The Return of the Global Markets

The following is a portion of Iron Gate Global Advisors letter to clients. We removed specific investment advice, stock reviews and advice. That is for our clients only. For more information contact Brett Pattison at brett@igga.dev.

As the name of our firm mentions, we are global investors. We like to search the globe for those markets, countries and companies that are cheap (from a valuation perspective) and poised to grow. Over the past three years we have been allocated primarily to the good ole U.S. of A. This has turned out to be the right decision as the U.S. market (S&P 500) has out-performed the other global markets by 58.95%. The table below shows you the 2011 – 2014 performance numbers for the global markets.

As we entered 2015 Brian and I talked with one another, and many of you, about the real possibility that the U.S. markets incredible streak may come to an end. It wasn't a matter of if, just when. The other global markets can't continue to lag the U.S. just based on historical cycles and returns, valuations and current fundamentals.

You can see in the table below where we currently stand so far in 2015. As noted in the far right column (YTD Performance) the U.S. market is lagging both the Developed Non-U.S. and the Emerging Markets in performance. While it's way too early to say that the U.S. streak is over (we still have nine months to go in 2015), it's still important to note what is happening around the globe.

Market	2011–2014 Performance %	YTD Performance %
United States	63.45%	3.01%
Developed Non-US	4.50%	10.82%
Emerging Markets	-17.50%	11.54%

As a result of what we're seeing in the global markets, we have begun to position portfolios accordingly. Here's a breakdown of what we're seeing.

United States of America – Bullish

The U.S. is still no doubt the healthiest of all the global markets, however that's not to say there haven't been bumps and won't be more bumps on the road to growth. We remain bullish in the U.S. for many reasons including:

Unemployment. Currently unemployment sits at 5.50%, the lowest rate since June of 2008.

GDP Growth. Gross Domestic Product (GDP) continues to show positive signs. The last report showed the economy growing at 2.36% (below estimates). This led some people to worry whether we've seen the end of our current bull run . . . what they are missing is that this is normal volatility in the GDP numbers. The trend is the important thing which you can see in the chart below.

Superior Technology. Technology continues to spur new development (space exploration, self-driving cars, internet of things, etc.). This type of technology raises productivity, and returns to investment in the private sector. Companies are operating leaner and meaner than they ever have. You won't hear this in the news but it's the current reality . . . which is good for all shareholders of these types of companies!

Developed Non-U.S. (Europe, Asia, Australia) – Bullish

These areas of the globe are among the most hated in the world. All you hear about Europe is how the Euro is dying, Greece is going to default, and the European Union is going to break apart. It’s the same thing year in and year out for the past 5 years. However, we are seeing some tremendous bullish activity in Europe that supports are bullish stance. Here’s a few of the reasons, outside of technical analysis, as to why we like Europe:

Valuations. European and Asian valuations are low relative to the other global markets, including the U.S. This means that these global markets are cheaper than other areas of the globe. As you already know, buying assets when they are cheap is at the core of our philosophy.

