RBF Weekly Market Commentary
October 6, 2014

The Markets

"Life is fine! Fine as wine! Life is fine!"

During the third quarter of 2014, U.S. investors remained as optimistic as the narrator in Langston Hughes' poem, *Life Is Fine*. All major U.S. indices pushed higher during the quarter despite mixed economic signals, monetary policy concerns, and geopolitical tensions.

U.S. Treasury bond markets continued to confound investors and analysts during the quarter. Rates have remained low even with the end of quantitative easing in sight and the Federal Reserve preparing for the next step in unwinding monetary policy which is raising the Fed Fund's rate. Although the timing of the rate increase remains uncertain, in theory, bond rates should be moving higher in anticipation of the change. A *Bloomberg* survey found economists anticipate 10-year Treasury yields will reach 2.78 percent by the end of 2014. They began the year at 2.98 percent and finished last week at 2.45 percent.

Bond yields have remained low, in part, because of geopolitical conflicts. Relations between Ukraine, Russia, and the West deteriorated further when an international commercial airliner carrying hundreds of passengers was shot down over Ukraine by a surface-to-air missile. Sanctions imposed by the European Union (EU) and United States have negatively affected the Russian economy. *BBC.com* reported about $75 billion in capital has fled Russia and the country's economy appears to be on the brink of recession.

Sanctions also hurt economic growth in the EU where recovery has been as precarious as a newborn foal trying to stand. World stock markets were disappointed, late in the quarter, when the European Central Bank confirmed it was ready to pursue further stimulus but failed to offer any specifics. Over the quarter, interest rates in Europe drifted lower. *The Wall Street Journal* reported, "Record-low interest rates in Europe have flipped bond investing on its head. Some bond buyers, typically paid for lending out their money, have begun paying borrowers to look after their cash."

Renewable energy issues aggravated problems in Germany. "On June 16… the wholesale price of electricity fell to minus €100 per megawatt hour (MWh). That is, generating companies were having to pay the managers of the grid to take their electricity," reported *The Economist.* The problem was less predictable forms of energy, like solar and wind, create challenges for utilities accustomed to power plants that run constantly and produce a predictable amount of energy.

Throughout the quarter, geopolitical issues increased at a rate that might rival Fibonacci's hypothetical rabbit population (okay, maybe not quite that fast):

- The Ebola crisis captured the attention of governments around the world. Safety trials for experimental vaccines are underway in the United Kingdom and the United States, and the first unexpected case arrived on U.S. shores.

- Violence continued to roil through the Middle East and North Africa. ISIL/ISIS accomplished what many had thought impossible – uniting most countries in the world against a common enemy.
- In Hong Kong, protests supporting free elections and opposing the Chinese government's vetting of political candidates were marked by an increase in violence.
- Japan suffered its worst volcanic disaster in 90 years.

The third quarter of 2014 was many things, but it certainly wasn't boring.

Data as of 10/3/14	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	-0.8%	6.5%	17.2%	21.4%	13.6%	5.7%
10-year Treasury Note (Yield Only)	2.5	NA	2.6	1.8	3.2	4.2
Gold (per ounce)	-1.6	-0.5	-9.2	-10.3	3.5	11.2
Bloomberg Commodity Index	-1.0	-6.2	-7.0	-5.6	-1.2	-2.5
DJ Equity All REIT Total Return Index	0.0	14.0	14.2	19.2	16.7	8.3

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.

IS ANOTHER INDUSTRIAL REVOLUTION UPON US? Sure, sure, historians still debate whether the term 'revolution' is a misnomer since the first industrial revolution began in the 1700s and sort of merged into the second industrial revolution in the mid-1800s. Revolution is apt when a new way of doing things completely replaces an old way. However, the changes in agricultural techniques, technology, and industrial organization happened so slowly it was hardly a revolution in the traditional sense of change occurring rapidly.

The Economist suggests we are in the throes of another period of sweeping change:

> "A third great wave of invention and economic disruption, set off by advances in computing and information and communication technology in the late 20th century, promises to deliver a similar mixture of social stress and economic transformation. It is driven by a handful of technologies – including machine intelligence, the ubiquitous web and advanced robotics – capable of delivering many remarkable innovations: unmanned vehicles; pilotless drones; machines that can instantly translate hundreds of languages; mobile technology that eliminates the distance between doctor and patient, teacher, and student."

Industrial revolutions have been characterized by painful change; although, they created broad swatches of economic opportunity. While this revolution eventually may bring incredible improvements and open new economic opportunities across all levels of global societies, currently, it is "opening up a great divide between a skilled and wealthy few and the rest of society."

Weekly Focus – Think About It

"Believe you can and you're halfway there."

--Theodore Roosevelt, 26th President of the United States

Best regards,

«AdvisorName»

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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Sources:
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