Market Commentary
February 17, 2015

Dear Investors,

Animal spirits were improving last week, according to *Barron's*.

The idea of animal spirits was introduced to the dismal science (a.k.a. economics) in the late1930s, courtesy of John Maynard Keynes. In *The General Theory of Employment, Interest and Money* (a dreary title that surely could have benefitted from an injection of animal spirits), he wrote:

> "…a large portion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits – a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities."

In modern times, Keynes' idea blossomed into the field of behavioral economics, the study of human psychology on economic decision-making. One of the animal spirits that influences decision-making is confidence (another is overconfidence) which can drive stock markets higher.

Last week, easing measures by the European Central Bank (ECB), a cease-fire agreement in Ukraine, optimism about negotiations over Greek debt, and better than expected earnings for many companies, helped improve investment sentiment in Europe for the fourth straight month, according to *Reuters*. Many European markets moved higher.

In the United States, strong fourth quarter earnings, improving oil prices, and good news from Europe helped push markets higher as well. *Reuters* reported the CBOE Volatility Index (VIX), Wall Street's fear gauge, hit its lowest level for the year on Friday.

Data as of 2/13/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	2.0%	1.85%	14.6%	15.8%	13.9%	5.7%
10-year Treasury Note (Yield Only)	2.0	NA	2.7	2.0	3.7	4.1
Gold (per ounce)	-0.7	2.8	-4.9	-10.5	2.3	11.3
Bloomberg Commodity Index	1.8	0.1	-19.7	-10.4	-4.9	-3.4
DJ Equity All REIT Total Return	0.0	4.7	26.4	15.0	18.5	9.2

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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.

MORE GREEK DRAMA. You know things are getting contentious in the Eurozone when the newly-elected Greek Prime Minister, Alexis Tsipras suggests Germany may owe Greece war reparations.

Talk of reparations is a distraction from the real issue which, according to *Financial Times*, is the possibility that Greece will need a third bailout when the current one expires. Yet, the new prime minister has promised to end austerity measures. Members of his government have described those measures, which were implemented before Eurozone leaders would agree to the first Greek bailout, as "fiscal waterboarding."

You may recall the euro crisis. Back in 2009, the European Union (EU) insisted France, Spain, Ireland, and Greece reduce their budget deficits (the difference between what a government spends and what it receives in taxes). The Eurozone set a limit for debt (the accumulated value of deficits) at 60 percent of gross domestic product (GDP) which is the value of goods and services produced by a country.

In December 2009, Greek debt was $442 billion or about 113 percent of GDP, according to the *BBC*. After the discovery of irregularities in Greek accounting and a flurry of concern Greece would have to leave the euro, the country implemented an austerity program to reduce the deficit which included severe cuts to public spending. The program was well received by the EU, and EU leaders agreed to a major bailout for Greece which included writing off about 50 percent of the country's debt.

In recent days, the Greek people have been cheering as their new government reverses the reforms implemented by the previous government and talks tough with Greek creditors. The Greek government is seeking additional financial assistance from other Eurozone countries but insists it will not adhere to the reforms previously in place. Eurozone leaders have expressed willingness to extend the current bailout as long as Greek fiscal reforms remain intact. Negotiations have begun to bridge the gap.

Greek market performance shows not everyone is impressed with the new government's stance. The yield on three-year Greek bonds had risen to 17 percent at the end of January, and bank shares had lost significant value. *The Economist* reported:

> "So back to the markets and the game of chicken being played between Greece and the EU. A Grexit [Greek exit from the euro] might cause problems for the EU in the form of losses for the ECB and others on bad debts… But, as we have seen, Greek financial markets are tanking. So investors clearly feel the EU has a stronger hand to play."

It seems to be a good time to reflect on an old saying: Beware what you wish for; you just might get it.

Weekly Focus – Think About It

“You don't develop courage by being happy in your relationships everyday. You develop it by surviving difficult times and challenging adversity.

-- *Epicurus, 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 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.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* You cannot invest directly in an index.
* Consult your financial professional before making any investment decision.
* Stock investing involves risk including loss of principal.

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