

RBF Weekly Market Commentary

June 16, 2014

The Markets

Investors remain oddly complacent even in the face of unexpected events that have the potential to disrupt global markets.

Last week, news media reported civil war in Syria has boiled over into Iraq, and ISIS (Islamic State of Iraq and Syria), a Sunni extremist group, has seized control of hundreds of square miles. According to CNN.com, the group's ambition is to create an Islamic state that encompasses the Sunni regions of both Iraq and Syria. [1] *The Economist* pointed out the potential for volatility in world energy prices is enormous because significant portions of the world's energy reserves are controlled by Middle Eastern nations (factor in Russia and Venezuela, too). [2]

Governor of the Bank of England, Mark Carney, let markets know the United Kingdom's central bank may raise rates sooner than expected to help turn the country's recovery into a durable expansion. [3] His speech sparked speculation about the timing of rate hikes in the United States. President of the Federal Reserve Bank of St. Louis, James Bullard, told *The Wall Street Journal* the Fed is likely to raise rates sooner than expected if the U.S. economy meets performance expectations during 2014. [4]

Russian politicians are encouraging a de-dollarization of their economy, and leaders of several Russian banks have indicated they are bypassing the U.S. dollar in their international transactions. [5] China and Brazil are settling some of their trade with their currencies, the renminbi and the real (respectively). According to *Barron's*, "The world is actively seeking an alternative to the greenback. Major nations don't want to pay the virtual toll in the cost of acquiring dollars to conduct trade. The maturation of their own financial markets increasingly allows them to bypass the dollar-centric financial system." [6]

U.S. stock markets largely finished the week lower; however, the CBOE Volatility Index (VIX) (the so-called fear gauge) remained at levels suggesting investors remain relatively unruffled. [6]

Data as of 6/13/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.7%	4.8%	18.3%	15.0%	16.0%	5.6%
10-year Treasury Note (Yield Only)	2.6	NA	2.2	3.0	3.7	4.9
Gold (per ounce)	2.0	6.0	-8.1	-5.9	6.4	12.7
DJ-UBS Commodity Index	0.8	7.2	3.6	-6.3	1.4	-0.7
DJ Equity All REIT Total Return Index	-2.2	14.4	10.3	12.7	22.8	10.0

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.

PAUL, THE GERMAN OCTOPUS ORACLE, DID PRETTY WELL PREDICTING

outcomes of 2010 World Cup matches. Paul's approach wasn't too scientific and, now that he is gone, a lot of folks are turning to animal prognosticators. China has a team of baby pandas and Germany has put Nelly the elephant on the task. [7]

In case you're not a soccer aficionado, The World Cup – soccer's version of the Super Bowl, World Series, Stanley Cup, etc., etc. – began last weekend. SBNation.com's soccer glossary describes the event like this:[8]

“The World Cup is the most important soccer tournament on the planet. It is contested over 64 games by 32 national teams every four years and tends to be watched by a significant fraction of the global population... Long story short: it's the most important trophy in the world's most popular sport.”

The World Cup also provides a lesson on sentiment-driven markets. Market sentiment reflects the optimism or pessimism of investors on the whole – crowd attitude – and it can send markets higher or lower. It can affect markets even when there's no change in underlying fundamentals. [9]

So, how does it work? *Goldman Sachs* publishes a 67-page report, complete with a dream team line-up and interviews, titled *The World Cup and Economics*. It could be a program brochure for the event. Regardless, the report includes data about the performance of countries' stock markets following a victory or defeat in the finals. [10]

Stock markets in winning countries tend to outperform by about 3.5 percent for the first month after the win but gains fade by the three-month mark, and markets tend to underperform the following year. When you remove significant outliers, runner-up countries' markets typically underperform during the three months following the loss. It seems nobody is too pleased about coming in second. [10]

Weekly Focus – Think About It

“Some people think football [soccer] is a matter of life and death. I assure you, it's much more serious than that.”

--*Bill Shankly, Scottish footballer and manager of Liverpool Football Club* [11]

Best regards,

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.

* 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:

- [1] <http://www.cnn.com/2014/06/12/world/meast/who-is-the-isis/>
- [2] <http://www.economist.com/blogs/buttonwood/2014/06/geopolitical-risk-and-markets?zid=308&ah=e21d923f9b263c5548d5615da3d30f4d>
- [3] <http://www.bankofengland.co.uk/publications/Documents/speeches/2014/speech736.pdf> (Pages 3-4)
- [4] <http://blogs.wsj.com/economics/2014/06/09/feds-james-bullard-fed-is-much-closer-to-its-policy-goals/>
(or go to http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/06-16-14_WSJ-Feds_Bullard_Says_Central_Bank_May_Raise_Rates-Footer_4.pdf)
- [5] <http://america.aljazeera.com/articles/2014/6/9/russia-banks-currency.html>
- [6] http://online.barrons.com/news/articles/SB50001424053111903583804579614252099387332?mod=BOL_hp_we_columns (or go to http://peakclassic.peakadvisoralliance.com/app/webroot/custom/editor/06-16-14_Barrons-Surprise-Side_Economics-Footer_6.pdf)
- [7] <http://www.nbcnews.com/storyline/world-cup/wholl-succeed-paul-octopus-world-cup-oracle-its-anyones-bet-n124971>
- [8] http://www.sbnation.com/soccer/2014/6/12/5802424/soccer-glossary-2014-world-cup#worldcup_worldcup
- [9] <http://www.investopedia.com/terms/m/marketsentiment.asp>
- [10] http://www.goldmansachs.com/our-thinking/outlook/world-cup-sections/world-cup-book-2014-equity-markets.html?cid=PS_01_84_07_00_00_01_01
- [11] <http://www.brainyquote.com/quotes/quotes/b/billshank1312046.html>