WEEKLY MARKET COMMENTARY **March 10, 2014**

The Markets

Okay, so Russia sending troops into Ukraine's Crimean Peninsula did unsettle world markets. At least it did on Monday.

Like a diver plummeting off a cliff, markets in various parts of the world lost value last Monday as investors responded to the possibility of war between Ukraine and Russia. *The New York Times* said it like this:

> "The escalating crisis in Ukraine created turmoil in global markets on Monday, hitting stocks from Wall Street to Ukraine and causing a spike in oil and natural gas prices that could reach into consumers' wallets. But despite fears that the conflict between Russia and the West over Ukraine could shift into a military confrontation, analysts said there was little risk of global financial contagion or of major blowback to Western economies.

Perhaps that was the reason markets generally did so well during the rest of the week. That and the fact Russian President Vladimir Putin seemed to pause for a breath and, possibly, a reconsideration of strategy after the Russian stock market lost about $58 billion on Monday. (That's more than the cost of the Sochi winter games.) There were other economic consequences, too. A rapid decline in the value of the ruble led to a sharp rise in short-term Russian interest rates, and the Russian central bank was compelled to spend about $12 billion defending the country's currency.

Meanwhile, back in the United States, the bull market celebrated its fifth birthday. During the last five years, the value of investors' holdings in U.S. stocks has increased by about $16 trillion, according to Wilshire Associates as reported in *Barron's*. As if that weren't remarkable enough, last week the Federal Reserve reported the net worth of U.S. households rose by nearly $3 trillion during the last quarter of 2013. It's enough to make you wonder whether the cost of quantitative easing, which expanded the Federal Reserve's by more than $3 trillion, was worth it.

Data as of 3/7/14	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500	1.0%	1.6%	21.1%	12.8%	22.7%	5.1%
10-year Treasury Note (Yield Only)	2.8	NA	2.0	3.5	2.9	3.8
Gold (per ounce)	0.7	11.1	-15.5	-2.4	7.7	12.8
DJ-UBS Commodity Index	1.6	8.3	-0.5	-6.9	5.4	-0.6
DJ Equity All REIT TR Index	-0.4	7.9	4.2	11.0	31.6	8.4

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.

WHERE ARE THEY NOW? Remember that island in the Mediterranean that was in turmoil about a year ago and turned to the European Union (EU) for a bailout? The situation in Cyprus was a bit confounding because the country was growing relatively robustly and had a small budget deficit. The issue was the country's banks which were bigger than its domestic economy. Cyprus had about 8 trillion euros in deposits and only 4.5 trillion euros of annual government revenues, according to BCA Research cited in *The Economist*. Since bank deposit guarantees are only as good as the country providing them, Cyprus needed some help.

Eurozone leaders responded to the Cypriot bailout request with demands for austerity and reforms – pretty much the same thing they'd been requesting from other bailout recipients – but a 'bail-in' also was part of the package. What is a bail-in? The EU required debt holders and uninsured depositors help absorb bank losses and fork up new capital. Although the idea was initially rejected by the Cypriot parliament, the government capitulated relatively quickly. *The Economist* described it like this:

> "At first, a raid on insured [bank] deposits was envisaged, though ultimately they were spared and the main victims were uninsured depositors – a decision made easier by the fact that many of them were Russians. But getting creditors both to absorb losses and to recapitalize the country's biggest bank (which also had to absorb the second-biggest and even more comprehensively bust bank) is not proving to be a great success."

How unsuccessful has it been? The Cypriot economy contracted by about 5 percent in 2013 and is expected to continue to wither this year. Unemployment in the country is at 17 percent.

There are several lessons that can be learned from events in Cyprus, according to *The Economist*: 1) It's important to have a state-backed 'bad' bank where bad loans can be held and dealt with over the long term; 2) Forcing uninsured depositors to take a hit helped protect taxpayers, but it also damaged public confidence in banks; and 3) Fiscal policy makers need pragmatic and flexible solutions because every banking crisis is different.

Weekly Focus – Think About It

"If your actions inspire others to dream more, learn more, do more, and become more, you are a leader.

--John Quincy Adams, Sixth President of the United States

Financial Factoid – The current bull market in the U.S. has lasted 1,821 calendar days, as measured by the S&P 500. It ranks as the seventh longest bull market dating back to 1928, according to Bespoke Investment Group.

Epic Humor – Sean goes into the pub and asks for three pints of Guinness. He sips from the first, then the second, then the third until all three are finished. A couple of nights later he comes back and repeats the ritual. This goes on for a while until finially the bartender asks why the three pints of Guinness.

"Well," says Sean, "My brother Michael is in the USA and Liam is in Austrailai. We agreed that whenever we have a drink, we pretend we're together."

One night Sean comes in and he orders only two pints. The bartender asks "Did something happen to one of your brothers?"

"They're fine", says Sean. "But I've given up Guinness for Lent."

Have a great week!

Edward R. Doughty, CFP®
E-mail: edoughty@EpicCapital.com
Website: www.EpicCapital.com

WE'VE GONE SOCIAL!! Please be sure to "Like" us on **Facebook**, "Follow us" on **Twitter**, "Get Linked" with me on **LinkedIn**, and "Subscribe" to the EpicCapital channel on **YouTube**.

Simply click on these icons:

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.

Securities offered through LPL Financial, Member FINRA/SIPC.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.
* The DJ Global ex US is an unmanaged group of non-U.S. securities designed to reflect the performance of the global equity securities that have readily available prices.

* 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.
* Past performance does not guarantee future results.
* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision