



August 22, 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.



Learn More  
about us

download  
our brochure »

Mid Quarter Update | August 2015

### **Mid Quarter Update**

Global stock markets have been extremely volatile these last few weeks. Here in the U.S., the S&P 500 equity index was down 5.8% on the week which just ended; the index's first weekly drop of 4+% since May 8, 2012. However, there have been 10 weekly losses of at least 4% in the current bull market, so last week's market action should come as no surprise. Given this recent volatility, we thought we'd share our thoughts on the current situation. There are many factors contributing to the current sell-off, chief amongst them.

#### **China**

The Chinese economy is slowing, and China devalued their currency, the yuan, on two consecutive days recently, in an effort to boost exports. This unsettled the markets as the devaluation had not been anticipated by investors. This raises questions as to how severe the economic slowdown is, and what effect it will have on countries that export to China. A weaker yuan makes items imported into China more expensive to Chinese consumers, hurting domestic consumption. Also, any time a country devalues its currency it raises the specter of a currency war, where other countries competing with China will be tempted to devalue their own currencies to maintain their trade balances.

#### **Federal Reserve**

The expectations are that the Fed will be raising interest rates for the first time in 9 years, although there is considerable disagreement whether the first increase takes place in September or December this year. No one knows whether the Fed will just raise once or this increase will be the first of

many, but so much of the equity market's rise these last few years has been attributed to the availability of "free" money, it's unclear what effect even a single interest rate increase could have. The stock market doesn't handle uncertainty well, so investors are on edge.

## **Oil Prices**

The slide in oil prices continues unabated, with the price of West Texas Intermediate (WTI) benchmark sliding to below \$40 for the first time since the financial crisis of 2008-2009. Although most observers attribute this price slide to an oversupply of oil, the possibility exists that global demand is dropping off, indicating a slowdown in the world economy. Equity prices typically reflect economic prospects, so any significant reduction in economic activities due to lower demand, may also negatively affect global stock markets.

## **What does it mean to you, our clients, and your portfolios?**

While it is difficult to watch these big market swings, especially with news media that likes to report on bad news, the financial markets volatility is just a part of the investing landscape. As you may recall from our previous writings, U.S. equity markets went for a long time without a 10% correction in prices. Corrections are part of the process, helping to wring out excesses that build up during bull markets, particularly fueled by easy money (zero interest rate policies by the major central banks). We consider corrections such as the one we may be currently undergoing, as an additional opportunity to review and potentially rebalance your portfolios. This is the time when long term investment planning can provide significant benefits, by helping to keep short term market events in a proper perspective.

If you have any questions about our outlook for the economy and the financial markets, please do not hesitate to contact us. We always look forward to hearing from you.

Regards,

The Emerald Team

Disclosure  
Green Thought\$

The information herein has been obtained from sources believed to be reliable, but Emerald Asset Advisors, LLC ("Emerald") does not warrant its completeness or accuracy. Prices, opinions and estimates reflect Emerald's judgment on the date hereof and are subject to change at any time without notice. Any statements nonfactual in nature constitute current opinions, which are subject to change. Projections are not guaranteed and may vary significantly.

Currency trading may involve significant risks, including market risk, interest rate risk and country risk. Funds or strategies that use leverage or shorting may experience substantial losses. The investment strategy presented is not appropriate for every investor and individual clients should review with their financial advisors the terms and conditions and risk involved with specific products or services. As with all investments, past performance does not guarantee future results.

About Emerald

Emerald Asset Advisors, LLC is a Registered Investment Advisor (RIA) founded in 1998. For more information, please visit our website.

[Visit our Web site »](#)