

# AMJ Financial Wealth Management

## Weekly Market Commentary

### July 22, 2013

## The Markets

Singing the earnings song...

Each year, in January, April, July, and October, most publicly-traded companies announce their corporate earnings results. These announcements can have a dramatic effect on companies' share prices – and markets – especially when companies don't meet analysts' expectations.

The way a company's share price moves after an earnings announcement can strike a discordant note. For instance, a company can have a great quarter, but if it earns a few pennies per share less than expected, its share price may tumble. Likewise, a company can be in dire straits, but if it produces a few cents more than expected, its share price may climb.

Last week's earnings song was a bit melancholy. By the end of the week, about one-fifth of the companies in the Standard & Poor's 500 Index had submitted their reports and earnings were on track to grow by about 1.5 percent year-to-year. That's a bit lower than the 4.1 percent earnings growth analysts had expected, but it was in positive territory.

Unfortunately, as *The Wall Street Journal* pointed out, financial companies have exceptionally easy year-to-year comparisons. When they were pulled out of the mix, earnings hit a low note: down by almost 3 percent from last year, according to FactSet. That's worse than analysts expected at the start of the quarter.

Earnings were weak relative to expectations, but the S&P 500 still finished higher for the week. That may be because of the soothing refrain offered by Ben Bernanke (monetary policy will remain accommodative... monetary policy will remain accommodative). The important thing to remember is the Fed's definition of accommodative monetary policy doesn't necessarily mean maintaining its quantitative easing program.

| Data as of 7/12/13                      | 1-Week | Y-T-D | 1-Year | 3-Year | 5-Year | 10-Year |
|---|--------|-------|--------|--------|--------|---------|
| Standard & Poor's 500 (Domestic Stocks) | 0.7%   | 18.6% | 22.9%  | 16.5%  | 6.1%   | 5.6%    |
| 10-year Treasury Note (Yield Only)      | 2.5    | N/A   | 1.5    | 3.0    | 4.1    | 4.2     |
| Gold (per ounce)                        | 1.3    | -23.5 | -18.2  | 3.1    | 6.2    | 14.0    |
| DJ-UBS Commodity Index                  | 0.9    | -6.8  | -11.1  | 0.7    | -9.5   | 1.1     |
| DJ Equity All REIT TR Index             | 1.2    | 11.0  | 13.9   | 18.9   | 8.3    | 11.3    |

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.

**THERE'S BEEN AN INNOVATION IN MEASURING INNOVATION.** Innovation is one of those things. It's hard to fully describe, but it can be awfully important to countries and economies.

In recent years, there have been some remarkable innovations, such as car sharing and the Oakland A's use of sabermetrics; and some less remarkable ones, such as airline baggage fees and the detachable dog sack (which allowed Fido to ride in a cloth carrier attached to the outside of the car).

In March, panelists at the Wharton Economic Summit 2013 discussed the concept of innovation. Although they didn't all define it in the same way, they suggested innovation is using something new or known in a different way, different time, or a different place; essential for companies to grow; useful; transformative; an approach that addresses a major want or need; not always easy to spot.

It's clear innovation means different things to different people. Cornell University, INSEAD, and the World Intellectual Property Organization, which collaborate on the Global Innovation Index, said their benchmark, "recognizes the key role of innovation as a driver of economic growth and prosperity, and adopts an inclusive, horizontal vision of innovation applicable to both developed and emerging economies."

They refined the index for 2013. According to *The Economist*:

"Instead of objectively counting the inputs and outputs, it relies on nuance. For example, rather than ranking overall education, it looks at the top three universities, since elite institutions may be more important than the average. Instead of counting each patent, it tracks only those filed in at least three countries, which suggests it is a more valuable technology. And, rather than look at scientific journal articles en masse, the index includes how often they are actually cited."

So, using these innovative metrics, which countries rank the highest in innovation? Among rich countries, the United States, Britain, and Germany are one, two, and three. In middle income countries, China, Brazil, and Russia take top honors.

## Weekly Focus – Think About It

"Health is the greatest gift, contentment the greatest wealth, faithfulness the best relationship."

--Siddhartha Gautama, also known as Buddha

Best regards,

Angela M Bender

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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- \* This newsletter was prepared by Peak Advisor Alliance. Peak Advisor Alliance is not affiliated with the named broker/dealer.
- \* 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 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.

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