Retirement Strategies, Ltd. Presents ...

MONTHLY ECONOMIC UPDATE

MONTHLY QUOTE

"Yesterday is not ours to recover, but tomorrow is ours to win or to lose."

– Lyndon B. Johnson

MONTHLY TIP

Saving for retirement should take priority over saving for college. Remember, there is no retiree financial aid.

MONTHLY RIDDLE

What possesses a foot, yet no legs?

Last month's riddle:
I am round, touch the ground, and I am best under pressure. What am I?

Last month's answer:
A tire.

February 2014

THE MONTH IN BRIEF

Headwinds certainly increased in January as subpar earnings and anxieties about emerging markets unnerved Wall Street. January ended up as the poorest month for stocks since May 2012, with the S&P 500 losing 3.56% and many other global benchmarks retreating. Rough winter weather impeded homebuyers and jobseekers, but not consumer spending. On the NYMEX, gains and losses varied widely with natural gas and coffee futures jumping north. As many analysts expected, the Federal Reserve decided to further reduce its monthly asset purchases.[1]

DOMESTIC ECONOMIC HEALTH

At the Fed, the Ben Bernanke era ended with another taper. On January 31, the central bank announced it would buy $65 billion in bonds a month ($35 billion in Treasuries, $30 billion in mortgage-linked securities) starting in February, which was $10 billion below the previous amount.[2]

That wasn't the only reduction investors heard about in January. Hiring had fallen off in December, with employers adding just 74,000 jobs; the awful weather gripping much of the country may have influenced that figure, as well as the dip in the jobless rate to 6.7% (347,000 people left the job hunt).[3]

The Institute for Supply Management's factory PMI slipped to 51.3 in January, down from 56.5 in December. Early in January, ISM's service sector PMI had come in at 53.0 for December, a dip of 0.9 points from the November mark. Additionally, durable goods orders sank 4.3% in the final month of 2013.[4,5,6]

Inflation resurfaced in December, it turned out: the Consumer Price Index moved 0.3% north (core CPI rose 0.1%) and the Producer Price Index advanced 0.4% (with a gain of 0.3% in core PPI).[7]

Good news also arrived. Consumer spending was up 0.4% in December – twice the gain economists polled by Briefing.com had forecast – and by the federal government's initial estimate, the economy grew 3.2% in the fourth quarter. The last month of the year also witnessed improvements in retail sales (0.2%, 0.7% with auto buying factored out) and industrial production (0.3%). Thanks in part to a $53.2 billion December surplus, the federal budget deficit was 41% smaller at the end of 2013 than it had been a year before.[6,7]

Consumer confidence also strengthened. The Conference Board's index rose to 80.7 in January from December's reading of 77.5, and the University of Michigan's consumer sentiment index gained 0.8 points on the month to reach 81.2.[6]

Lastly, President Obama authorized the Treasury to create a new type of retirement account – the MyRA, a principal-protected savings vehicle governed by Roth IRA rules that would serve as a kind of "starter" Roth IRA for workers unable to enroll in employer-sponsored retirement plans. As mandatory enrollment won't be a feature of the MyRA, analysts aren't sure it will make much of a dent in the retirement savings problem.[8]

GLOBAL ECONOMIC HEALTH

As January ended, the biggest selloff in emerging market currencies in 5 years was underway. Argentina's peso lost 19% of its value last month; South Africa's rand fell 5.9% against the dollar while Turkey's lira slipped 5.1% versus the greenback. In some emerging market countries, real yields were too low to attract capital necessary to address current account deficits. At month's end, the real yield for South Africa was 1.4% (compared to 2.0% in the past decade) and Mexico's real yield was 0.1%. Turkey, India and South Africa all hiked interest rates in January.[9]

China's manufacturing sector had clearly slowed. The country's official factory PMI hit a 6-month low of 50.5 in January, and the HSBC PMI for China fell a point to 49.5 (contraction territory). In better news out of the region, Markit's manufacturing PMI for Japan hit 56.6, the best reading since February 2006.[10,11]

Markit's eurozone factory PMI came in at 54.0 in January, which was a better reading than in any month since May 2011. Annualized consumer inflation in the eurozone decreased to 0.7% last month, triggering concerns about deflation; eurozone unemployment remained at 12.0%.[11,12]

WORLD MARKETS

Most of the big benchmarks retreated last month. The Asia Dow lost 5.70%, the Europe Dow 2.78% and the Global Dow 3.86%. MSCI's Emerging Market Index and World Index respectively lost 6.60% and 3.77%, while the DJ STOXX 600 retreated 1.75%. In Asia, the Nikkei 225 lost 8.45%, the Shanghai Composite 3.92%, the Hang Seng 5.45%, the Kospi 3.49% and the Sensex 3.10%; the Jakarta Composite rose 3.38% and Pakistan's KSE 100 climbed 6.03%.[1,13]

In the Americas, the TSX Composite advanced 0.54% and the MERVAL 11.64% while the Bovespa sank 7.51% and the IPC All-Share lost 4.32%. Europe saw the following losses: FTSE 100, 3.54%; CAC 40, 3.03%; DAX, 2.57%, RTSI, 9.82%. Ireland's ISEQ rose 2.49% last month; Italy's FTSE MIB gained 2.38%.[1]

