

Commentary

October 6, 2014

The Markets

“Life is fine! Fine as wine! Life is fine!”

During the third quarter of 2014, U.S. investors remained as optimistic as the narrator in Langston Hughes’ poem, *Life Is Fine*. All major U.S. indices pushed higher during the quarter despite mixed economic signals, monetary policy concerns, and geopolitical tensions.

U.S. Treasury bond markets continued to confound investors and analysts during the quarter. Rates have remained low even with the end of quantitative easing in sight and the Federal Reserve preparing for the next step in unwinding monetary policy which is raising the Fed Fund’s rate. Although the timing of the rate increase remains uncertain, in theory, bond rates should be moving higher in anticipation of the change. A *Bloomberg* survey found economists anticipate 10-year Treasury yields will reach 2.78 percent by the end of 2014. They began the year at 2.98 percent and finished last week at 2.45 percent.

Bond yields have remained low, in part, because of geopolitical conflicts. Relations between Ukraine, Russia, and the West deteriorated further when an international commercial airliner carrying hundreds of passengers was shot down over Ukraine by a surface-to-air missile. Sanctions imposed by the European Union (EU) and United States have negatively affected the Russian economy. *BBC.com* reported about \$75 billion in capital has fled Russia and the country’s economy appears to be on the brink of recession.

Sanctions also hurt economic growth in the EU where recovery has been as precarious as a newborn foal trying to stand. World stock markets were disappointed, late in the quarter, when the European Central Bank confirmed it was ready to pursue further stimulus but failed to offer any specifics. Over the quarter, interest rates in Europe drifted lower. *The Wall Street Journal* reported, “Record-low interest rates in Europe have flipped bond investing on its head. Some bond buyers, typically paid for lending out their money, have begun paying borrowers to look after their cash.”

Renewable energy issues aggravated problems in Germany. “On June 16... the wholesale price of electricity fell to minus €100 per megawatt hour (MWh). That is, generating companies were having to pay the managers of the grid to take their electricity,” reported *The Economist*. The problem was less predictable forms of energy, like solar and wind, create challenges for utilities accustomed to power plants that run constantly and produce a predictable amount of energy.

Throughout the quarter, geopolitical issues increased at a rate that might rival Fibonacci’s hypothetical rabbit population (okay, maybe not quite that fast):

- The Ebola crisis captured the attention of governments around the world. Safety trials for experimental vaccines are underway in the United Kingdom and the United States, and the first unexpected case arrived on U.S. shores.
- Violence continued to roil through the Middle East and North Africa. ISIL/ISIS accomplished what many had thought impossible – uniting most countries in the world against a common enemy.
- In Hong Kong, protests supporting free elections and opposing the Chinese government’s vetting of political candidates were marked by an increase in violence.
- Japan suffered its worst volcanic disaster in 90 years.

The third quarter of 2014 was many things, but it certainly wasn’t boring.

Data as of 10/3/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor’s 500 (Domestic Stocks)	-0.8%	6.5%	17.2%	21.4%	13.6%	5.7%
10-year Treasury Note (Yield Only)	2.5	NA	2.6	1.8	3.2	4.2
Gold (per ounce)	-1.6	-0.5	-9.2	-10.3	3.5	11.2
Bloomberg Commodity Index	-1.0	-6.2	-7.0	-5.6	-1.2	-2.5
DJ Equity All REIT Total Return Index	0.0	14.0	14.2	19.2	16.7	8.3

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, diindexes.com, London Bullion Market Association

IS ANOTHER INDUSTRIAL REVOLUTION UPON US? Sure, sure, historians still debate whether the term 'revolution' is a misnomer since the first industrial revolution began in the 1700s and sort of merged into the second industrial revolution in the mid-1800s. Revolution is apt when a new way of doing things completely replaces an old way. However, the changes in agricultural techniques, technology, and industrial organization happened so slowly it was hardly a revolution in the traditional sense of change occurring rapidly.

The Economist suggests we are in the throes of another period of sweeping change:

"A third great wave of invention and economic disruption, set off by advances in computing and information and communication technology in the late 20th century, promises to deliver a similar mixture of social stress and economic transformation. It is driven by a handful of technologies – including machine intelligence, the ubiquitous web and advanced robotics – capable of delivering many remarkable innovations: unmanned vehicles; pilotless drones; machines that can instantly translate hundreds of languages; mobile technology that eliminates the distance between doctor and patient, teacher, and student."

