

Weekly Market Commentary RBF February 24, 2014

The Markets

Behind the dark clouds of volatile markets there appears to be a silver lining. That may be hard to believe when so many are focused on whether economic weakness is due to bad weather or, well, economic weakness, but here are a few of the signs that things may take a turn for the better:

- **Business climate:** On February 20, *The Economist/FT* Global Business Barometer, which surveys 1,500 business leaders around the world, found more than one-half of them expect the global business climate to improve during the next six months and more than one-third plan to increase capital investment in the coming year. A slight majority believe America will have a greater influence on their regional growth than China.
- **Consumer confidence:** Consumer confidence climbed for the second month in January 2014. The Director of *The Conference Board Consumer Confidence Index*® said, “Consumers’ assessment of the present situation continues to improve, with both business conditions and the job market rated more favorably. Looking ahead six months, consumers expect the economy and their earnings to improve, but were somewhat mixed regarding the outlook for jobs. All in all, confidence appears to be back on track and rising expectations suggest the economy may pick up some momentum in the months ahead.”
- **Cash-rich companies:** Corporate America is sitting on a lot of cash – about 91 weeks’ worth of net income, according to *Barron’s*. It has been using that cash primarily for stock buybacks, but could use it for other things. An economist quoted in *Barron’s* said, “The purpose of the capital markets is to fund growth... it's difficult to call this de-equitization an economic equilibrium: Public companies should not make money just to buy back stock.”

Of course, positive prospects don’t mean everything is coming up roses (especially not in this weather). Consider one of the effects of stock buybacks which is there is a lot less stock in our stock markets than there used to be. As *Barron’s* pointed out, “The Wilshire 5000 may have seen its list of components shrink by half since 1998, but its total market cap has doubled from \$11.7 trillion to \$22.5 trillion in that span. Unless you're a government statistician, you just might call that inflation.” Oh! Inflation. That’s something we may need to think more about soon.

Data as of 2/21/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-0.1%	-0.7%	22.2%	11.8%	19.8%	4.9%
10-year Treasury Note (Yield Only)	2.7	NA	2.0	3.5	2.8	4.1
Gold (per ounce)	0.3	10.1	-16.1	-1.9	6.1	12.7
DJ-UBS Commodity Index	2.3	6.3	-2.3	-6.2	5.4	-0.6
DJ Equity All REIT TR Index	0.5	7.2	5.6	9.9	28.6	8.8

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.

WHAT IS AN ENTREPRENEUR? Merriam Webster defines an entrepreneur as “one who organizes, manages, and assumes the risks of a business or enterprise.” *The Library of Economics*

and Liberty said successful entrepreneurs find ways to derive greater profit from materials or skills while unsuccessful ones don't. The website shared this insight to entrepreneurship:

“An entrepreneur who takes the resources necessary to produce a pair of jeans that can be sold for thirty dollars and instead turns them into a denim backpack that sells for fifty dollars will earn a profit by increasing the value those resources create... Losses mean that an entrepreneur has essentially turned a fifty-dollar denim backpack into a thirty-dollar pair of jeans. This error in judgment is part of the entrepreneurial learning, or discovery, process vital to the efficient operation of markets.”

Knowing this, it's not all that surprising that traditional gauges of entrepreneurship measure things like the number of small businesses or self-employed people or business startups in a country. According to *The Economist*, these measures tend to provide misleading results with Egypt often appearing to be more entrepreneurial than America.

A new paper from the *Research Institute of Industrial Economics* offers a different way to measure entrepreneurial success. It focuses on Schumpeterian entrepreneurship. Austrian-American economist Joseph Schumpeter believed entrepreneurs were innovators, people whose ideas and execution produced high-growth companies that often upset and disorganized existing models for doing business – think Thomas Edison and electricity, or Steve Jobs and Bill Gates and computing.

The paper looked at *Forbes Magazine's* billionaires list from 1996 through 2010 and focused on self-made billionaires who earned their dough founding new businesses. There were almost 1,000 of them in 50 different countries. (By the way, four of every 10 global billionaires are found in the United States, predominantly in California, New York, and Texas.) The researchers' conclusion was the *Forbes'* list offered, “an alternative – albeit imperfect – cross-country measure of Schumpeterian entrepreneurship with more intuitive results than small business activity.”

Weekly Focus – Think About It

“Think left and think right and think low and think high. Oh, the thinks you can think up if only you try!”

--*Dr. Seuss (a.k.a. Theodor Seuss Geisel), American writer, poet, and cartoonist*

Best regards,

Tony Kalinowski

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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.

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* 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.

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* 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.

* Consult your financial professional before making any investment decision.

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