Economic updates. Please read!!!

Chapel Hill Investment Analysts, Inc.
Financial Planning • Investment Management

"Cup of Joe"



One of the goals of our email blasts is to help our clients through times of market volatility. What a great time to help everyone understand the latest volatility in the markets.

First, the most widely covered culprit of market volatility has been Greece. If you have been watching television or listening to the radio, you probably think the world is coming to an end. Well, it's not! Greece is in debt 67 million Euros or so. To put this into perspective for everyone - our biggest position, Apple, has around 190 billion dollars in cash sitting in the bank. Not to be funny, but Apple could buy Greece 3 times over. What people are worried about is that other countries (Spain, Ireland, Portugal, etc.) are going to jump on the bandwagon and try the same shenanigans that Greece just did. This is called political contagion or "the likelihood that significant economic changes in one country will spread to other countries." We saw the same thing happen in October when the Ebola scare was in full effect, except that would have been labeled as market contagion. There is one other item to understand about the fear that Greece will exit the Euro, but this isn't a new development. The Greek issues have been going on for the last 5 years. The market has had time to digest the possible consequences and price in any volatility they see fit. The scary events are the ones that are unexpected, such as 2008, when the banks in the U.S. suddenly started to default. What has happened over the past five years is that the debt previously held by the foreign banks ("think Deutsche Bank") has been shifted to the sovereigns ("think Germany and the rest of the Euro countries"). That means that the taxing powers will absorb any default risk. So you won't have to worry about the banks.

Secondly, the Chinese stock markets are selling off. Why??? The Chinese recently made investing available to the mom and pops of mainland China. These indexes shot up instantly and had gains of over 40% very quickly. When the market shoots straight up in a very short amount of time, this is called a parabolic move. Since markets traditionally don't move this way, it's a worrisome indicator. When the big guns saw that the Chinese markets went parabolic, they jumped on board and shorted the market. This means that they were making bets that this wouldn't last and the market would sell-off, magnifying the declines. Well, here we are and the short-sellers were correct. They took advantage of the retail investors in China and preyed on their fear, causing the sell-off to be much worse. This also happened in 2008 with our markets. Now, the good news. China is a communist country and when things go wrong, instead of going to Congress or some type of economic council, they just do what they want. If short-sellers are bad, they will ban short-selling. If the market goes down, they will prop up the market with cash. It sounds bad, but it's the reality of how they do business. And remember, even though the market is down 40% over there, it's technically still positive for the year.

Lastly, oil has been taking another big hit due to, in part, to the possibility that an Iran deal will be made and they will be allowed to export oil once again. If Iran floods the market with more oil, the price will decline. And obviously the futures traders would be thinking the same way and attempt to mitigate their risk by selling oil now. So, when oil drops, is this bad?? Well, it's a double-edged sword and something we have seen first-hand over the past 9 or 10 months. When oil declines, it hurts the energy companies. Currently, they make up roughly 13% of the S&P. Right now, the oil companies are getting hit once again, along with the Greek fears and the Chinese sell-off. A mini perfect storm so-to-speak. But, there are positives as well to the price of oil falling. Low gas prices! This is a huge benefit to the consumer, especially during the summer months when everyone

travels. With more money in people's pockets, the economy will surely benefit.

An interesting side note to our investment strategy is that we know for sure that you cannot predict when you will have a resolution to any of the Geo-Political issues, so trying to guess and make quick moves in or out is a really bad idea. When things look really bad, the old "Blood in the Streets" scenario, you have to buy in, which is exactly what we've done for 34 years!

Always remember, we are long-term investors. Many geo-political events will happen over time and the markets will go up and down. One must stay the course and try and see the big picture. The fundamentals of the economy are as follows: the economy is growing, unemployment is around 5.4%, oil prices are cheap, and central banks around the world are extremely accommodative in areas such as Japan, Europe, and China. Interest rates are also historically low, helping people buy houses and borrow at extremely low rates. These are fundamental keys for economic growth and should be looked at as a net positive. We must stay the course and use these "speed bumps" to buy low with our eyes on the future, not the short-term.

Once again, thank you to everyone for their questions. We hope you had a great July 4th as we look forward to a strong second half to the year. Keep funding your IRA's and retirement accounts as always and referrals are always welcome.

CONTACT US

jsc@chapelhillinvestment.com

rmc@chapelhillinvestment.com



*Please note, if the link is not highlighted, copy and paste the address in your navigation bar.

SHARE THESE LINKS:

http://www.bloomberg.com/news/articles/2015-07-08/china-bans-stock-sales-by-major-shareholders-for-six-months

https://fortune.com/2015/06/22/battery-tesla-challenger/

http://www.usatoday.com/story/money/business/2015/05/03/loveless-furman-oil-prices-economy/26772079/

follow on Twitter | friend on Facebook | forward to a friend

Copyright © 2015 Chapel Hill Investment Analysts Inc., All rights reserved.