



WEALTH MANAGEMENT GROUP

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Pitre Wealth Management Group
Weekly Market Commentary
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The Markets

It's a cautionary tale...

Many Chinese investors were so optimistic about the prospects for Chinese stock markets they bought on margin, meaning they borrowed money to buy stocks. Borrowing to invest has been so popular that the amount of margin loans doubled in just six months to about \$320 billion, according to *Barron's*. