RBF Weekly Market Commentary
June 30, 2014

The Markets

Last week, the U.S. Department of Commerce delivered news that was about as welcome as a report of a great white shark sighting off a popular beach during the Fourth of July holiday. The Commerce Department's third revision of its estimate for economic growth in the United States during the first quarter of 2014 was revised downward – by a lot. Instead of contracting by 1 percent, the economy shrank by 2.9 percent. It was the worst single-quarter contraction in five years.

According to *Barron's*, "The number was so bad… it suggested that something more than the weather was to blame for the plunge in economic activity – and that a recession could be in the offing." Other factors did contribute to the economy's first-quarter reversal including a reduction in healthcare spending sparked by the Affordable Care Act and the end of emergency unemployment benefits in January.

However, experts warned against making too much of backward-looking data. ING economist James Knightley told *The Guardian* reaction to the news should be fairly muted as many economists expect second quarter numbers to show significant improvement. PNC Financial Services senior economist Gus Faucher, who was also quoted in the article, concurred:

> "The contraction in the first quarter is old news, and things are looking much better for the rest of this year. Most importantly the labour market remains solid… Job gains are allowing households to increase their spending, with higher stock prices and home values also helping. Recent data have been solid, with big jumps in new and existing home sales in May, and consumer confidence recovering after it took a hit in the winter. An expanding global economy will help boost exports..."

Comments from St. Louis Federal Reserve President James Bullard reinforced the view that economic growth remains steady. Last Thursday, he predicted the Fed would raise interest rates early in 2015. *Bloomberg.com* reported Bullard expects the jobless rate to drop below 6 percent and inflation to close in on 2 percent by the end of 2014.

Data as of 6/27/14	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 (Domestic Stocks)	0.1%	6.1%	21.6%	15.3%	16.2%	5.6%
10-year Treasury Note (Yield Only)	2.5	NA	2.5	2.9	3.5	4.7
Gold (per ounce)	0.4	9.7	6.9	-4.2	7.1	12.5
DJ-UBS Commodity Index	-0.5	8.1	8.4	-4.2	1.7	-0.6
DJ Equity All REIT Total Return Index	0.2	16.4	12.5	12.7	23.6	9.6

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 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.

THE BULL MARKET IN BONDS HAS PERSISTED FOR MORE THAN 30 YEARS. It began when The Cosby Show was in its heyday, when the first Apple Macintosh computers arrived in homes, and when Clara Peller famously asked, "Where's the beef?" in a popular television commercial. The bull market began late in 1981 when 30-year U.S. Treasury bond rates hit an all time high of 15.2 percent and 10-year Treasuries topped out at 15.8 percent. Thirty-three years later, in mid-2014, 30-year Treasuries and their 10-year brethren offered rates in the low single digits.

MarketWatch.com says the lengthy bull market in bonds has important implications:

> "… Assuming the typical investor doesn't seriously start thinking about investing until he is 25 or 30 years old, especially about investing in bonds, that means that anyone today not in, or very close to, retirement has only known a bond bull market. That's an amazing historical and psychological fact, the significance of which cannot be overstated. It means that very few investors today have the long-term perspective with which to properly assess whether bonds are likely to suffer major declines in coming years."

After 30-odd years of declining interest rates, some experts believe investors should prepare for a period of rising rates. Since there is an inverse relationship between bond prices and interest rates, higher rates could mean declining bond prices. How much could the price of a bond decline? It all depends on the bond's duration. Duration is expressed as a number of years and measures the sensitivity of a bond to interest rate movements. The longer the duration of a bond, the more sensitive it is to changing rates, and vice-versa. *Investopedia.com* describes duration like this:

> "The duration number is a complicated calculation involving present value, yield, coupon, final maturity, and call features. Fortunately, for investors, this indicator is a standard data point provided in the presentation of comprehensive bond and bond mutual fund information. The bigger the duration number, the greater the interest-rate risk or reward for bond prices."

If rates move higher, a portfolio with long-term, long-duration bonds may experience a significant reduction in value.

Weekly Focus – Think About It

"Hard work spotlights the character of people: some turn up their sleeves, some turn up their noses, and some don't turn up at all."

--*Sam Ewing, American baseball player*

Best regards,

Tony Kalinowski

* This newsletter was prepared by Peak Advisor Alliance. Peak Advisor Alliance is not affiliated with the named broker/dealer.
* Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.
* 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 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 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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