



Investment Strategists for
Successful Families



July 20, 2015

Thank you for reading GreenThought\$. It is our privilege to provide you with our insight on current financial market events and our outlook on topics relevant to you.



Second Quarter 2015: Investment Market Summary

Events Overseas Keep Financial Markets on Edge

We seem to be experiencing a unique situation, when three totally different countries on three different continents dominate the financial media. China, Greece and Puerto Rico could not be further away from each other, geographically, economically and even culturally, but this unfortunate trio seems to be a source of never-ending news.

Greece has dominated the headlines this past quarter. It's hard to put anything in writing as the situation is so fluid, but as of today the Greek government and the parliament did accept the terms being imposed on them by the foreign institutions to keep the country financially solvent and to stay in the euro zone. Much has been done the last few years to limit the contagion of whatever the outcome of this Greek tragedy, but the fear in the market has to do with whatever unknown effects that haven't been anticipated. The financial markets may benefit by simply having Greece remain out of the headlines for a while.

In China, the stock market has dropped over 25% in just a month, after rising over 100% in the previous 12 months. There's much debate as to whether the market crash portends something more ominous for the economy or is simply a normal reaction to a parabolic rise. It has always been difficult to get accurate statistics on the Chinese economy, but given the relative lack of foreign participation in the Chinese stock market, the hope is that the market gyrations may have little bearing on the Chinese economy itself.

The third cause for concern beyond our shores is the situation in Puerto Rico, where the local officials admitted that there is no way the island can fully repay the \$72 billion owed to bondholders. This has implications for the U.S. municipal bond market, where Puerto Rico bonds were always viewed as attractive since they are triple tax free for U.S. investors, regardless of the state in which they live. This also brings up new worries within the U.S. for cities like Chicago, where concerns about financial solvency have been brewing for some time.

In the course of the current six year equity bull market, sell-offs due to overseas concerns (Middle East, Ukraine, etc.) have been buying opportunities. The market's relative calm in the face of the current turmoil may be recognition of this theory. However, most of the time it is impossible to predict short term financial market moves, therefore we focus on the long term investment outlook instead.

Steady as She Goes Here at Home

Domestically, slow and consistent improvement continues. GDP (Gross Domestic Product, a measure of economic progress) continues to grow at about 2.0% annually. Unemployment continues to drop towards 5%. Retail sales are uneven, but consumer sentiment continues to climb in the various polls. All eyes are on the Federal Reserve, as the interest rate increase expectations were pushed off until September, with a vigorous debate now taking place as to whether December is more realistic, or maybe even March of 2016. At this point it would be unwise to forecast the timing of the rate hike, although it is fairly certain the pace of the increases will be slow.

As for the U.S. equity market itself, valuations are not cheap, and if the S&P ends the year positive it will be the first time in history that this major equity index has risen 7 years in a row. For now, TINA (There Is No Alternative) seems to be ruling the day, as investors looking for positive investment returns are finding the stock market the only game in town.

At Emerald, we aren't making substantial changes to our clients' asset allocations at this time, other than periodic rebalancing of the portfolios. As a firm, we have equity exposure to both the U.S. and overseas markets, as there are opportunities in both areas. In today's low interest rate environment, we look favorably on investments paying dividends, including dividend paying stocks. We hold a variety of fixed income investments, domestic and international, across the credit quality spectrum.

We believe that the current events in Greece, China, Puerto Rico and elsewhere should have little influence over your ability to reach your long term financial goals. In any market environment, we strongly believe that investors should stay diversified across a variety of asset classes.

As always, we welcome the opportunity to discuss these issues with you and answer any questions you may have.

Regards,

The Emerald Team

Standard Indices	Jun 2015	YTD 2015	1 Year	3 Years	5 Years	10 Years
S&P 500 TR	-1.9%	1.2%	7.4%	17.3%	17.3%	7.9%
Wilshire 5000 Total Market Index	-1.7%	1.7%	7.1%	17.4%	17.3%	8.2%
MSCI EAFE	-2.8%	5.9%	-3.8%	12.5%	10.0%	5.6%
MSCI Emerging Markets	-2.5%	3.1%	-4.8%	4.1%	4.0%	8.5%
Alerian MLP Index	-8.3%	-11.0%	-19.8%	7.8%	11.5%	11.4%
Barclays Global Aggregate Bond Index	-0.4%	-3.1%	-7.1%	-0.8%	2.1%	3.5%
Barclays US Intermediate Credit TR	-0.9%	0.7%	1.8%	3.0%	4.3%	4.5%
Dow Jones Credit Suisse Hedge Fund Index	-	3.3%	4.6%	7.5%	6.4%	6.0%

Disclosure
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