Weekly Market Commentary
May 31, 2016

The Markets

Everyone makes mistakes. Some people learn from them.

In *GMO*'s March 2016 white paper, James Montier and Philip Pilkington continued to explore the Federal Reserve's influence on the stock market. It was a process they'd begun in 2015 as they sought "…to understand why our forecast for the S&P 500 had been too pessimistic over the last two decades or so." Inspired by research done at the New York Federal Reserve, they found:

> "…sometime around 1985 the market really started to react to FOMC [Federal Open Market Committee] days. Like the Fed economists, we found that for the past 30 or so years these announcement days have had a major, and increasing, impact on the stock market…In fact, FOMC days account for 25 percent of the total real returns we have witnessed since 1984!"

Upon further examination, they realized the Fed's influence on the Standard & Poor's 500 Index (S&P 500) wasn't caused by monetary policy decisions. Markets moved just because the committee was meeting. Investor sentiment was driving market action.

Last week, Federal Reserve Chair Janet Yellen commented, "It's appropriate, and I've said this in the past, I think for the Fed to gradually and cautiously increase our overnight interest rate over time and probably in the coming months, such a move would be appropriate." Her comments did not inspire 'animal spirits,' which is how economist John Maynard Keynes described the emotions that motivate people to act.

At the end of the week, the Dow Jones Industrial Average and the S&P 500 were higher on solid economic data that included an upward revision of first quarter's gross domestic product (GDP) growth rate. GDP is the value of all goods and services produced in the United States during a given period.

The next FOMC meeting is June 14-15.

Data as of 5/27/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.3%	2.7%	-1.2%	8.1%	9.5%	5.2%
Dow Jones Global ex-U.S.	2.1	-0.7	-13.8	-1.7	-1.6	-0.3
10-year Treasury Note (Yield Only)	1.9	NA	2.1	2.1	3.1	5.1
Gold (per ounce)	-3.0	14.5	2.6	-4.0	-4.5	6.3
Bloomberg Commodity Index	0.7	8.8	-14.5	-14.0	-12.4	-7.1
DJ Equity All REIT Total Return Index	2.0	6.6	10.0	8.4	10.7	7.3

S&P 500, Dow Jones Global ex-US, 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.

CHIEF EXECUTIVE OFFICER COMPENSATION IS DOWN. NO, IT'S UP. YOU BETTER JUDGE FOR YOURSELF. *The New York Times* reported the 200 most-highly-paid CEOs in the United States collectively experienced a pay cut last year! CEOs' *average* compensation – all CEOs compensation added together and then divided by 200 – fell by 15 percent from 2014 to 2015.

Of course, you know what they say about lies and statistics.

Equilar, the company responsible for the study, reported CEO pay grew modestly in 2015. They looked at *median* CEO pay – the number in the middle. It was $16.6 million for fiscal 2015. That's up 5 percent from the previous year.

No matter how you interpret the results, not one CEO earned more than $100 million. CEOs in the technology industry had the highest median pay while those in basic materials (which includes oil and gas companies) had the lowest, according to *Equilar*.

Many people have argued company performance should inform CEO pay, but there wasn't much evidence this was the case. Although there may have been a basis for CEO pay changes, there was no clear correlation to shareholder returns or company revenues. For instance:

- A 702 percent increase in pay was awarded when total shareholder return was down 5 percent, and company revenues were down 1 percent.
- A 286 percent increase in pay was awarded when total shareholder return was up 16 percent, and company revenues were up 9 percent.
- A 48 percent reduction in pay occurred when total shareholder return was up 25 percent, and company revenues were up 4 percent.

The portion of 2015 corporate budgets allotted to pay hikes for employees increased by 2.8 percent, on average, according to *Mercer*. The report said, "…the highest-performing employees received average base pay increases of 4.8 percent in 2015 compared to 2.7 percent for average performers and 0.2 percent for the lowest performers…"

Weekly Focus – Think About It

"Mistakes are a part of being human. Appreciate your mistakes for what they are: precious life lessons that can only be learned the hard way. Unless it's a fatal mistake, which, at least, others can learn from."

--*Al Franken, U.S. Senator and comedian*

Best regards,

Tony Kalinowski

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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* 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 Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* 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.

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