



*As an investment advisor, we feel investors should have an information outlet for the financial markets that is thorough, but does not require a prerequisite degree in economics. Thus we have included a glossary of terms at the end of this commentary. Each term with an asterisk has a corresponding definition in the glossary. We hope this makes our commentary informative and educational for all levels of investors.*

## Quarter in Review

During the second quarter of 2015, the U.S. stock market returned a modest gain with the S&P 500 up 0.3% while the bond markets took a hit with the Barclays Aggregate index returning -1.7%. These results are indicative of undercurrents of the U.S. economy. On the stock side, corporate profits stay muted as share buybacks and cost cutting measures remain the path of choice for executives looking for earnings growth. On the bond side, continued improvements in the job market and low inflation increase the probability that the Fed will raise interest rates before year-end.

While the 2<sup>nd</sup> quarter was relatively benign in the U.S., the investing world became fixated on the Greek Financial Crisis and the Chinese stock market crash, both of which were reaching a peak at quarter's end.

The crisis in Greece has been developing for years as an overwhelming debt load hamstrung the country. As part of the Eurozone\*, Greece's actions have direct implications to other countries who use the Euro as their currency. Without a clear path to economic recovery and with unemployment approaching 30%, newly elected Prime Minister Alexis Tsipras rejected overtures from the IMF and other creditors to increase austerity\* measures in order to engage in risky negotiations with creditors over more favorable debt repayment terms. As the quarter came to a close, the fear of Greece leaving the European Union hit a fever pitch sending European stocks plummeting. The crisis finally reached a tipping point with Greece defaulting on a loan given by the International Monetary Fund (IMF)\* and Greece very recently agreeing to the austerity measures it earlier tried to reject.

The situation in China is in many ways the opposite of that in Greece. From August 2014 until Early June 2015, the Shanghai stock market index rose more than 130%.



Overconfident small investors, an abundance of leverage, and a Chinese government eager to promote economic growth all worked together to fuel this massive gain. The party came to an abrupt end at the close of the quarter as stocks on the Shanghai index lost over 20% in a short two weeks.

## Outlook

Given the events in the Europe and Asia during the past quarter, it could be taken as an encouraging sign that the United States is not directly involved with either problem. However, that doesn't necessarily mean the U.S. economy or financial markets are immune from these issues.

Perhaps the single trait that investors crave is a sort of optimistic clarity. Whether it is real--for example in the form of the unexpected positive employment numbers in the U.S., or if it is perceived, in the form of a company promoting the next big idea 10 years in advance--both have the power to push markets higher.

Unfortunately, storm clouds have moved in on the markets raising the uncertainty of future market conditions. A year ago, few would have predicted that oil would drop over 50%, that Greece would default on a government loan, or that the Chinese stock market would create a bubble and burst. All three incidents are recent examples that throw curve balls to the financial analysts and economists, who would prefer long-term trends and consistency that fit nicely into their models.

Until these events play out, the double digit stock market returns that have become the norm in recent years may be put on hold. But, with current stock valuations reaching their highest levels since the bull market began in 2009, a breather may prove to be welcome relief.

## Glossary

International Monetary Fund – An organization of 188 countries, that works to promote global financial stability



**Short Selling** – The act of borrowing shares of a stock and selling those shares. Short selling is a method of betting against a stock.

**Austerity** – Policy undertaken by a government to reduce budget deficits, typically in the form of higher taxes or reduced government benefits

**Eurozone** – Group of 19 countries in the European Union that use the Euro as their currency.

## **IMPORTANT INFORMATION**

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