RBF Weekly Market Commentary
May 26, 2014

The Markets

Alongside the irises, daffodils, tulips, and other perennials that were popping up (in seasonal parts of the United States) last week, there was a lot of talk about the housing market and what its performance means about the state of the economy. Perceptions varied.

The U.S. housing market has showed improvement in recent years; however, sales slowed during 2013 as interest rates and home prices moved higher. Last week's housing data showed sales of existing homes were up 1.3 percent for April which was lower than expected, but sales of new single-family homes were up more than expected. In addition, the S&P/Case-Shiller 20-City Composite Home Price Index showed February housing prices had reached levels last seen in 2004.

According to *MarketWatch.com*, some big-name investors are worried about the housing market's recovery because younger investors are not inclined to take on mortgage debt. Others suggest homeownership may drop because people are marrying later. Balancing the naysayers are pundits who believe demand for housing will continue to strengthen. Finally, the minutes of the Federal Open Market Committee, which were released last week, showed the Fed recognized recovery in the housing sector remained slow, but expects economic activity to expand at a moderate pace:

> "Most participants commented on the continuing weakness in housing activity. They saw a range of factors affecting the housing market including higher home prices, construction bottlenecks stemming from a scarcity of labor and harsh winter weather, input cost pressures, or a shortage in the supply of available lots. Views varied regarding the outlook for the multifamily sector, with the large increase in multifamily units coming to market potentially putting downward pressure on prices and rents, but the demand for this type of housing [is] expected to rise as the population ages. A couple of participants noted mortgage credit availability remained constrained and lending standards were tight compared with historical norms, especially for purchase mortgages."

What are we to make of the conflicting opinions? The housing market is considered to be a leading economic indicator. This means it tends to change direction before the economy changes direction and offers some indication about where the economy may be headed. (It should be noted housing data generally is several months old before it is reported.) Housing is not the only leading indicator. *The Conference Board* tracks an index of leading economic indicators. For April, its Leading Economic Index® showed improvement for a third consecutive month. It's a reminder of how important it is to pay attention to the big picture.

Data as of 5/23/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.2%	2.8%	15.2%	13.0%	16.5%	5.7%
10-year Treasury Note (Yield Only)	2.5	NA	2.0	3.1	3.5	4.7
Gold (per ounce)	-	7.5	-6.5	-5.1	6.5	12.9
DJ-UBS Commodity Index	0.4	7.9	2.4	-5.5	2.3	-1.1

DJ Equity All REIT TR Index	-0.6	14.2	2.5	11.5	23.7	10.3

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.

THE NEWEST EUROPEAN IMPORT IS THE CHIP AND PIN CARD. Discussions about credit and debit card security were heating up even before retailers experienced data breaches last winter. Needless to say, after the breaches and a wealth of media reports touting the fact that Europe, Canada, and most of the rest of the world already have more secure payment systems than the one we use in the United States, interest in replacing our current system increased.

Eighty countries around the world are currently implementing Europay, MasterCard and Visa, or EMV™ technology. In some places, EMV compliance is further along than it is in others. For instance, about 95 percent of point-of-sale credit card machines (aka terminals) in Europe are EMV compliant; 79 percent of terminals in Canada, Latin America, and the Caribbean; 77 percent of terminals in Africa and the Middle East; and 51 percent of terminals in the Asia Pacific region.

Why is a card with a chip and pin better than a card with a magnetic stripe and a signature? One of the primary reasons, according to *Forbes*, is improved security:

> "Most credit cards in the United States operate with a simple magnetic stripe that can be captured and copied relatively easily. Much of the rest of the world uses a small chip on the credit card to validate with a transaction. The chip employs cryptography and a range of other security features and measures that create a multi-layered defense against card fraud. When combined with a Personal Identification Number or PIN code (the sort used on ATM cards), it substantially raises security. Even with just a signature it makes a marked improvement over a simple magnetic stripe."

The United States, until recently, was the last major market holdout. However, according to current estimates, 60 percent of merchants will have EMV compliant devices by 2015. Check your mail. A new card may be on its way soon.

Weekly Focus – Think About It

"Kindness is the language which the deaf can hear and the blind can see."

--*Mark Twain, American writer and humorist*

Best regards,

Tony Kalinowski

* 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 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.
* 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.
* 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.

Sources:

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