
Markets Sag on Emerging Market Currency Crisis

Weekly Update – February 3, 2014

Markets had another rough week, with stocks driven lower by fears about the growing emerging market currency crisis. For the week, the S&P 500 lost 0.43%, the Dow fell 1.14%, and the Nasdaq declined 0.59%.¹ The month of January also ended on a low note, with the S&P 500 falling 3.56%, the Dow losing 5.30%, and the Nasdaq sinking 1.74%.²

While it's frustrating to start off the year with some poor market performance, some good news is that this decline is not being driven by domestic fundamentals. What could be happening is that the Fed's tapering of its quantitative easing policies is driving currency selloffs in emerging markets.

Markets such as Brazil, Turkey, South Africa, and Indonesia became the darlings of international investors seeking higher returns over the last decade. These investors dumped billions of dollars into their fast-growing industries and delivered a much-needed boost to their economies. When the Fed announced its intentions to explore tapering options in May 2013, most emerging markets were caught off guard.

The problem is that these economies are fragile and when cracks are detected, investors will flee the local currency and buy dollars, putting a lot of pressure on emerging market currencies. This downward pressure risks stoking local inflation and weakening the economy.³ Currently, the central banks of the affected countries are working feverishly to halt the downward slide of their currencies, some with the help of the International Monetary Fund.

Should investors be worried? Perhaps not yet, but a burgeoning emerging markets crisis won't be good news for the global economy. While the contagion hasn't spread to the developed world yet, some U.S. and European companies may see their growth prospects for the year fall because they have been depending on sales in developing countries to drive profits.

On the U.S. front, the Fed voted to continue its tapering program unchanged, cutting back its monthly bond purchases by an additional \$10 billion. In our opinion, this is a sign of strength and shows that the Fed is increasingly confident that the economy is growing modestly.⁴ In a way, the emerging market crisis is a big help to the Fed because it's pulled a lot of money back into U.S. markets, much of it into bonds, which is pushing up long-term yields.

Earnings are also looking up, and with nearly half of S&P 500 companies having released reports; earnings currently stand at over 7%, the best showing since the 7.7% rise in Q4 2012. Thus far, 65% of the report beating expectations, and revenues are up 3.5% across the board.⁵

There's an old Wall Street quote that says that "as goes January, so goes the year." Since January was a down month for markets, this might be cause for worry about the rest of 2014. Fortunately, when we actually go back and dig through the numbers, we find that out of the 21 Januaries since 1960 in which stocks fell, 12 were followed by rallies in the subsequent year.⁶ In short, while we can't predict markets, we've got as good a chance of having a great year.

ECONOMIC CALENDAR:

Monday: Motor Vehicle Sales, PMI Manufacturing Index, ISM Mfg. Index, Construction Spending

Tuesday: Factory Orders

Wednesday: ADP Employment Report, ISM Non-Mfg. Index, EIA Petroleum Status Report

Thursday: International Trade, Jobless Claims, Productivity and Costs

Friday: Employment Situation

Data as of 1/31/2014	1-Week	Since 1/1/14	1-Year	5-Year	10-Year
Standard & Poor's 500	-0.43%	-3.56%	18.99%	23.17%	5.76%
Dow	-1.14%	-5.30%	13.26%	19.24%	4.97%
NASDAQ	-0.59%	-1.74%	30.61%	35.59%	9.86%
U.S. Corporate Bond Index	0.23%	1.34%	-2.58%	3.99%	0.56%
International	-1.91%	-5.20%	7.85%	17.21%	7.13%
Data as of 1/31/2014	1 mo.	6 mo.	1 yr.	5 yr.	10 yr.
Treasury Yields (CMT)	0.03%	0.06%	0.10%	1.49%	2.67%

Notes: All index returns exclude reinvested dividends, and the 5-year and 10-year returns are annualized. Sources: Yahoo! Finance and Treasury.gov. International performance is represented by the MSCI EAFE Index. Corporate bond performance is represented by the DJCBP. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

HEADLINES:

Seahawks win Super Bowl XLVIII in blowout. The Seahawks defense was able to overwhelm QB Peyton Manning and the Bronco's record-setting offensive side to bring the Lombardi trophy to Seattle for the first time in Super Bowl history. The final score was 43-8 Seahawks.

