



Market Commentary September 14, 2015

Dear Investors:

The market is as streaky as a slice of bacon.

U.S. stock markets have been sliding higher. They've been sliding lower.

Barron's reported the Standard & Poor's 500 Index has tumbled from gains to losses and back again for 10 weeks in a row. The Dow Jones Industrial Index has tagged along with nine weeks of flip-flops. You'd almost think they were running for office.

There are market optimists. There are market pessimists.

The *American Association of Individual Investors* (AII) weekly survey of investor sentiment reported 34.6 percent of respondents were bullish. That's up from the previous week. Thirty-five percent of respondents were bearish. That's also up from last week. What's down? Neutral sentiment. More people are forming opinions about the possible direction of the market.

There are questions that need to be answered.

Will the Federal Reserve begin to raise rates this week? Some say yes. Some say no. *Barron's* said it's too close to call. There is no clear consensus, Fed officials have given mixed signals, and the bond market has not priced in a rate hike. If the Fed does raise rates, experts cited by *Barron's* said markets could get ugly for a little while or they could remain calm. A lot depends on the wording of the Fed's statement.

Have Chinese markets stabilized? *MarketWatch* reported the Shanghai Composite Index finished last week higher. It was the first positive weekly outcome in a month. Chinese authorities, once again, are taking steps to stabilize markets. *The Economist* offered this thought, "As China's financial markets develop, its stock market will become less bumpy. For now, investors must remember that many things are bigger in China, including the daily ups and down of its stock market."

Will the U.S. government shut down again? It's in the hands of our elected officials.

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Data as of 9/11/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.1%	-4.8%	-1.8%	11.0%	12.1%	4.7%
Dow Jones Global ex-U.S.	1.8	-7.2	-14.1	1.7	0.8	1.2
10-year Treasury Note (Yield Only)	2.2	NA	2.5	1.7	2.8	4.2
Gold (per ounce)	-1.6	-8.3	-11.4	-14.1	-2.4	9.4
Bloomberg Commodity Index	0.5	-14.8	-26.9	-15.7	-8.3	-6.1
DJ Equity All REIT Total Return Index	2.2	-7.0	0.2	7.2	10.8	6.3

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.

ARE WE SEEING THE BIG PICTURE? It's safe to say many people are worried about whether economic growth – in the United States and abroad – will be stifled by changing monetary policy in the United States. As a result, all eyes have been on the Federal Reserve, which is expected to begin raising the Fed funds rates sometime soon.

However, the Federal Reserve's monetary policy isn't the only game in town. Fiscal policy – the actions taken by our government – can also have a profound effect on economic growth. A July *Brookings'* blog post 'Fiscal Headwinds are Abating,' reported:

“Tight fiscal policy by local, state, and federal governments held down economic growth for more than four years, but that restraint finally appears to be over...Fiscal policy is no longer a source of contraction for the economy, but neither is it a source of strength.”

The blog post discusses the reasons that government spending has held back economic growth. At the federal level, contraction was attributed to “...tight caps on annually appropriated spending and the automatic spending cuts known as sequestration.” The organization's Federal Impact Measure (FIM), which estimates the effect of federal, state, and local spending (and taxes) on gross domestic product growth, suggests federal spending caused economic growth to be 0.35 percentage points lower per year, on average, between 2011 and 2013.

There is talk of a government shutdown at the end of September. If it happens, it could have an effect on economic growth. The last time the government shut down was in 2013. Experts cited by the *BBC* reported the 2013 shutdown cost the U.S. economy about \$24 billion and reduced quarterly economic growth by 0.6 percent. That shutdown lasted 16 days.

It is possible economic growth may slow for some period of time. It's also possible monetary policy, fiscal policy, and other factors may be responsible.

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Weekly Focus – Think About It

“My best friend is the man who in wishing me well wishes it for my sake.”

--Aristotle, Greek philosopher

Best regards,



John Y. Kim, J.D., LL.M., AIF®
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 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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