losing more teeth so the Fairy is paying less? Did the Fairy budget badly? Are some teeth worth more than others (cavities versus no cavities)? It's always easier to learn when you're interested in the subject!

### **Weekly Focus – Think About It**

“Age is an issue of mind over matter. If you don't mind, it doesn't matter.”

*--Mark Twain, American author*

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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.

\* 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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