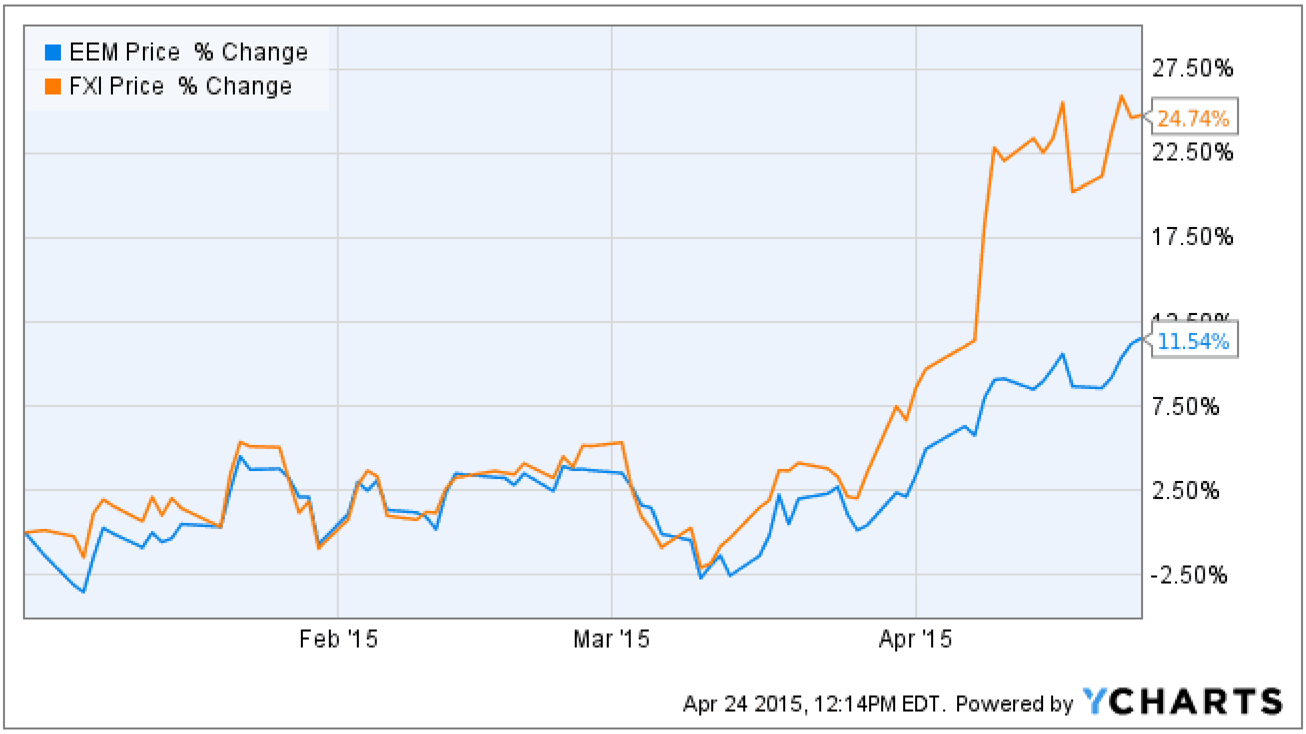
Quantitative Easing. The European Central Bank (ECB) has a $1.1 trillion bond-buying program (modeled after the Federal Reserve’s program). This has pushed yields extremely low, negative in some cases. When you have yields so low it drives people into dividend stocks that offer a better yield than the fixed income market.

The Euro. The Euro has been pummeled vs. the U.S. $ and most other currencies. While some look at this as a negative thing we look at it as a positive. Export oriented companies benefit as a weakened Euro can help improve their revenues.

Emerging Markets – Bullish

The Emerging Markets include China, Brazil, Taiwan, India, Russia, etc. For the past few years because of a few of those countries, namely Russia and Brazil, the Emerging Markets have been pummeled. However, in late 2014 and so far in 2015 we have seen some bullish signs fundamentally, economically and technically. Here’s a few things we’re seeing.

China. China is on fire! So much so it's starting to get us worried. The Chinese government has been doing everything in their power to get outside investors into the Chinese stock market. They have changed laws, started marketing campaigns and are encouraging anyone and everyone to open up a brokerage account and invest in the stock market. The result has been a 24.74% return year to date. This is compared to the Emerging Market index which has a 11.54% return in the same period.



Valuations. The Emerging Markets, including China, are some of the cheapest countries in the world. Their valuations are very attractive to those who are looking for bargains globally. China, for example, has a PE (price to earnings) Ratio of 10 compared to the U.S. which is 21. The fact that the markets are so cheap and the markets are starting to show some strength support our bullish view on this area of the globe.

A Bubble? Some would argue that China is “the next big bubble.” Case in point is the graphic below which shows that the government’s plan of opening China to the masses is working. The number of Chinese accounts has exploded compared to the past. While there is somewhat of a concern with China being a bubble, we still believe there is upside potential. The valuations are at such a level that just doesn’t speak to a “bubble” taking place. That said, for any investor, it’s important to keep risk under control and manage money properly.

In summary, the entire global market continues to improve. We are still bullish even in year six of an incredible bull market. We will keep our clients (in a more detailed way) and others updated on the markets and as always will be on the lookout for potential market risks that may come our way.

Successful investing!

A Glimpse at the Global Markets

Global Markets

For the past two years the U.S. market has crushed the rest of the globe! The U.S. (S&P 500) is up 42% compared to 15% for Developed Non-U.S. (Europe, Asia, Australia) and -3.5% for the Emerging Markets (China, Brazil, India, etc.). While no one knows when the rest of the globe will catch or even pass the U.S. the returns year to date are interesting. Below is a chart highlighting the returns of the global markets.