COMMODITIES MARKETS

Natural gas futures jumped 15.48% on the NYMEX last month. Other major energy futures lost ground: oil slipped 1.31%, unleaded gasoline 5.70% and heating oil 2.62%. NYMEX crude ended the month at $97.46.[14,15]

Among metals, COMEX gold gained 3.80% to finish January at $1,245.60; silver futures rose 1.14% and platinum futures 0.52%. Copper, on the other hand, fell 6.49% in January.[14,15]

Coffee made the month's other big ascent, climbing 13.52%. Other crop futures advancing on the COMEX: corn, 3.21%; cocoa, 6.83%; cotton, 1.41%. Declining crop futures included soybeans (2.59%), sugar (5.24%) and wheat (7.84%). The U.S. Dollar Index ended January at 81.31, representing a 1.59% monthly gain.[14,16]

REAL ESTATE

Aggravating winter storms didn't quite arrest home buying in December. The National Association of Realtors said existing home purchases rose 1.0% in that month. The Census Bureau, however, estimated a 7.0% drop in new home sales. Existing home sales improved 9.1% in 2013 (the best year since 2006) and new home sales were up 4.5% for the year. The S&P/Case-Shiller Home Price Index showed a 13.7% overall yearly gain (20 metro markets) in November.[6,17,18]

Looking to the near future, NAR said pending home sales dropped 8.7% for December (perhaps weather was a major factor). The Census Bureau recorded a 3.0% decline in building permits for December, along with a 9.8% retreat in housing starts.[6,7]

Fixed-rate mortgages were a bit cheaper in December – a look at Freddie Mac's December 26 and January 30 Primary Mortgage Market Surveys shows the average rate on the 30-year FRM descending from 4.48% to 4.32%, and from 3.52% to 3.40% for the 15-year FRM. Average rates on 5/1-year ARMs rose 0.12% to 3.12%; average rates on 1-year ARMs ticked down 0.01% to 2.55%.[19,20]

LOOKING BACK...LOOKING FORWARD

At the closing bell on January 31, the most-watched U.S. indices had not quite corrected from 2013 peaks, but were still notably beneath them: DJIA, 15,698.85; NASDAQ, 4,103.88; S&P 500, 1,782.59. The Russell 2000 lost 2.82% on the month, wrapping up January at 1130.88. This won't surprise anyone: the CBOE VIX advanced 34.18% in January, ending the month at 18.41. The Dow Jones Internet

Index and NASDAQ Biotech Index pulled off January gains – the former rose 6.90%, the latter 8.41%.[1]

% CHANGE	1-MO CHG	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-5.30	+13.26	+19.24	+4.97
NASDAQ	-1.74	+30.61	+35.59	+9.86
S&P 500	-3.56	+18.99	+23.17	+5.76
REAL YIELD	1/31 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.53%	-0.57%	1.73%	1.85%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 1/31/14[1,21,22]
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.
These returns do not include dividends.

February began with more struggles for stocks: a 326-point drop for the Dow largely in response to the major January retreat of ISM's key manufacturing PMI. When the dust settled on the market's worst day of the young year, the S&P 500 was almost 6% below its December 2013 all-time peak. The big question here: is this retreat a sign of market normalcy or representative of something worse? How many investors will believe that this pullback is warranted and stick with stocks, and how many will turn to "safe havens" with a glance at emerging economies? January's employment report may be a key test. If it shows the economy adding 200,000 or more jobs, investors worldwide might breathe easier. They also might be comforted by other (presumably solid) American economic indicators as the month unfolds.[23]

UPCOMING ECONOMIC RELEASES: The roll call of data for the remainder of February: January's ISM service sector PMI and the January ADP employment change report (2/5), January Challenger job-cuts data (2/6), the January employment report from the Labor Department (2/7), December wholesale inventories (2/11), December business inventories and January retail sales (2/13), the University of Michigan's preliminary February consumer sentiment index and January industrial output (2/14), February's NAHB housing market index (2/18), January housing starts and building permits, January's PPI and the January Fed policy meeting minutes (2/19), the January CPI and the Conference Board's January leading indicator index (2/20), January existing home sales (2/21), the Conference Board's January consumer confidence index and December's Case-Shiller home price index and FHFA housing price index (1/23), January new home sales (2/26), January durable goods orders (2/27), and then the University of Michigan's final February consumer sentiment index, January pending home sales and the second estimate of Q4 GDP (2/28). January's consumer spending numbers will come out on March 3.

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We will contact them first and request their permission to add them to our list.

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The MSCI Emerging Markets Index is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies. The MSCI World Index is a free-float weighted equity index that includes developed world markets, and does not include emerging markets. The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. Nikkei 225 (Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE). The Nikkei average is the most watched index of Asian stocks. The SSE Composite Index is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The Hang Seng Index is a freefloat-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong. The Korea Composite Stock Price Index or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange. The BSE SENSEX (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE). The IDX Composite or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX). Karachi Stock Exchange 100 Index (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period. The S&P/TSX Composite Index is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization. The MERVAL Index (MERcado de VALores, literally Stock Exchange) is the most important index of the Buenos Aires Stock Exchange. The Bovespa Index is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Mexican IPC index (Indice de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange. The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The DAX 30 is a Blue Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The RTS Index (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange. The ISEQ Overall Index is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies. The FTSE MIB (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange. The US Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth more or less than when originally invested. 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