

## Commentary

January 19, 2015

### The Markets

Central banks have been full of surprises lately, but not too many people saw this one coming. For aficionados of the board game Clue, here's the gist of it: Thomas Jordan did it in Switzerland with monetary policy.

Last week, Swiss National Bank (SNB) Chairman Thomas Jordan told the world the SNB would no longer cap the value of the Swiss franc at 1.2 per euro because the policy was no longer needed. The decision triggered an exceptional response. *The Economist* reported:

"Currencies don't normally move that far on a daily basis – 2-3 percent is a big shift. The exception is when a country on a fixed exchange rate suffers devaluation; then a 20-30 percent fall is a possibility. But a 20-30 percent plus upward move is almost unprecedented. That, however, is what happened to the Swiss franc on January 15th..."

The SNB's decision roiled global financial markets. The Swiss market lost about 10 percent of its value on the news and U.S. markets slumped, too. Anxiety was particularly acute in central Europe where many people hold loans and mortgages denominated in Swiss francs.

The SNB currency peg was introduced just three years ago, when things were grim in the euro region, and money was pouring into safe-haven Switzerland. The value of the Swiss franc increased significantly, making Swiss exporters – watchmakers, chocolatiers, luxury goods manufacturers – far less competitive. The SNB's solution was a currency peg.

So, how does a central bank maintain the value of its currency? Well, among other things, it prints money (in this case, Swiss francs) to buy more of the peg currency (euros). Today, with the European Central Bank expected to begin a round of quantitative easing that may reduce the value of the euro, the *BBC* speculated the Swiss could no longer afford to maintain the peg.

Motives aside, the move may have produced results the SNB didn't anticipate. An expert cited by the *International Business Times* said, "The Swiss bank thought that by removing the cap and activating a negative interest rate, the currency would weaken. In this case, the surprise is going to bite them back." Did it ever.

Data as of 1/16/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-1.2%	-1.9%	9.4%	16.0%	11.9%	5.4%
10-year Treasury Note (Yield Only)	1.8	NA	2.8	1.9	3.7	4.2
Gold (per ounce)	4.9	6.5	2.9	-8.0	2.4	11.7
Bloomberg Commodity Index	-0.3	-1.0	-17.5	-10.0	-5.7	-3.4
DJ Equity All REIT Total Return Index	2.3	7.0	33.1	18.2	17.7	9.6

S&P 500, 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.

**GOOD NEWS FOR ANYONE IN RETIREMENT OR RETIRING SOON:** The amount of savings needed to cover health insurance premiums and out-of-pocket care expenses fell for a second straight year, according to the Employee Benefits Research Institute (EBRI).

Okay, get ready for the governmental alphabet soup! The savings needed to pay Medigap premiums, Medicare Part B premiums, Medicare Part D premiums, and out-of-pocket drug expenses (if you retired at age 65 in 2014) was estimated to be:

#### For men:

- \$64,000 (50% chance of savings covering all expenses)
- \$93,000 (75% chance of savings covering all expenses)
- \$116,000 (90% chance of savings covering all expenses)

#### For women:

- \$83,000 (50% chance of savings covering all expenses)
- \$106,000 (75% chance of savings covering all expenses)
- \$131,000 (90% chance of savings covering all expenses)

**For married couples:**

\$147,000 (50% chance of savings covering all expenses)

\$199,000 (75% chance of savings covering all expenses)

\$241,000 (90% chance of savings covering all expenses)

That's 2-10 percent less than the savings needed in 2013. How is it possible these estimates are moving lower? Retiree spending on healthcare has dropped, according to *U.S. News & World Report*:

"A flood of 77 million people from the baby boomer generation have been turning 65, the age of Medicare eligibility, since 2011. These younger enrollees have been a leading factor driving down the rate at which health care spending is increasing, because the younger boomers tend to be healthier than older enrollees and therefore use fewer medical services... Also contributing to the slowdown are changes in the way medicine is being practiced, the lingering effects of the Great Recession, and the shift in usage from high-priced prescription drugs to less costly generic alternatives."

EBRI's estimates use Congressional Budget Office and Centers for Medicare & Medicaid Services projections regarding future premium and health care cost increases. These projections for spending growth have slowed in recent years.

**Weekly Focus – Think About It**

"As a player, it says everything about you if you made the Hall of Fame. But, then again, boy... there's something about winning a Super Bowl."

--Terry Bradshaw, American football player and NFL analyst

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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 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.

\* 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.

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