



Market Commentary November 2, 2015

Dear Investors:

Keep your eyes on the data.

There was much to be said for U.S. stock markets' performance during October. Both the Dow Jones Industrial Average and the Standard & Poor's 500 Index delivered their best monthly performance in four years, according to *Barron's*.

Any celebration of strong market performance was cut short when the Commerce Department's estimate of third quarter U.S. gross domestic product (GDP) growth was released last week. GDP was in positive territory, up 1.5 percent for the period, but growth fell short of second quarter's 3.9 percent, according to the *BBC*.

The primary reason for the decline was falling inventories. During third quarter both individuals and companies were worried about a possible slowdown in global growth. *The Economist* reported one reason companies may have reduced inventories is because they feared demand for goods would not be strong if the world economy weakens. That didn't prove out as sales of American goods and services grew by 3 percent during the third quarter. When inventories are excluded, U.S. GDP growth was 2.9 percent, which many experts would say is pretty healthy growth.

Consumer spending comprises a much bigger part of U.S. GDP (68 percent) than does private investment by businesses and financial institutions (17 percent). Consumer spending numbers also were released last Friday and showed a 0.1 percent increase, which was smaller than many had expected. Experts cited by *Bloomberg Business* suggest that number could move higher if wages improve. *The Economist* concurred:

“...if the American consumer defies firms' gloomy forecasts and continues to spend, investment will eventually return. There is good reason to believe that will happen. In cash terms, disposable personal income grew at an annualized pace of 4.8 percent, helped by cheap fuel. Consumers are more confident about their personal finances than at any time since 2007, according to the University of Michigan's latest survey.”

Stay tuned. Information about U.S. jobs will be released next week. In theory, each piece of data should help investors gain a better understanding of what's happening economically.

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Data as of 10/30/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.2%	1.0%	4.3%	13.8%	11.9%	5.6%
Dow Jones Global ex-U.S.	-0.7	-3.2	-5.3	2.9	0.4	1.8
10-year Treasury Note (Yield Only)	2.2	NA	2.3	1.7	2.6	4.6
Gold (per ounce)	-1.6	-4.8	-5.0	-12.7	-3.4	9.3
Bloomberg Commodity Index	0.0	-16.2	-25.9	-15.0	-10.0	-6.2
DJ Equity All REIT Total Return Index	-0.7	1.7	6.2	11.4	11.8	7.7

S&P 500, Dow Jones Global ex-US, 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.

MOST AMERICANS AGREE

In a recent newsletter, Jeremy Grantham of GMO, a global investment management firm, discussed research on wealth inequality conducted by Duke University Professor of Psychology and Behavioral Economics, Dan Ariely, and Professor of Business Administration at the Harvard Business School, Michael Norton. Grantham wrote:

“The title of the article pretty much says it all: “Americans want to live in a much more equal country (they just don’t realize it)”. The guts of the data is a survey of over 5,000 Americans, carefully selected to be a balanced representation of the population. They were first asked how equal they believed a society should be in income and capital, and then asked how equal they believed it was in real life... Self-identification as Republican or Democrat made surprisingly little difference. The exhibit’s real shocker is the actual distribution of wealth, which is far worse than the participants believed and far, far worse than they believed to be fair.”

Study participants were given a choice of three wealth distribution models and the directive to “imagine that if you joined this nation, you would be randomly assigned to a place in the distribution, so you could end up anywhere in this distribution, from the very richest to the very poorest.”

So, what did Americans want?

Overall, study participants chose imperfect wealth distribution over perfect wealth distribution. However, more than 90 percent of Republicans and more than 90 percent of Democrats preferred a model with more equal distribution of wealth (11 percent in the poorest quintile, 21 percent in the second poorest, 15 percent in the next, 36 percent in the second richest, and 18 percent in the richest quintile) than the actual wealth distribution in the U.S. at the time (84 percent in the poorest quintile, 11 percent in the second poorest, 4 percent in the next, 0.2 percent in the second richest, and 0.1 percent in the richest quintile). Estimates of ideal wealth distribution were relatively similar across gender and income levels, as well.

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Weekly Focus – Think About It

“I think the American Dream used to be achieving one's goals in your field of choice – and from that, all other things would follow. Now, I think the dream has morphed into the pursuit of money: Accumulate enough of it, and the rest will follow.”

--Buzz Aldrin, American engineer and former astronaut

Best regards,



John Y. Kim, J.D., LL.M.
President

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 email with their email address and we will ask for their permission to be added.

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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 Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in 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.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg 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 Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

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