Thomas Cymer, CFP(r), CRPC(r)
President and Financial Professional
Opulen Financial Group, LLC

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Thomas Cymer CFP® CRPC® Presents:

WEEKLY ECONOMIC UPDATE

March 31, 2014

WEEKLY QUOTE

"There's only one corner of the universe you can be certain of improving, and that's your own self."

- *Aldous Huxley*

WEEKLY TIP

Some employees have more than 10% of their portfolios in company stock. That much exposure can pose a risk to your retirement savings.

WEEKLY RIDDLE

Out of the 100 years in the 20th century, there is only one that reads the same upside down as it does right side up. What year is it?

Last week's riddle: I twist, I turn, but I don't have curves. You can twist me to fix me, but in the process you may throw me into disarray. Hours later, you may cast me away. What am I?

Last week's answer: A Rubik's Cube.

A SENSE OF OPTIMISM ON MAIN STREET

The Conference Board's consumer confidence index reached a six-year peak this month, climbing 4.0 points to 82.3. Analysts polled by Reuters had forecast a gain of 0.3 points to 78.6. Additionally, new Commerce Department data showed household spending rising 0.3% in February with household incomes up by the same amount. The only weak consumer signal came from the University of Michigan's March index of consumer sentiment; it retreated 1.6 points from February to a mark of 80.0.[1,2]

HOME PRICES RISE, BUT SALES INDICATORS SLIP

January's edition of the S&P/Case-Shiller Home Price Index (surveying real estate values in 20 cities) advanced 0.8%, replicating its December gain. Annually, prices were up 13.2%. Mirroring the decline in residential resales in February, the Census Bureau reported a 3.3% drop in new home sales last month, and a 1.1% decrease over 12 months. Pending home sales fell 0.8% in February to a 28-month low, the National Association of Realtors announced. NAR's pending home sales index was down 10.5% from a year ago.[1,3]

2.6% GROWTH FOR THE FOURTH QUARTER

Last week brought the final Q4 growth assessment from the Commerce Department; the reading was 0.2% better than the preceding estimate. Consumer spending for Q4 was revised 0.7% north to 3.3%. Another positive sign: hard goods orders increased by 2.2% in February, though the gain was only 0.2% with transportation orders removed.[3,4]

TRYING WEEK FOR TECH STOCKS

The NASDAQ lost its entire YTD gain last week thanks to a 2.83% 5-day drop, taking it to a Friday close of 4,155.76. Settling at 1,857.62 Friday, the S&P 500 lost 0.48% on the week. For the blue chips, the news was slightly better. The DJIA rose 0.12% in five days to close at 16,323.06 Friday.[5,6]

THIS WEEK: Monday offers no major U.S. economic releases, but Federal Reserve chair Janet Yellen speaks in Chicago and Wall Street will watch data on Japanese manufacturing and eurozone inflation. Tuesday, ISM releases its March manufacturing PMI, complementing March factory PMIs from the eurozone and China. Wednesday brings the March ADP employment change report, Commerce Department data on February factory orders and quarterly earnings from Monsanto. ISM's service-sector PMI arrives Thursday plus the March Challenger job cuts report, fresh initial claims figures and earnings from Micron, Perry Ellis and Investors Bancorp. The Labor Department releases its March jobs report Friday.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	-1.53	+11.97	+21.98	+5.80
NASDAQ	-0.50	+27.18	+33.79	+10.86

S&P 500	+0.50	+18.38	+25.53	+6.55
REAL YIELD	3/28 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.60%	-0.64%	1.38%	1.50%

Sources: USATODAY.com, bigcharts.com, treasury.gov - 3/28/14[6,7,8,9]

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

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China, Ukraine & the Markets

New economic & political concerns are putting stocks to the test.

Provided by Thomas Cymer CFP® CRPC®

Dow drops again, analysts wonder. March 13 saw another triple-digit descent for the blue chips - the Dow Jones Industrial Average plummeted more than 230 points, the second market day in less than two weeks to witness a loss of 150 points or greater. The S&P 500's (small) YTD gain was also wiped out by the selloff. As the bull market enters its sixth year, it faces some sudden and potentially stiff headwinds, hopefully short-term.[1,2]

In Ukraine, the situation is fluid. As the trading week ended, much was unresolved about the nation's future. The parliament of its autonomous Crimea region had announced a March 16 referendum, which gave voters two options: rejoin Russia, or break away from Ukraine and form a new nation.
3

Ukraine's government calls the referendum unconstitutional. The United States and key EU members agree and claim it violates international law. Russia welcomes the vote - 60% of the Crimean Peninsula's population is made up of ethnic Russians, and Russian troops more or less control the region now.[3]

Russia wants the real estate (its Black Sea naval fleet is based on the Crimean Peninsula) and could spread its economic influence further with the annexation of that region. The cost: economic sanctions, probably harsh ones. Should diplomacy fail to stop the secession vote, then Russia can expect "a very serious series of steps Monday in Europe and [the United States]," according to Secretary of State John Kerry.[3]

So far, the moves have been largely symbolic: a suspension of the 2014 G8 summit and the talks on Russia's entry into the OECD, and asset freezes for individuals and companies deemed to be hurting democracy in Ukraine.Additional "serious" steps could include financial sanctions for Russian banks, an embargo on arms exports to Russia, and the EU opting to get more of its energy supplies from other nations.Russia could respond in kind, of course, with similar asset freezesand possible pressure on eurozone companies doing business in Ukraine. The fact that Russia has already staged war games near Ukraine adds another layer of anxiety for global markets.[4]

Investors see China's growth clearly slowing. Its exports were down 18.1% year-over-year in February. Analysts polled by Reuters projected China's industrial output rising 9.5% across January and February, but the gain was actually just 8.6%. The Reuters consensus for a yearly retail sales gain of 13.5% for China was also way off; the advance measured in February was 11.8%. These disappointments bothered Wall Street greatly on Thursday. The news also roiled the metals market - copper fell 1.3% on March 13, its third down day on the week. Besides being the world's top copper user, China also employs the base metal as collateral for bank loans.
1,5,6

As Chinese Premier Li Keqiang noted on March 13, the nation's 2014 growth target is 7.5%; the respected (and very bearish) economist Marc Faber told CNBC he suspects China's growth is more like 4%. The upside, Faber commented, is that "4 percent growth in a world that has no growth is actually very good."
6

Will the bull market pass the test? It has passed many so far, and it is just several days away from becoming the fifth-longest bull in history (outlasting the 1982-7 advance). Bears wonder how long it can keep going, referencing a P-E ratio of 17 for the S&P 500 right now (rivaling where it was in 2008 before the downturn), and the 1.9% consensus estimate of U.S. Q1 earnings growth in Bloomberg's latest survey of Wall Street analysts (down from a 6.6% forecast when 2014 began).[1]

Then again, the weather is getting warmer and the new data stateside is encouraging: February saw the first rise in U.S. retail sales in three months, and jobless claims touched a 4-month low last week. Maybe Wall Street (and the world) can keep these signs of the U.S. economic rebound in mind as stocks deal with momentary headwinds.[1]

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Thomas Cymer CFP® CRPC® may be reached at 571-299-2053 or via email at tcymer@Opulenfg.com

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Opulen Financial Group, LLC | 1818 Library St. Suite 500 | Reston | VA | 20190