

Market Recap

10-Year Treasury Note and Dow Jones Industrial Average Reaction to Fed Comments



Source: Factset; Reuters; WSJ

Federal Reserve Chairman Ben Bernanke spooked the financial markets with his suggestion that the central bank may begin to wind down its \$85 billion-a-month bond-buying program later this year and possibly end it altogether by 2014. In support of its position, the Fed offered new economic forecasts for next year, including a projection that the jobless rate (currently 7.6%) will fall to between 6.5% and 6.8% by the end of 2014. Financial markets have been aided by the Fed's easy-money policies. Globally, stock and bond markets reacted negatively to the Fed's comments. The Dow Jones Industrial Average suffered back-to-back declines of 200 points on the two trading days following the news. Meanwhile, yields on Treasuries hit their highest level since August 2011 as bond prices fell. The turmoil shines a spotlight on vulnerabilities in the financial markets and the world economy that have been downplayed as central banks have flooded the markets with currency.

Mortgage Refinancing Index and 30-Year Fixed Mortgage Rate

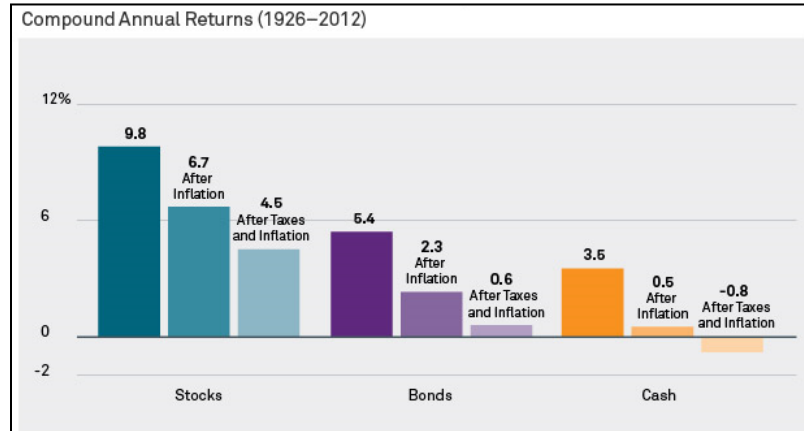


Source: Mortgage Banker's Association; Bankrate

Driven higher by concerns that the Federal Reserve will slow its bond purchase program, mortgage rates have been climbing for five straight weeks. The latest data from the Mortgage Banker's Association shows that the average 30-year fixed rate is now 4.15%, up from 3.59% in the first week of May. As a result, the MBA's refinancing index is down 36% from its peak in May. Fears regarding Fed policy have sparked a sell-off in the Treasury market, causing yields on fixed income instruments of all types – including mortgages – to increase. In a concerning ripple effect, the rise in mortgage interest rates has the potential to slow housing sales and starts. The housing recovery has been a key component to the economic recovery, thus far.

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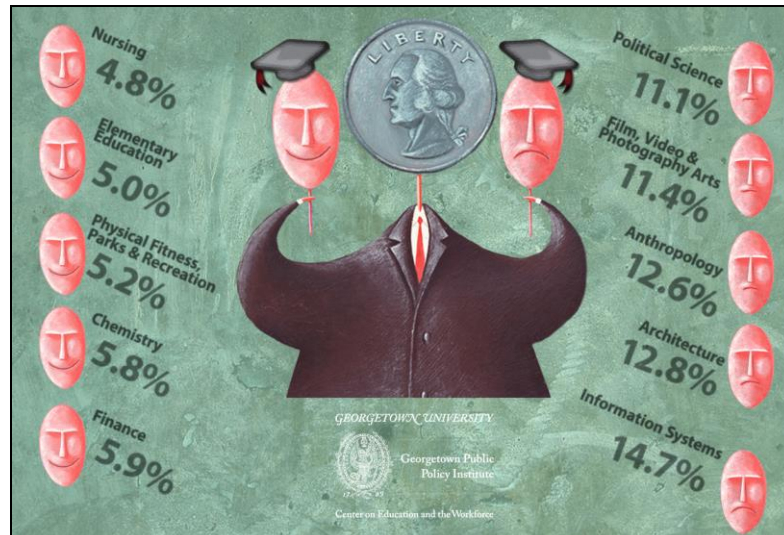
Cash, Stocks, and Bonds After-Tax Return



Source: Morningstar; Blackrock

Cash is typically considered to be the safest investment category, and there are important reasons to hold cash in a diversified portfolio. It provides liquidity, so that long-term investments do not need to be sold to accommodate short-term needs. Cash can also smooth out returns and balance risks inherent in other asset classes. It may not be that surprising, therefore, that many investors are moving into cash with the current uncertainty. But these investors may be doing themselves a disservice. The safety that cash provides comes at a price. As a result of the impacts of inflation, the purchasing power of cash erodes over time. Even in this recent low-inflation environment, returns on cash have not kept up with price increases. So the value of cash usually diminishes in real, or inflation-adjusted, terms over time. Inflation and taxes erode the long-term returns of all assets, however, cash is the only major asset class that has actually lost money over time.

Majors with Lowest and Highest Unemployment Rates



Source: Georgetown.edu

As the cost of a college education continues to increase at a higher rate than overall inflation, many have questioned the value of a college degree. A recently updated report from Georgetown University, "Hard Times", confirms that "it still pays to earn one". Georgetown's most recent analysis shows that as the nation's employment picture improves, college graduates continue to fare far better than less educated workers. In 2010-2011, overall unemployment rates were ~10% for non-college graduates compared to 4.7% for college graduates 25 years of age or older. However, recent grads are having mixed luck. Recent graduates who studied nursing, elementary education, and physical fitness have had the greatest success coming out of the recession. Conversely, grads with degrees in architecture and information systems have fared poorest, hit hard by the collapse of the construction industry and reduced emphasis on hiring of information specialists, respectively.

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