New home sales fell in December. Sales of new single-family homes fell more than expected in December, but tight inventories and steady price increases suggest that the

housing recovery continues. Frigid temperatures and mortgage rate increases may have also contributed to the decline.⁷

Consumer sentiment dips in January. Despite some recent economic improvement, consumers felt less optimistic about their economic prospects in January. While upper income households reported improved confidence, lower income Americans lost some of their optimism about the economy. This could have negative consequences for consumer spending in Q1 2014.⁸

U.S. GDP grew 3.2% in Q4 2013. The U.S. economy continued to grow in the fourth quarter thanks to growth in consumer and business spending. Exports also picked up last quarter, giving hope that spending and export activity will drive growth in 2014.⁹



"It is during our darkest moments that we must focus to see the light."

- Aristotle Onassis



Sloppy Joes in Soft Corn Tortillas



An old favorite with a taste of Mexico. Recipe from www.myrecipes.com

Ingredients:

- 4 white corn tortillas
- 1 pound ground beef or ground turkey
- 1 can sloppy-joe sauce (such as Hunt's) or 1 package sloppy-joe
- 1 cup shredded sharp Cheddar

Directions:

1. Preheat oven to 300°F.
2. Wrap all the tortillas tightly together in foil and place in oven for 5 minutes.
3. In a medium skillet, brown the beef or turkey.
4. Add the sloppy-joe sauce (or seasoning, tomato paste, and water, according to the label directions).
5. Place 1 tortilla on each plate. Spoon the sloppy-joe mixture evenly onto each tortilla. Divide the Cheddar evenly among the tortillas and fold them over. Serve with a green salad.



Maid Services and Employment Taxes

Do you have a maid or other in home service person? If you hired people to work in your home and control how the work is performed (as opposed to working through an agency) you may be considered an employer by the IRS. For more information, speak to a tax advisor or check out IRS Publication 926.



Keep Your Hands Steady for a Better Shot

Avoid making your hands flip over; keep your swing free-flowing and smooth. Use your body to direct the flight of the ball by focusing on how your body is rotating during your shot.



Yoga is for Every Body

Cardiologist Dean Ornish, M.D. stated 35 years ago that Yoga and meditation could reverse heart disease. Additional research has substantiated his headline-making statement and found that the relaxed, controlled breathing can help minimize hypertension. A regular Yoga practice can enhance focus and willpower and help improve bone density and strength.

Share the Wealth of Knowledge!

Please share this market update with family, friends, or colleagues.

We love being introduced!

Securities, advisory services, and insurance products are offered through Investment Centers of America, Inc (ICA), member FINRA, SIPC, a Registered Investment Advisor, and affiliated insurance agencies. ICA and iWealth are separate companies.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values.

Diversification does not guarantee profit nor is it guaranteed to protect assets

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 Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

The Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of stocks of technology companies and growth companies.

The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) that serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia.

The Dow Jones Corporate Bond Index is a 96-bond index designed to represent the market performance, on a total-return basis, of investment-grade bonds issued by leading U.S. companies. Bonds are equally weighted by maturity cell, industry sector, and the overall index.

The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate. The index is made up of measures of real estate prices in 20 cities and weighted to produce 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.

Google 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.

Fixed income investments are subject to various risks including changes in interest rates, credit quality, inflation risk, market valuations, prepayments, corporate events, tax ramifications and other factors.

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¹ <http://briefing.com/investor/markets/weekly-wrap/weekly-wrap-for-january-27-2014.htm>

² <https://www.google.com/finance>

³ <http://www.cfr.org/emerging-markets/currency-crises-emerging-markets/p31843>

⁴ <http://www.cnbc.com/id/101374688>

⁵ <http://www.cnbc.com/id/101377155>

⁶ <http://www.cnbc.com/id/101377155>

⁷ <http://www.reuters.com/article/2014/01/27/us-home-sales-idUSBREA0Q0ZB20140127>

⁸ <http://www.reuters.com/article/2014/01/31/us-usa-economy-sentiment-idUSBREA0U12I20140131>

⁹ <http://www.forbes.com/sites/samanthasharf/2014/01/30/u-s-gdp-grew-3-2-in-fourth-quarter-2013/>