

## RBF Weekly Market Commentary

### June 23, 2014

#### The Markets

The Federal Open Market Committee (FOMC) press release wasn't quite as catchy as España Cañí — the Spanish song played to rile crowds at events as varied as baseball games and bullfights — but it helped motivate investors as they pushed American stock markets higher last week.

The markets' optimistic surge was a bit difficult to understand. Since April, the U.S. economy has offered mixed signals. As it turns out, the economy actually suffered a contraction — not a slight expansion, as was originally thought — during the first quarter of 2014. Unemployment has been relatively steady with employers adding about 200,000 jobs in each of the last four months. However, inflation numbers have some pundits concerned.

The *Bureau of Labor Statistics' Consumer Price Index Summary* (CPI) showed the CPI increased by 0.4 percent in May, but that doesn't really tell the whole story. The price of food was rising faster (0.7 percent) than the CPI and in May, the food index posted its largest increase since August 2011. In addition, the cost of electricity and gasoline rose 0.9 percent. When questioned about the discrepancy, Chairwoman Janet Yellen indicated the numbers around inflation could be just 'noise.' The Fed's attitude toward inflation had *The Guardian* accusing it of magical thinking.

“...Consumers are surrounded by rising prices on all sides – paying higher bills, paying more money at the market, paying more just to get to work. At the same time we're shelling out more for these necessities, our incomes are stagnant. No more money is coming in. Yet the Fed, which just wrapped a two-day meeting to diagnose the economy, is dismissing these real-world costs as a trick of the charts – a mere math problem rather than a real snapshot of the challenges facing Americans.”

If economic signals are mixed, why were markets so optimistic? *Reuters* suggested investors' confidence had a lot to do with the markets' resilience during 2014 to-date (in the face of events in Ukraine and the Middle East, among others), as well as economic improvement, earnings growth, and the availability of cheap credit.

Data as of 6/20/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.4%	6.2%	23.6%	15.4%	17.1%	5.7%
10-year Treasury Note (Yield Only)	2.6	NA	2.4	3.0	3.7	4.7
Gold (per ounce)	3.1	9.2	1.6	-5.3	7.4	12.8
DJ-UBS Commodity Index	1.3	8.6	6.6	-4.9	2.5	-0.7
DJ Equity All REIT Total Return Index	1.5	16.1	19.1	12.2	24.9	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 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.

**DECIMATE IS A VERY INTERESTING WORD...**In the early 1500s, according to *OxfordDictionaries.com*, decimation (an earlier version of decimate) referred to tithing—paying a tenth of your income to an organization that was usually religious in nature. By the end of the 1600s, “*An English Dictionary* defined [decimate] as both ‘to tythe or take the [tenth]’ and ‘also punishing every tenth man.’” More recently, decimate has been defined as destroying a large portion of something or drastically reducing the strength or effectiveness of something.

When it comes to retirement, the great decimator could be healthcare costs. The Employee Benefits Research Institute (EBRI) estimated that, in 2013, men needed \$65,000 and women needed \$86,000 to have a fifty-fifty chance of covering healthcare expenses during retirement. At least, that’s how much they needed to pay for Medigap premiums, Medicare Part B premiums, Medicare Part D premiums, and out-of-pocket expenses.

Of course, if they wanted better odds, people had to save more. Let’s say a person wanted a 90 percent chance of having enough money to pay the healthcare costs listed above. In that case, a man needed \$122,000 and a woman \$139,000. A married couple (both with drug expenses in the 90<sup>th</sup> percentile) needed \$360,000 in savings. *EBRI Notes* said, “Individuals can expect to pay a greater share of their costs out-of-pocket in the future because of the combination of the financial condition of the Medicare program and cutbacks to employment-based retiree health programs.”

Of course, it’s important to note that these targets don’t include any expenses associated with early retirement or long-term care costs. A new study estimates that a couple retiring at age 62 will pay about \$17,000 in out-of-pocket expenses each year until they become eligible for Medicare. No matter when they retire, 70 percent of Americans eventually need long-term care services and support, according to *LongTermCare.gov*. The cost of long-term care depends on the services required, but it is not insignificant. One survey estimated that the average cost of care for one year in a private nursing facility was about \$96,000 in 2014.

Putting sound financial strategies in place can help prevent healthcare expenses from decimating your retirement.

### **Weekly Focus – Think About It**

“People who think they know everything are a great annoyance to those of us who do.”

-- *Isaac Asimov, American author and biochemistry professor*

Best regards,

Tony Kalinowski

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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 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 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:

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