



Market Commentary August 24, 2015

Dear Investors:

Correction!

The Dow Jones Industrial Average lost about 6 percent last week. That puts the benchmark index about 10 percent below its record high on May 19, 2015, according to *Barron's*.

A drop of that magnitude from a new high may be a correction – a brief but jarring drop in value that often causes investors to reassess the state of the market and the health of the companies they hold. If investors judge markets and holdings to be sound, a correction may represent a buying opportunity. Of course, there is a chance markets could fall further. A drop of 20 percent or more is considered a bear market.

The Standard & Poor's 500 Index lost about the same amount as the Dow last week and is down almost 8 percent from its May high. Technically, it's not yet in correction territory. A dip greater than 5 percent and less than 10 percent is a pullback.

Many factors contributed to U.S. stock markets' performance last week. Concerns about global recovery were top of mind for many investors. China's slowdown may significantly reduce demand for commodities, and emerging markets that are dependent on commodity exports are struggling. *CNN Money* reported:

“China's economic slowdown and currency devaluation have investors worried that things could get worse as the year goes on. Developing countries like Brazil and Russia are struggling to revive their economies as their currencies depreciate dramatically against the dollar. Brazil's currency value has declined over 20 percent and Russia's over 40 percent, hurting imports and everyday citizens. It's also a huge worry for America's biggest companies. About 44 percent of the revenues from S&P 500 companies come from outside the United States.”

Currency depreciation (not to be confused with devaluation, which is a government's deliberate downward adjustment in currency value) is market-driven and sometimes causes investors to pull assets out of a country, which can put more pressure on the currency.

Uncertainty about the timing of a rate hike in America didn't help matters. *CNBC* reported, after the minutes of the July Federal Open Market Committee meeting were released last week and indicated “almost all members” had some concerns about the strength of U.S. economic growth, the CME Fed Watch barometer put the likelihood of a September increase at 24 percent – a 45 percent drop from the prior day.

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Data as of 8/21/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	-5.8%	-4.3%	-1.1%	11.7%	13.1%	4.9%
Dow Jones Global ex-U.S.	-5.0	-4.9	-13.1	2.8	2.5	1.7
10-year Treasury Note (Yield Only)	2.1	NA	2.4	1.8	2.6	4.2
Gold (per ounce)	3.4	-3.6	-9.3	-11.0	-1.2	10.2
Bloomberg Commodity Index	-2.8	-15.8	-30.0	-15.6	-7.7	-6.1
DJ Equity All REIT Total Return Index	-2.4	-1.8	4.3	9.8	13.7	7.3

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.

FROM ABSTRACT TO REALITY: THE POTENTIAL EFFECTS OF RISING RATES.

When the economic data align, and the Federal Reserve pulls the trigger on tighter monetary policy, rising interest rates may affect everything from mortgage rates to bond yields to economic growth. Here are a few of the possible consequences:

- **Higher demand for short-term bonds.** When interest rates rise, bond values fall, and vice versa. However, changes in bond values will be influenced by the speed and magnitude of the rate change. A sharp increase over a short period would have a greater effect than a gradual rise over a longer period. To date, the Fed has indicated the fed funds rate will rise gradually. Experts cited by *The Wall Street Journal* suggest shorter-term bonds and cash will be more attractive than longer-term bonds for a period of time.
- **Less attractive loan terms and credit card incentives.** By raising the fed funds rate, the Fed will increase borrowing costs. That's likely to affect mortgage rates as well as automobile and other consumer loan rates. *The Journal* cautioned homebuyers to be wary of adjustable-rate mortgages and indicated zero percent introductory offers on credit cards may disappear.
- **Slow improvement in savings account returns.** Over the longer term, rising rates may prove to be a boon for savers, but there is likely to be little immediate change in the yields offered on savings accounts. That's because banks set these rates. In general, banks raise rates to attract deposits and few banks need to do that right now, according to an expert cited by *The Wall Street Journal*.

While it seems counterintuitive, tightening monetary policy will not affect interest rates equally across all markets.

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Weekly Focus – Think About It

“The individual investor should act consistently as an investor and not as a speculator.”

--Benjamin Graham, American economist

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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