Stirling Bridge
Wealth Partners, LLC

MARKET COMMENTARY – SEPTEMBER 1, 2015

"And now the STORM-BLAST came, and he
Was tyrannous and strong:
He struck with his o'ertaking wings,
And chased us south along." – Coleridge, Rime of the Ancient Mariner

Coleridge describes a ship's astonishing journey in his lyrically haunting Rime of the Ancient Mariner. The voyage starts out smoothly enough under clear skies. However, with the stanza above, a gale blows in and events quickly spin from bad to worse. Fear not! The Heavens divinely provide a way of escape, but folly or greed cause the aged seafarer to do something awful, bringing injury to himself and others.

We were reminded of this poem (you really should read it yourself – you'll be done in fifteen minutes – it helps if you read it aloud with a crusty Scottish accent), with the recent market swoons. Through mid-August it appeared that we were in for yet another month of go-nowhere markets. But then "the STORM-BLAST came."

International investors have become intimately familiar with manic-depressive China this year. Through the middle of June, the Shanghai Composite was up over 50% in local currency terms in 2015. It is now negative year-to-date - a swift reversal, indeed!

It is worth digging into some of the specifics in China's economy and equity markets. Growth, from the heady days of the early 2000's, IS slowing in China. But, it IS still growing and has not slipped into recession. There has been a modest drop in demand of commodities. However, the primary reasons that prices of global commodities from iron to oil have plummeted is NOT because demand has cratered, but because supply is so robust. Producers of nearly all commodities have gotten so good and efficient at employing labor-saving, production-enhancing technology, that every time the price jumps just a little, supply swamps the market.

Secondly, let's look at China's market for stocks which, due to history and culture, is still quite different from our own. In general terms, the stocks that trade in Shanghai are available only to Mainland Chinese investors. When foreigners buy Chinese shares,

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we buy them in Hong Kong. As such there are two very separate markets for Chinese stocks (in the process of changing with more interconnectedness and reforms). This situation allowed Chinese investors to manically bid shares up to inexplicable values in the first half of the year. Hong Kong shares rallied, too, but the presence of the international investment community was able to keep prices reasonable. The majority of the carnage we've seen so far stems from the twin rippling effects of investors digesting slower growth in China along with the bursting of the Shanghai market bubble.

We apologize for going into such detail, but it helps explain much of what we are experiencing. Of course, there are other important factors such as variable global growth rates and the resulting monetary policies of central banks, but if June was all about Greece and July was all about Puerto Rico, then August was all about China.

All indications are that lift-off from the Fed's Zero Interest Rate Policy (ZIRP) will commence this month. Unless the recent correction intensifies appreciably or U.S. economic numbers dramatically deteriorate between now and the Fed meeting, we expect the Fed to raise rates. As we've written here in the past, this first step need not be calamitous and we may see higher prices for assets in the coming year.

Given Goldilocks economic growth, low rates, and decent earnings, the recent sell-off has created compelling bargains of fine companies for long-term investors.

So, "the STORM-BLAST came." The question is, will we, as investors, do something foolhardy like the hoary mariner and bring misery upon ourselves? Will we panic and sell? Or, will we plunge through the market waves and snow, buying with excess funds?

Stirling Bridge Wealth Partners, LLC remains committed to providing customized investment solutions and robust financial planning wrapped in an exceptional service package for our high net worth clients throughout the country. We thank each of you for your dedication to us, for your trust, and for the referrals you've sent.

Sincerely

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