

RBF Weekly Market Commentary

April 14, 2014

The Markets

If you're feeling whiplashed from the mid-week collision of good and bad economic news, you're not alone.

On Wednesday, the Federal Reserve's Open Market Committee (FOMC) meeting minutes were released and investors were reassured by what they read. Although the Fed lowered its Gross Domestic Product (GDP) growth projections for the first half of 2014, the minutes indicated real GDP is expected to grow faster over the next few years than it did last year (FOMC Meeting Minutes, Staff Economic Outlook, paragraph 1). In addition, "to support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate" (FOMC Meeting Minutes, Committee Policy Action, paragraph 2). Reassurance the Fed would not increase the federal funds rate sooner than expected was received with gusto and all three major U.S. stock indices raced ahead finishing the day up more than 1 percent.

On Thursday, good news about the world's largest economy (United States) ran right into not-so-good news about the world's second largest economy (China). Economic indicators suggested China's economy might be slowing faster than anyone expected. *MarketWatch* reported, "[China's] Exports fell 6.6% from a year earlier, slower than the more-than-18% tumble in the previous month, but widely missing a Dow Jones survey consensus for a 4.2% gain. Imports were even uglier, plunging 11.3% – more than the 10.1% drop in February – and trailing far behind an expected 2.8% gain." When trading ended on Friday, the Standard & Poor's 500 was down 1.8 percent for the year, the Dow was off 3.3 percent, and the NASDAQ had lost 4.2 percent of its value.

When markets get dramatic, it may be a good idea to stay calm and remember one of the most basic tenets of investing: Buy low, sell high.

Data as of 4/11/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-2.7%	-1.8%	14.0%	11.1%	16.2%	4.7%
10-year Treasury Note (Yield Only)	2.6	NA	1.8	3.6	2.9	4.2
Gold (per ounce)	1.6	9.7	-15.8	-3.5	8.2	12.4
DJ-UBS Commodity Index	1.2	8.5	1.0	-7.6	3.8	-1.0
DJ Equity All REIT TR Index	-1.1	8.1	-1.6	10.8	22.9	9.7

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 TR 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.

THERE'S A NEW INDEX IN TOWN... About five years ago, the World Economic Forum's Global Agenda Council proposed a new index be developed, one that would "increase the impact that social entrepreneurs, business leaders, and policy makers can have in the world." The general idea was the new index would measure social progress and spur competition between nations to improve the environment for social innovation in much the way the Global Competitiveness Index

assesses the drivers of economic productivity and prosperity and identifies nations that are most competitive.

Just 48 months later, the Social Progress Index (SPI) was born. The beta version of the index debuted in 2013 and focused on measuring the extent to which 50 countries met the non-economic needs of their citizens. The 2014 SPI gauged 54 social, health, and environmental factors across 132 countries, considering only outputs (like literacy) and not inputs (like spending on education). When the numbers were tallied, New Zealand was number one – even though it's in 25th place when measured by GDP per person (SPI, pg 62).

According to *The Economist*, when the results of the SPI are compared with a country's GDP per person, its value truly becomes apparent. The publication quoted Michael Porter, a professor at Harvard Business School, who said, "There is a view that economic development and social progress go hand in hand. That's true on average, but not in particular." For example, Costa Rica and Iran have similar GDPs, but Iran falls far lower on the scale of social progress. Brazil and Kuwait are about equal in terms of social progress, although Kuwait's GDP per person is multiples greater than that of Brazil.

So, how did the United States do? We're in 2nd place for GDP per person and 16th for social progress (SPI, pg 63). A *New York Times* Op Ed piece summarized the scores like this, "In the Social Progress Index, the United States excels in access to advanced education but ranks 70th in health, 69th in ecosystem sustainability, 39th in basic education, 34th in access to water and sanitation, and 31st in personal safety. Even in access to cellphones and the Internet, the United States ranks a disappointing 23rd, partly because one American in five lacks Internet access."

Will the United States respond by improving the environment for social innovation as the developers of the index had hoped? Stay tuned. The results of the 2015 SPI will be out in just another year.

Weekly Focus – Think About It

"The price of success is hard work, dedication to the job at hand, and the determination that whether we win or lose, we have applied the best of ourselves to the task at hand."

--Vince Lombardi, former Coach of the Green Bay Packers

Best regards,

Tony Kalinowski

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- *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 London afternoon gold price fix as reported by the London Bullion Market Association.
- * The DJ 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 TR 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.
- *The economic forecasts set forth in the presentation 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.
- * Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
- * Stock investing involves risk including loss of principal.

Sources:

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