RBF Weekly Market Commentary
September 1, 2014

The Markets

There is no substitute for mental preparedness. Just ask any professional athlete or Navy SEAL. One essential aspect of mental preparation is situational awareness – being able to identify, process, and understand what is happening around you at any given time.

That's been a challenge for bond investors this year. 2014's Treasury market rally took economists (and everyone else) by surprise:

> "Treasury yields lurched higher in May 2013, when the Fed first sketched out a timetable to wind down its bond-buying program, even though it didn't actually begin the winding down until seven months later. Yields were expected to keep rising this year as that program ended and the Fed turned its attention to raising its short-term policy rate but, instead, yields have fallen as investors still seem enamored of bonds."

A *Bloomberg* survey (August 8-13) found economists' median forecast projected 10-year Treasury yields would be 2.7 percent by the end of September. The yield on 10-year U.S. Treasuries finished last week at 2.34 percent.

It's likely bond market surprises may continue during the next few months. In fact, bond investors may want to mentally prepare themselves for a rough and bumpy ride. It's likely analysts and investors will try to anticipate the Federal Reserve plans for increasing interest rates, and it's not all that hard to imagine the type of volatility that could ensue. All you have to do is think back to the ups and downs that punctuated guesses about when the Fed might begin to end its bond-buying program.

Barron's offered the opinion the first rate hike won't happen until March of 2015, but that won't stop anyone from speculating it could happen earlier. Conjecture, rumor, and supposition are likely to begin before the Federal Open Market Committee meeting on September 16, 2014.

No matter how markets twist during the next few months, investors should keep their wits about them. Being mentally prepared may help.

Data as of 8/29/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.8%	8.4%	22.3%	18.3%	14.4%	6.2%
10-year Treasury Note (Yield Only)	2.3	NA	2.8	2.3	3.5	4.2
Gold (per ounce)	0.7	7.0	-8.7	-11.0	6.1	12.2
Bloomberg Commodity Index	0.9	0.7	-3.8	-7.8	0.1	-1.2
DJ Equity All REIT Total Return Index	0.4	20.1	23.2	15.3	18.7	9.2

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.

LIFE EXPECTANCY HAS BEEN INCREASING BY 15 MINUTES EVERY HOUR for the last 50 years or so in the richer countries around the world, according to *The Economist*. That's an increase of about 2.5 years per decade.

Longer lifespans are a mixed blessing. On the one hand, people may enjoy longer lives. On the other, the longer people live, the greater the chance that longevity risk – the possibility that life expectancy will exceed expectations – could negatively affect people, companies, and governments around the world.

One way to measure longevity risk is by estimating the cost of an aging society. The *International Monetary Fund's (IMF) 2012 Global Financial Stability Report* calculated the potential cost of providing everyone in the world, age 65 and older, with the average income necessary to maintain his or her standard of living at its preretirement level. By 2050, assuming a replacement rate of 60 percent of preretirement income, the cost would be about 11.1 percent of gross domestic product (GDP) in developed economies and 5.9 percent of GDP in emerging economies – and that doesn't include increases in health and long-term care costs. If longevity increases by three years, the estimated costs go up by almost 50 percent!

Insurance companies, employers with defined benefit (DB) pension plans, and governments are exposed to significant longevity risk. Insurers offer products designed to provide lifetime income. Employer-sponsored DB plans promise lifetime payments to employees who meet specific criteria. Governments with pension programs have made similar promises to citizens.

Many entities are looking for ways to effectively reduce their exposure to longevity risk. One way to manage longevity risk is to share it. An example would be to develop a "liquid longevity risk transfer market" where,

> "…The "supply" of longevity risk would meet "demand" for that risk. That is, the risk would be transferred from those who hold it, including individuals, governments, and private providers of retirement income, to (re-) insurers, capital market participants, and private companies that might benefit from unexpected increases in longevity (providers of long-term care and healthcare, for example). In theory, the price of longevity risk would adjust to a level at which the risk would be optimally spread through market transactions."

The overall longevity risk market could be sizeable. According to *Risk.net*, current global annuity and pension-related longevity risk exposure is between $15 trillion and $25 trillion.

Weekly Focus – Think About It

"Some cause happiness wherever they go; others whenever they go."

--Oscar Wilde, Irish writer and poet

Best regards,

Tony Kalinowski

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* 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 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.

Sources:

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