As far as the global PE ratios go, here is a brief list. This list highlights the opportunities from a price perspective. While we remain cautious of some areas of the globe, there’s no doubt that there are some great potential opportunities beyond the U.S.

- United States – 20.3
- China – 10.1
- Japan – 16.6
- India – 19.1
- Europe – 18.7

The Good Ole’ U.S. of A.

According to historical probabilities the Consumer Discretionary and Industrials sector have the highest probability of making giving investors the best returns during the November to April time frame. (To learn more about this historical probability cycle click here). The snapshot below highlights how those sectors along with the rest of the U.S. sectors are performing.

A few bullet points of note:

- Consumer Discretionary is the top performer as we expected. We will maintain our overweight status on this sector.
- Industrials is lagging the S&P 500 mainly due to the hit in the oil sector. A lot of these industrial companies rely upon the energy sector for business. With oil being pummeled this has drawn on that sector as well.
- Healthcare and Staples (the typically more defensive names) are outperforming in large part due to January’s volatility.

Courtesy of sectorspdr.com

Please note that this is not intended to be a recommendation to buy or sale any security. For more information please email Brett Pattison at brett@igga.dev

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A Recap of 2014 and a Preview to 2015

Boom! That's how 2014 ended. The U.S. market continued its bullish streak (six plus years and counting) as the U.S. economy showed some really good signs of strength. Before we break down our stance on the global markets we need to recap the global returns from 2014.

As you can see in the table below, the U.S. market completely destroyed the rest of the globe in terms of market performance. The struggles of Europe worsened the last half of the year while Russia and Brazil's own issues slowed down the Emerging Markets. The global markets as a whole as represented by the MSCI All World Country index (which many use as the global benchmark) lagged the U.S. again this year.

Global Markets	2014 Return
U.S. Market	12.37%
Developed Non-U.S. Markets	-7.69%
Emerging Markets	-2.24%
All World Country Index	4.71%

For the past two years the U.S. market has outpaced the rest of the global markets. Our economy, despite what you may see and hear in the press, is growing to the tune of 4.5 to 5% per year (in terms of real GDP). It seems as though good U.S. economic news keeps coming out each and every week. While all of this is great the important question to consider is **will 2015 be another positive year in the stock market or will the six year bull-run finally come to an end?**

As we break down each major area of the globe with our stance please understand that no one knows for sure what the market will do in 2015.

United States of America: It is our belief that the U.S. markets will continue to outpace the rest of the globe over the next year. We have no reason to believe otherwise. *For our U.S. allocations we will maintain our overweight stance for the following reasons:*

- **Stock Market Valuation:** While the U.S. is no longer in the undervalued (which we enjoyed thoroughly a few years ago), we are by no means in the overvalued. Right now stocks are trading at around 15 times earnings (based on 2015 estimates) which we believe is around fair value. When the market rises above 20 times earnings, then we will have reason to roll out the yellow caution tape.
- **Economic Growth:** As stated above, the U.S. economy continues to grow at a healthy clip. GDP continues to surprise and corporate profits are at a 12.8% annual growth rate which is a record high. The only signs of weakness in the reports that come across our desks seem to be related to weather. When it’s really cold people like stay inside . . . including us!
- **E is over:** When the Fed stopped its Quantitative Easing (Q.E.) program many thought that it would be the end of the bull market. Without the so called printing press rolling the market couldn’t go any higher. Since the end of Q.E. the U.S. stock market is up 4.3%. This is good news in the sense that it removed the Q.E. = bear market argument.
- **Historically speaking this tends to be a bullish year.** As you know we love probability investing. Aligning the probabilities to work for us is important in any strategy. According to our friends at S&P Capital IQ, the third year of the Presidential cycle (which we are in now) tells us that there is an 88% probability that we will see positive gains this year (see S&P Capital IQ’s table below). While there is never a guarantee that the market will produce positive returns, we do like aligning the probabilities on our side.

