

RBF Weekly Market Commentary

March 3, 2014

The Markets

If you think Russia could have found a colder place to hold the winter Olympics than Sochi, where the average January 2014 temperature was 51° Fahrenheit, you're right. In some Siberian towns, negative double-digit temperatures are considered the norm during winter months. If you thought Russia sending troops into Ukraine's Crimean Peninsula would unsettle world markets, you would have been wrong.

While the world was watching the winter Olympics, the Ukrainian people were staging a revolution. They ousted President Viktor Yanukovich and, according to *The Economist*, Ukraine's new leaders began forming pro-European government. Russia's president Vladimir Putin asked the Russian parliament for permission to deploy troops in Ukraine. America warned there would be consequences for such an action.

Regardless, Mr. Putin persisted, perhaps believing the West will be more "worried about keeping Russian oil and gas exports flowing than about standing up for the idea of a Europe whole and free." It's probably fair to say neither the winter Olympics nor reality TV about housewives in any county or city has ratcheted up the drama in the way Mr. Putin did last week.

So, how did markets respond? Six world indices lost value last week (in Australia, Japan, China, Indonesia, United Kingdom, and Mexico), 17 showed gains, and one remained unchanged.

Why were markets so bullish? According to *Barron's*, markets in the United States focused on strong consumer confidence data, evidence of sales growth for durable goods, and new Federal Reserve Chair Janet Yellen remarking the last six weeks of economic data have been surprisingly weak (which some hoped could signal a pause in tapering).

Data as of 2/28/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.3%	0.6%	22.8%	11.9%	21.6%	4.9%
10-year Treasury Note (Yield Only)	2.7	NA	1.9	3.4	2.9	4.0
Gold (per ounce)	0.3	10.4	-16.5	-2.0	7.2	12.7
DJ-UBS Commodity Index	0.2	6.6	-1.9	-6.9	5.6	-1.0
DJ Equity All REIT TR Index	1.1	8.3	5.9	9.7	31.0	8.7

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.

THERE ARE ONLY 10 TYPES OF PEOPLE IN THE WORLD: those who understand binary numbers and those who don't. The joke is funnier when you understand that 10 in the binary system is the same as the decimal number two.

There are two distinct ways of thinking, too, and both appear to be essential to companies that are trying to turn a profit through innovation. In an article about the World's most innovative companies, *FastCompany.com* had this to say about innovation:

“...But there's another kind of faith in business: The belief that a product or service can radically remake an industry, change consumer habits, challenge economic assumptions. Proof for such innovative leaps is thin, payoffs are long in coming (if they come at all), and doubting Thomases abound. Today, pundits fret about an innovation bubble. Some overvalued companies and overhyped inventions will eventually tumble and money will be lost. Yet breakthrough progress often requires wide-eyed hope.”

Perhaps it's less of a hope and more of a commitment to fostering both divergent and convergent thinking within a company, which probably is not an easy thing to do. Divergent thinking is the process of generating many ideas related to a single subject or many solutions for a specific problem. For instance, strong divergent thinkers can come up with dozens of answers for questions like: How many uses can you think of for a knife and a brick? As it turns out, young children are terrific divergent thinkers. A longitudinal study of kindergarten children found that 98 percent of them were genius level divergent thinkers. By fifth grade, that percentage had dwindled to 50 percent or so. After another five years, even fewer were strong divergent thinkers.

Convergent thinking, on the other hand, is the process of applying rules to arrive at a single correct solution to a problem or a limited number of ways to address a specific issue. Convergent thinking occurs in a more systematic and linear manner. Strong convergent thinkers rely on analysis, criticism, logic, argument, and reasoning to narrow down options and choose a path forward.

According to *Psychology Today*, “The highest levels of creativity require both convergent thinking and divergent thinking. This idea has long been known in creativity research... creativity involves a cyclical process of generating ideas and then systematically working out which ideas are most fruitful and implementing them. The generation stage is thought to involve divergent thinking whereas the exploration stage is thought to involve convergent thinking.”

Weekly Focus – Think About It

“Everybody gets so much information all day long that they lose their common sense.”

--*Gertrude Stein, American writer*

Best regards,

Tony Kalainowski

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- * 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.
- *The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
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- * You cannot invest directly in an index.
- * Consult your financial professional before making any investment decision.
- * 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.

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