Industrial revolutions have been characterized by painful change; although, they created broad swatches of economic opportunity. While this revolution eventually may bring incredible improvements and open new economic opportunities across all levels of global societies, currently, it is "opening up a great divide between a skilled and wealthy few and the rest of society."

Weekly Focus – Think About It

"Believe you can and you're halfway there."

--Theodore Roosevelt, 26th President of the United

States

* This newsletter was prepared by Peak Advisor Alliance. Peak Advisor Alliance is not affiliated with the named broker/dealer.

* 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.

Sources:

http://en.wikipedia.org/wiki/Langston_Hughes and <http://www.poets.org/poetsorg/poem/life-fine>

<http://www.thestreet.com/story/12897560/1/stock-market-today-stocks-fizzle-but-end-higher-for-the-quarter.html>

<http://www.bloomberg.com/news/2014-10-03/treasuries-fall-for-second-day-amid-speculation-hiring-quicken.html>

<http://finance.yahoo.com/q/hp?s=^TNX&a=00&b=2&c=2014&d=00&e=4&f=2014&g=d>

<http://www.bloomberg.com/news/2014-08-29/treasury-market-rally-is-stronger-than-every-economist->

[predicted.html](#)
<http://www.bbc.com/news/world-europe-28400218>
<http://www.washingtontimes.com/news/2014/sep/15/russia-sanctions-risk-return-to-recession-for-euro/?page=all>
<http://www.reuters.com/article/2014/10/02/us-markets-global-idUSKCN0HR01520141002>
<http://online.wsj.com/articles/european-bond-yields-go-negative-1412093167> (or go to
http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/10-06-14_WSJ-European_Bond_Yields_Go_Negative-Footer_9.pdf)
<http://www.economist.com/news/briefing/21587782-europes-electricity-providers-face-existential-threat-how-lose-half-trillion-euros>
<http://www.npr.org/2012/03/12/148318905/renewable-energy-throws-power-grid-off-balance>
http://en.wikipedia.org/wiki/Fibonacci_number
<http://www.bbc.com/news/uk-29462638>
<http://www.npr.org/blogs/thetwo-way/2014/09/23/350877632/obama-coalition-against-isis-shows-it-is-not-americas-fight-alone>
<http://www.bbc.com/news/world-asia-china-29489387>
<http://www.bbc.com/news/world-asia-29472384>
<http://www.yale.edu/ynhti/curriculum/units/1981/2/81.02.06.x.html>
<http://www.economist.com/news/special-report/21621156-first-two-industrial-revolutions-inflicted-plenty-pain-ultimately-benefited> (or go to
http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/10-06-14_The_Economist-The_Third_Great_Wave-Footer_18.pdf)
<http://www.brainyquote.com/quotes/quotes/t/theodorero380703.html>



Email Me About This Topic

Or feel free to email me about anything that I can assist you with.



Schedule an Appointment

Let's get together and work on your life and financial plans.



RAI Wealth
1700 Park Street, Suite 110
Naperville, IL
60563

<http://www.raiwealth.com>

[Unsubscribe](#)

All information herein has been prepared solely for informational purposes, and it is not an offer to buy or sell, or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. Securities and investment advisory services offered through National Planning Corporation (NPC), NPC of America in FL & NY, Member FINRA/SIPC, and a Registered Investment Adviser. Registered Representatives of NPC may transact securities business in a particular state only if first registered, excluded or exempted from Broker-Dealer, agent or Investment Adviser Representative requirements. In addition, follow-up conversations or meetings with individuals in a particular state that involve either the effecting or attempting to effect transactions in securities, or the rendering of personalized investment advice for compensation, will not be made absent compliance with state Broker-Dealer, agent or Investment Adviser Representative registration requirements, or an applicable exemption or exclusion. Retirement Advisors, Inc., FMG, LLC and NPC are separate and unrelated companies. Unless otherwise noted, all videos and presentations are developed and produced by FMG, LLC. Services mentioned may be offered through third parties. NPC Privacy Policy

10/06/2014