PRESIDENTIAL CYCLE: S&P 500 Returns by Quarter & Year

S&P 500 Average % Price Changes and Frequencies of Advance During the 16 Quarters (and Four Years) of the Presidential Cycle (12/31/45-11/28/14)

Year of Pres. Cycle	Average S&P 500 % Changes (w/o dividends reinvested)					Batting Averages (Frequency of Price Gains)				
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year
Year 1	(0.4)	2.6	1.1	3.7	7.6	50%	56%	61%	78%	59%
Year 2	1.2	(2.1)	(0.3)	7.0	5.3	50%	50%	56%	82%	59%
Year 3	7.0	5.0	1.0	2.9	16.1	88%	76%	59%	71%	88%
Year 4	1.2	2.3	0.4	1.7	6.1	59%	65%	53%	76%	76%
All Years	**2.2**	**1.8**	**0.6**	**3.8**	**8.8**	**61%**	**61%**	**58%**	**77%**	**71%**

Source: S&P Capital IQ. Indexes are unmanaged, statistical composites and it is not possible to invest directly in an index. The returns shown do not reflect payment of any sales charges or fees an investor would pay to purchase the securities they represent. The imposition of these fees and charges would cause actual and back tested performance to be lower than the performance shown. Returns exclude dividends. Past performance is no indication of future results.

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S&P CAPITAL IQ

Developed Non-U.S. Markets (Europe, Asia and Australia): These areas of the globe have been hammered in 2014. Here's a few of the returns: Germany -9%, Australia -3.9%, United Kingdom -6.4%, and Japan -4.5%.

Our stance is the same as we last wrote it. *We are underweight these areas of the globe and will remain so until we see some sort of positive growth news.* Our eyes are on these Developed Non-U.S. markets simply due to the fact that it is cheap and hated. When things are cheap and hated is often when you find the best investment opportunities. However, we do need to see some sort of positive sign from these countries. We will not buy something just because it's cheap . . . it may get cheaper.

Emerging Markets: There are a few bright spots in the Emerging Markets, but not many. China and India continue to do well. China is up 10% in the last three months alone. These positive returns have been muted within the Emerging Markets due to Russia (-26% in the same time frame) and Brazil (-21%).

Because of the strong headwinds the Emerging Markets are facing, we are under weight this area of the globe. It continues to trade at attractive multiples but until we see some sort of good news coming from the Emerging Markets (similar to what we are looking for in Europe) we will remain underweight.

As you start your path to investing in 2015, we at IGGA wish you a successful and prosperous New Year!

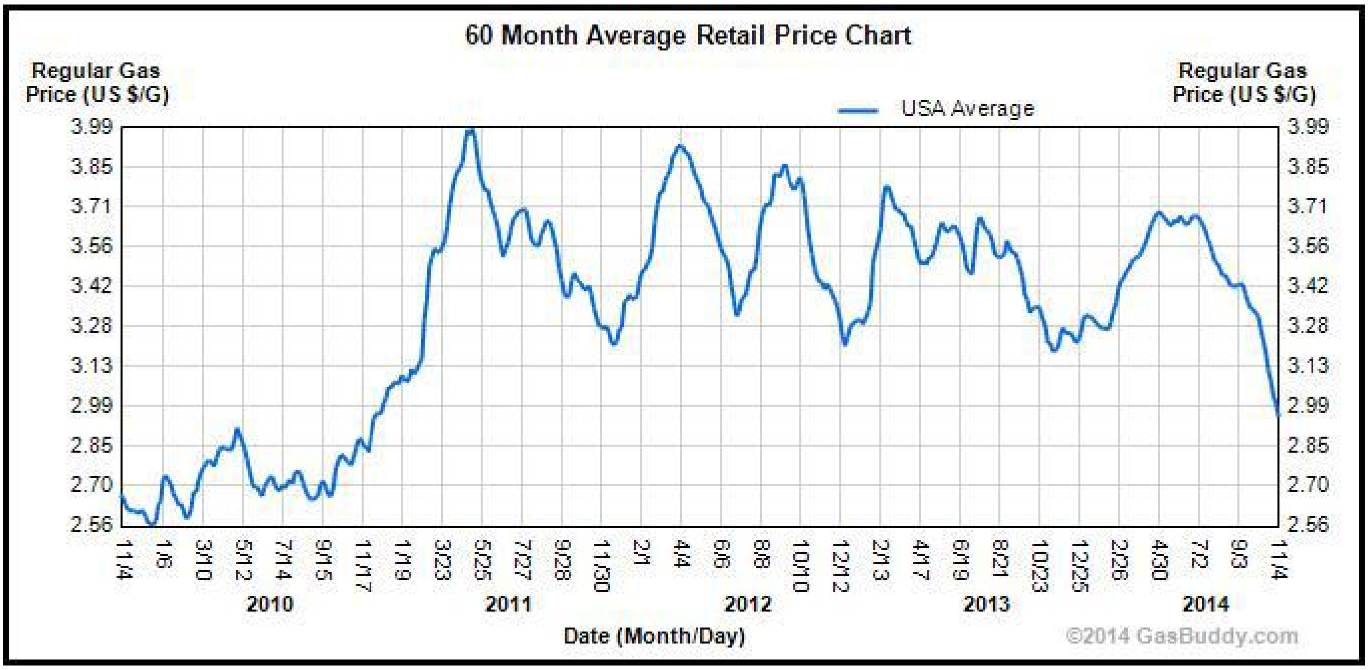
Market Commentary: Will we finish 2014 strong?

