RBF Weekly Market Commentary
January 13, 2014

The Markets

The People's Republic of China (PRC) appears to have taken the words of American industrialist Henry Ford to heart. Ford said, "There is one rule for the industrialist and that is: Make the best quality of goods possible at the lowest cost possible, paying the highest wages possible."

Last week, we learned from *CNBC* China's annual trade was more than $4 trillion in 2013. That pushed the PRC ahead of the United States and gave it standing as the world's biggest trader. According to *The New York Times*, China's annual trade surplus, in U.S. dollar terms, was the largest since 2008 and 12.8 percent ahead of 2012's surplus. In other words, China exported more than it imported.

It's interesting to note imports to China increased significantly. In fact, imports rose more than exports which reflects strong domestic demand, according to an expert quoted by *CNBC*. That demand may have been driven by rising wages and a growing middle class. *The New York Times* wrote:

> "Export gains… suggest that despite years of predictions of trouble for China's export juggernaut, it has not yet been derailed by fast-rising costs for blue-collar labor, by an appreciating Chinese currency, or by foreign investment shifts toward other, lower-wage Asian countries… Blue-collar pay has soared between fivefold and ninefold in dollar terms in the last decade, wrecking China's reputation as a low-wage place for export-oriented manufacturing… A decade ago [a company] paid about $75 a month for entry-level industrial workers and provided virtually no benefits. Now, [a company] pays $570 a month plus $100 a month in government-mandated benefits."

The Economist forecast China's economy will overtake the United States' in 2019 if economic growth averages 7.75 percent a year in China and 2.5 percent in America and inflation averages 4 percent and 1.5 percent, respectively, between 2010 and 2020. In late 2013, the Organization for Economic Cooperation and Development forecast growth in China would accelerate to about 8.2 percent with 2.4 percent inflation during 2014, according to *Reuters*. Growth in the United States is estimated to be 2.8 to 3.2 percent with inflation of 1.4 to 1.6 percent for the year, according to the Federal Reserve.

Data as of 1/10/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.6%	-0.3%	25.2%	13.2%	16.2%	5.0%
10-year Treasury Note (Yield Only)	2.9	NA	1.9	3.3	2.3	4.1
Gold (per ounce)	0.8	3.6	-25.7	-3.1	8.5	11.3
DJ-UBS Commodity Index	-1.0	-1.7	-10.7	-8.0	1.8	-1.4
DJ Equity All REIT TR Index	1.6	2.2	2.3	10.6	21.1	8.8

Notes: 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.

IS THE GLASS HALF FULL WHEN IT COMES TO UNEMPLOYMENT? OR IS IT HALF EMPTY? You're probably familiar with that famous saying about the three types of lies: there are lies, damned lies, and statistics. When trying to parse the implications of economic data from government and non-government organizations, the myriad of ways in which statistics can be sliced and diced quickly becomes apparent.

December's jobs report, which was released last week, is a prime example. The unemployment rate fell from 7.0 percent to 6.7 percent; however, just 74,000 jobs were added in the United States during the month. That's less than one-half the number of jobs economists had anticipated. So, there was less unemployment, but the number of new jobs created didn't meet expectations. Does that mean the employment picture is weaker than experts thought?

Not necessarily. According to *The Economist*:

> "Payroll gains were revised up in November to 241,000 (from 203,000) suggesting that some of December's hiring may have been pulled forward. The two-month average of 157,000 is probably a better picture of reality than either month's tally. Finally, the household survey, which while typically more volatile is still a useful check on the better-known survey of employer payrolls, shows employment rose 143,000, one reason the unemployment rate plunged to 6.7% from 7%."

Does that mean the employment picture is positive?

Not necessarily. The number of people participating in the labor force in the United States was trending south before the recession started back in December of 2007. Our workforce has been shrinking because of cyclical factors, like people giving up on finding jobs because jobs are hard to find, and structural factors, such as Baby Boomers retiring and the participation of women in the workforce has been leveling off.

All in all, 3.9 million Americans (that's about 38 percent of all unemployed workers) have been unemployed for at least 27 weeks. Are they discouraged? Have they retired? Are they raising children? There are probably some statistics out there that could provide further insight.

Weekly Focus – Think About It

"The superior man acts before he speaks, and afterwards speaks according to his action."

--*Confucius, Chinese philosopher*

Best regards,

Tony

Tony Kalinowski

Securities offered through Triad Advisors, Inc., Members FINRA/SIPC.

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

* 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.

* 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.

* Past performance does not guarantee future results.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.

Sources:
http://www.brainyquote.com/quotes/quotes/h/henryford151869.html#AQTkZcshWzQbyKCq.99
http://www.cnbc.com/id/101325240
http://www.nytimes.com/2014/01/10/business/international/chinese-exports-withstand-rising-labor-costs.html?partner=yahoofinance&_r=0
http://www.investopedia.com/terms/t/trade-surplus.asp
http://www.economist.com/blogs/graphicdetail/2013/11/chinese-and-american-gdp-forecasts
http://uk.reuters.com/article/2013/11/19/uk-oecd-china-idUKBRE9AI0D520131119
http://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20131218.pdf
http://www.brainyquote.com/quotes/quotes/m/marktwain128372.html

http://www.bls.gov/news.release/pdf/empsit.pdf (*pages 1-2*)
http://www.economist.com/blogs/freeexchange/2014/01/americas-jobs-report
http://www.bls.gov/spotlight/2012/recession/pdf/recession_bls_spotlight.pdf
http://www.dol.gov/opa/media/press/opa/OPA20140047.htm
http://www.brainyquote.com/quotes/quotes/c/confucius385565.html