**JSB Capital Management, LLC**

**Pro-active Wealth Management**

August 25, 2015

Unless you’ve been hiding in a cave (or living in North Korea: same thing) you’ve no doubt noticed the stock market events of the last week or so. While it’s interesting to pontificate about the myriad influences that may have contributed to the gut wrenching decline, it’s more important to know what to do about it (if anything) and when it might make sense to take advantage of what could be really spectacular bargains that haven’t been seen since March of 2009 (although we’re not predicting a similar deep decline as that).

China is largely thought to be the primary root cause of the global panic of the last week. They devalued their currency significantly (for them) in a surprise move in early August. Since then their exchanges have plunged pretty hard and the European, Asian, emerging markets and the U.S. have followed that lead to some extent. China is the world’s largest goods-producing economy and the U.S. has the lead in services. China’s economy is slowing rapidly and that’s the main reason they devalued to make their exported goods more attractive (cheap). You can make the argument that on a relative, Purchasing Power basis (economic geek alert), they have the world’s largest economy, and so what they do matters a lot now. We expect that China will continue to throw everything they can at the economic stagnation problem and try to halt the precipitous plunge in stock prices. China’s problems are not a reason to panic and sell great quality U.S. companies stocks unless they’re highly leveraged to the Chinese economy. Most are not. Also, since mid-June, the Chinese stock market has fallen 38%. (To keep this in perspective, it is still 50% higher than it was a year ago.)

The uncertainty surrounding the Federal Reserve’s intent to raise interest rates as soon as September is contributing to the foul mood concerning U.S. stocks. However, that alone wouldn’t cause the extreme volatility recently unless it had come out of the blue. So there are just a few other issues that may have contributed to the market decline, but none of them compare to the problems that, once they surfaced, caused the Great Recession of 2007-2009. Not that those problems are completely resolved, far from it. It’s just that they remain occluded for now, but could really whack stocks if they arise. As an aside, these problems are the reason that the Fed has kept interest rates at about zero since 2008. It’s also the reason that we’ve kept a conservative, defensive posture for our portfolios.

Regarding that, we have been prepared for the kind of nastiness that the last week or so has presented. We have a sizable portion of the portfolios in stable, fixed income kinds of investments and we have over-weighted our stock selection to very high dividend paying investments. In times of turbulence, these are the type of investments that provide safety and lower volatility. We believe that the current volatility will lead to further declines in stock prices and we’ll not only stay with our defensive investments, but we’ll also be ready for some serious bargain hunting as the trend is for lower stock prices for now.