RAI WEALTH

Commentary

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The Markets

The global economy performed a bit like a Rube Goldberg contraption during the first quarter of 2015, although it's doubtful many countries found humor as economic, financial, and political events triggered other economic, financial, and political events across the world.

Europe heads into deflation
"The whiff of deflation is everywhere," reported *The Economist* early in 2015:

"Even in America, Britain, and Canada – all growing at more than 2 percent – inflation is well below target. Prices are cooling in the east with Chinese inflation a meager 0.8 percent. Japan's 2.4 percent rate is set to evaporate as it slips back into deflation; Thailand is already there. But it is the euro zone that is most striking. Its inflationary past – price rises averaged 11 percent a year in Italy and 20 percent in Greece in the 1980s – is a distant memory. Today, 15 of the area's 19 members are in deflation; the highest inflation rate, in Austria, is just 1 percent."

Low energy prices contributed to persistently low levels of inflation in many countries, although oil prices were slightly higher toward the end of the first quarter.

The Swiss take pre-emptive action
In mid-January, anticipating the European Central Bank (ECB) was about to try to head off deflation with a round of quantitative easing (QE) that would reduce the value of the euro, the Swiss National Bank (SNB) announced it would no longer cap the value of the Swiss franc at 1.2 per euro. The response was exceptional and unexpected. Experts speculated the SNB planned for the franc to lose value against the euro. Instead, it gained more than 30 percent. The Swiss market lost about 10 percent of its value on the news, and U.S. markets slumped, too.

The ECB commits to a new round of QE
The SNB may have miscalculated the effect of de-capping its currency, but it was correct about the ECB and QE. After months of dithering and debate, the ECB announced it was committed to a new round of QE and would spend about $70 billion a month through September 2016. Global markets cheered. Stock markets in Europe ascended to a seven-year high. The euro descended to an 11-year low.

Disparate central bank policies trigger currency issues
Divergent monetary policy – the Federal Reserve ended a round of QE just before the Bank of Japan and the ECB introduced new rounds of QE – proved to be a pressure cooker for currencies. With the dollar rising and the euro falling, countries with currency pegs were forced to follow suit. U.S. dollar-linked countries generally tightened monetary policy, even if it might hurt their economies, and euro-linked countries pursued looser monetary policy. *The Economist* reported that, "Denmark has had to cut interest rates three times, further and further into negative territory, in order to discourage capital inflows that were threatening its peg against the euro."

Interest rates fall lower and lower and lower
Thanks to quantitative easing, lots of banks in the United States and Europe have a lot of cash tucked away in their central banks' coffers. The Economist reported:

"…negative interest rates have arrived in several countries, in response to the growing threat of deflation… Banks, in effect, must pay for the privilege of depositing their cash with the central bank. Some, in turn, are making customers pay to deposit cash with them. Central banks' intention is to spur banks to use "idle" cash balances, boosting lending, as well as to weaken the local currency by making it unattractive to hold. Both effects, they hope, will raise growth and inflation."

In the Euro area, Germany, Denmark, Sweden, Switzerland, the Netherlands, France, Belgium, Finland, and Austria have issued bonds with negative yields. Why would anyone be willing to pay to invest in bonds? *The Wall Street Journal* suggested one possibility: Investors think yields have further to fall.

Data as of 4/2/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year

Standard & Poor's 500 (Domestic Stocks)	0.3%	0.4%	9.3%	13.4%	11.7%	5.8%
Dow Jones Global ex-U.S.	1.0	4.5	-2.3	4.3	2.6	3.3
10-year Treasury Note (Yield Only)	1.9	NA	2.8	2.2	4.0	4.5
Gold (per ounce)	0.2	-0.1	-7.2	-10.6	1.1	11.0
Bloomberg Commodity Index	0.3	-4.4	-25.3	-11.5	-6.0	-4.7
DJ Equity All REIT Total Return Index	1.0	4.7	22.9	14.0	14.9	9.7

S&P 500, Dow Jones Global ex-US, 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.

HEALTHCARE? REVOLUTION? REALLY? We may be taking part in a revolution and not even realize it! The way healthcare is provided in the United States has been changing. In the past, Americans participated in fee-for-service healthcare. You might think of it as healthcare a la carte. Hospitals and doctors were reimbursed for each test and treatment, which created incentives to do more rather than less, and may have caused the system to perform less efficiently.

The Economist recently reported, as a result of the Affordable Care Act, hospitals and doctors are being paid by results. Instead of getting a fee for each service, they receive a flat fee for all services performed:

"There are also incentives for providers which meet cost or performance targets, and new requirements for hospitals to disclose their prices which can vary drastically for no clear reason… The upshot is there are growing numbers of consumers seeking better treatment for less money. Existing health-care providers will have to adapt or lose business. All sorts of other businesses, old and new, are seeking either to take market share from the conventional providers or to provide the software and other tools that help hospitals, doctors, insurers, and patients make the most of this new world."

A key to making the transition from fee-for-service to alternative healthcare payment models will be providing doctors with support and guidance as they adopt new systems. A *Rand* study evaluated episode-based and bundled payments, shared savings, pay-for-performance, fees/taxes, and retainer-based practices as well as accountable care organizations and medical homes. The study found, "There was general agreement among physicians that the transition to alternative payment models has encouraged the development of collaborative team-based care to prevent the progression of disease."

Weekly Focus – Think About It

"The trouble with having an open mind, of course, is that people will insist on coming along and trying to put things in it."

--Terry Pratchett, English author

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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 Dow Jones Global ex-U.S. Index covers approximately 95 percent of the market capitalization of the 45 developed and emerging countries included in the Index.
* 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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* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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