



Market Commentary February 29, 2016

Dear Investors:

It wasn't as entertaining as the *Fantastic Four*, *The Magnificent Seven*, or *Ocean's 11* but, last week, we had an opportunity to watch the Group of 20 (G20).

The G20 stars finance ministers and central bankers from 19 countries and the European Union as well as representatives from the International Monetary Fund (IMF) and World Bank. The group meets periodically to discuss the global economy.

At their most recent meeting, the G20 made a commitment to continue to pursue global growth through monetary policy. They also emphasized governments around the world need to do more. The *IMF's* report stated:

“In advanced economies, securing higher and sustainable growth requires a mix of mutually-reinforcing demand and supply policies. On the demand side, accommodative monetary policy remains essential where inflation is still well below central banks' targets. However, a comprehensive approach is needed to reduce over-reliance on monetary policy. In particular, near-term fiscal policy should be more supportive...”

In other words, the world has been depending on monetary policies, which are determined by central banks, to encourage growth. Now it's time for fiscal policies, which are measures implemented by governments (e.g., tax cuts, government spending), to strengthen economies.

BloombergBusiness reported the event might have disappointed investors who were hoping for a finale featuring a coordinated stimulus plan for the global economy. If so, it didn't reflect in the performance of U.S. stock markets. *ABC News* reported an oil price rally helped push stock prices higher last week and so did some positive economic data. Fourth quarter's U.S. gross domestic product, the value of all goods and services produced in the United States, was revised upward from 0.7 percent to 1.0 percent.

All major U.S. indices finished in positive territory for the second consecutive week.

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Data as of 2/26/16	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	1.6%	-4.7%	-7.7%	9.2%	8.0%	4.2%
Dow Jones Global ex-U.S.	0.2	-8.2	-18.2	-3.3	-3.3	-0.9
10-year Treasury Note (Yield Only)	1.8	NA	2.0	1.9	3.4	4.6
Gold (per ounce)	-0.4	15.5	1.5	-8.3	-2.8	8.3
Bloomberg Commodity Index	0.5	-4.0	-26.1	-18.0	-14.6	-7.3
DJ Equity All REIT Total Return Index	2.2	-3.8	-3.2	7.7	9.1	6.0

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.

IF YOU LIKE FAST FOOD AND A GOOD DEAL, YOU CAN FIND A REALLY CHEAP BIG MAC IN RUSSIA.

The Economist created The Big Mac Index 30 years ago as a rough-and-ready gauge of world currencies. The index is based on the idea when currencies are aligned correctly, the same product (in this case, a Big Mac®) should have the same price in different countries when that price is denominated in a single currency. This is called purchasing power parity (PPP).

For the purposes of this commentary, we looked at the price of a Big Mac in U.S. dollars. Early in 2016, a Big Mac cost a hungry American about \$4.93. In Russia, it cost about a \$1.53, in the Euro area \$4.00, and in Switzerland, about \$6.44. These prices indicate the Russian ruble is undervalued by about 69 percent, the Euro is undervalued by about 19 percent, and the Swiss franc is overvalued by almost 31 percent. Switzerland is an outlier, according to *The Economist*:

“Americans hunting for cut-price burgers abroad are spoilt for choice: the index shows most currencies to be cheap relative to the greenback. This is partly owing to the Federal Reserve’s decision to raise interest rates when the central banks of the euro zone and Japan are loosening monetary policy... Another force weakening many currencies, including the ruble, has been the ongoing slump in commodity prices since mid-2014. Shrinking demand from China and a glut of supply have sapped the value of exports from Australia, Brazil, and Canada, among other places, causing their currencies to wilt, too.”

In theory, when a country’s currency depreciates relative to that of its trading partners, the country’s exports should become more attractive because they are less expensive and should boost economic growth. However, depreciation hasn’t produced the results many expected.

One explanation, offered by both the World Bank and the IMF, is globalization. If a country’s exports are part of a global supply chain, then the cost of materials imported to create the exports may offset gains from currency depreciation. According to *The Economist*, “The IMF thinks this accounts for much of the sluggishness of Japan’s exports; the World Bank argues that it explains about 40 percent of the diminished impact of devaluations globally.”

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Weekly Focus – Think About It

“If a man does not keep pace with his companions, perhaps it is because he hears a different drummer. Let him step to the music which he hears, however measured or far away.”

--Henry David Thoreau, American author.

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 e-mail with their e-mail address and we will ask for their permission to be added.

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- * 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.
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- * 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.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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