



## The Parks Wealth Report for the Week of October 13th, 2014

### **On a Personal Note from Richard Kjetsaa...**

There is a high school student in my house!

This statement stimulates three reactions: (1) I must be getting old; (2) Why must high school begin at an early hour?; (3) Why is homework assigned so liberally?

Regarding the first observation, I concede the fact and will strive to overcome my age-related deficits.

With respect to the second reaction, my daughter now awakens at 5:50am and must be at her bus stop at 6:30. We are not a nation of farmers who must begin their day at dawn. Why do school boards persist in perpetuating this 18<sup>th</sup> century model? Have educators chosen to disregard the latest research from biomedical scholars who concluded that teenagers would be more productive with more sleep? This research study, published with fanfare during the summer, recommended nine hours of sleep per night for most teenagers since a lesser amount degrades mental acuity.

Nine hours of sleep is unlikely for students who are academically diligent and who participate in sports or other activities. This contention directly relates to my third reaction above. Many high schools assign copious quantities of homework. In fact, educators often celebrate this, apparently persuaded that quantity equals quality. Yet American students' collective academic performance compares unfavorably with students in many other nations despite higher spending per pupil in America. If homework is systematically assigned with explicit and purposeful learning objectives (and not assigned punitively or with limited forethought), shouldn't American students produce superior relative academic outcomes? Furthermore, there is a foreboding repercussion of excessive homework: It abbreviates time to relax and explore, thereby diminishing the vitality of adolescent years.

When I was a freshman in high school (no, FDR was not president, despite my initial reflection), I had homework every night. Yet I still had time after school to deliver

newspapers, watch television, practice my curve ball or read a book for pleasure. Activities such as these are progressively constricted for today's generation.

Best regards,

*Richard*



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## **The Markets**

Keep Calm and Carry On.

The slogan comes from a United Kingdom Ministry of Information propaganda poster designed to boost morale if the United Kingdom was invaded during World War II. Despite its current popularity, the poster was never distributed.

The slogan offers some sound advice for anyone who was unnerved by last week's stock market volatility. Investor optimism caught fire when Federal Open Market Committee meeting minutes indicated economic growth might not proceed quickly:

"Most viewed the risks to the outlook for economic activity and the labor market as broadly balanced. However, a number of participants noted that economic growth over the medium term might be slower than they expected if foreign economic growth came in weaker than anticipated, structural productivity continued to increase only slowly, or the recovery in residential construction continued to lag."

Slower economic growth could translate into delayed monetary policy tightening (lower interest rates for a longer period of time), and that notion sparked the biggest rally of the year on Wednesday with U.S. stock markets making significant gains.

What goes up must come down. For every action, there is an equal and opposite reaction. Okay, the laws of physics generally don't apply to stock markets. That said, a lot of folks saw Wednesday's market highs as an opportunity to take gains off the table, according to *Barron's*. Consequently, we saw steep stock market declines on Thursday with major U.S. markets losing 2 percent or more.

Yields on longer-term Treasuries also fell last week. *Reuters* reported weak economic data in Germany, which raised concerns about growth in the Eurozone, and revised forecasts from the International Monetary Fund indicating global growth may be lower than expected, caused investors to seek the safety of U.S. Treasuries.

<b>Data as of 10/10/14</b>	<b>1-Week</b>	<b>Y-T-D</b>	<b>1-Year</b>	<b>3-Year</b>	<b>5-Year</b>	<b>10-Year</b>
Standard & Poor's 500 (Domestic Stocks)	-3.1%	3.1%	12.6%	16.8%	12.1%	5.4%
10-year Treasury Note (Yield Only)	2.3	NA	2.7	2.1	3.4	4.1
Gold (per ounce)	2.0	1.5	-6.1	-9.8	2.9	11.2
Bloomberg Commodity Index	0.2	-6.0	-7.8	-6.4	-2.2	-2.8
DJ Equity All REIT Total Return Index	1.4	15.6	13.8	16.5	16.4	8.5

S&P 500, Gold, Bloomberg 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 Total Return 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.

## **COLLABORATIVE CONSUMPTION IS CAUSING CREATIVE DESTRUCTION!**

Back in 1942, economist Joseph Schumpeter said creative destruction is the way of the free market. It's messy but as an entry in *The Concise Encyclopedia of Economics* explained:

"Lost jobs, ruined companies, and vanishing industries are inherent parts of the growth system. The saving grace comes from recognizing the good that comes from the turmoil. Over time, societies that allow creative destruction to operate grow more productive and richer; their citizens see the benefits of new and better products, shorter work weeks, better jobs, and higher living standards. Herein lies the paradox of progress. A society cannot reap the rewards of creative destruction without accepting that some individuals might be worse off, not just in the short term, but perhaps forever."

At first, the collaborative or sharing economy was thought to be a response to the Great Recession. Some people needed to reduce costs and others needed to make money, so they found ways to use resources more efficiently by making the most of available time and assets. This is affecting companies in a variety of industries:

- **Transportation:** Ride-sharing apps connect people who want rides with people who are willing to use their personal cars to provide rides. (If you've wondered about autos sporting big pink mustaches, they belong to a particular app's drivers.) These apps are taking money out of the pockets of cab companies.

- **Hotels:** You can reduce travel costs by renting someone's spare bedroom, castle, or villa through an online community marketplace. The downside, according to one study in Texas, is traditional hotels have lost revenue as these communities have gained popularity.
- **Finance:** When banks and traditional lenders made borrowing a challenge, peer-to-peer lending and crowdfunding platforms provided individuals and entrepreneurs with a new way to source capital. A report from the Cleveland Fed found, "Since the second quarter of 2007, the total amount of money lent through bank-originated consumer-finance loans has been declining on average 2 percent per quarter... Meanwhile peer-to-peer lending has been growing rapidly at an average pace of 84 percent a quarter."

Whether you want to provide or consume goods or services - cooking meals or eating them, running errands or having them run, hosting a pet or leaving one behind while you vacation - there is probably someone out there who is willing to share their resources.

## Weekly Focus - Think About It

"Always remember that you are absolutely unique. Just like everyone else."

*--Margaret Mead, American cultural anthropologist*

Best Regards,



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\* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

\* 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.

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