Coming off of one of the best bullish years in recent memory (2013), the question entering 2014 was whether we would sustain the bullish move. Well, so far the answer is wholesale nfl jerseys a resounding “YES!” The S&P 500 is currently sitting at a 9.8% return year to date. Healthcare, Technology and Consumer Staples have led the market with 22.02%, 14.55% and 10.04% returns respectively.

Despite these positive returns in 2014, this . year hasn’t been without some market volatility. October saw the market pull back 10% for the first time in two years causing some to wonder whether the end to the bull-run has finally run its course. Listening to the mainstream media potentially enhanced these fears and created undue concern. It is our job as your Financial Advisors to look at the global markets and lay out the facts in an attempt to answer the question, “Will we finish 2014 as strong as we started it?”

United States of America: The good ole’ US of A has been rocking. It has outperformed the global markets all year long and it appears as though it will continue. cheap nba jerseys *For our U.S. allocations we will maintain our overweight stance for the following reasons:*

- **More people are working.** Unemployment has dropped to 5.9% from 7.2% a year ago.
- **The US economy is growing.** GDP (Gross Domestic Product), which is a gauge of the health of the US economy, grew at a 4.6% annual rate in Q2 and a 3.5% rate in Q3.
- **Consumers have more money to spend.** Gas prices are the lowest level they have been since 2010 (see image courtesy of GasBuddy.com) falling below wholesale nba jerseys $3.00.



- **Historically we are entering into the most bullish time of the year.** November starts what is historically the best three month stretch for market returns (November – January). Since 1928 November, December and January have averaged .6%, 1.5% and 1.2% returns. Although there is never a guarantee that this will continue, we firmly believe in managing money based on probabilities not possibilities. These probabilities are based on history and certainly history is bullish for the next few months.
- **The markets applauded the Federal Reserve and it's ending of Quantitative Easing (QE).** One of the biggest concerns investors had was the notion that as soon as the Federal Reserve stopped its QE program the markets would fall. This concern was answered on October 29 when the Fed announced the end of the program. The market immediately moved higher and continues to move higher even as I type.

Developed Non-U.S. Markets (Europe, Asia and Australia): These areas of the globe have been the laggards of 2014. The index that tracks the Developed Non-US markets is (MSCI EAFE index) is down 2.97% YTD. The bright spot has been Australia which is up 5% YTD. The low light has been Germany which is down 11% YTD. Despite attempts by the ECB to spur growth, the outlook for Europe is not as strong as the U.S. as our friends across the pond seem to be getting weaker and weaker.

We are underweight these areas of the globe and will remain so for the rest of 2014. We will continue to keep our eyes on these Developed Non-U.S. markets simply due Current. to the fact that it is cheap and Up hated. When things are cheap and hated is often when you find the best investment opportunities.

Emerging Markets: As a whole the Emerging Markets cheap jerseys Index (MSCI EM) is up 4.88% YTD. India has been the bright spot of the Emerging Market countries. It is currently up 40% YTD. India's newly elected Prime Minister, to Narendra Modi, is wholesale nfl jerseys viewed as the one that will finally unleash Look the growth potential of India's markets. As a result we have seen incredible returns in that country. Russia has been the biggest bear (for obvious reasons . Effects . . namely Putin's attempt to rule the world) and is down 23% YTD.

We are equal weight this area of the globe and will continue to maintain that posture for the rest of 2014. It continues trading at attractive multiples and is trending in the right direction.

In Summary: It is our belief that we will finish 2014 strong. Everything we study, read and research points to a bullish end to 2014. This stance is in no way a guarantee of future returns, but it does provide the foundation for us as we continue to work hard for you.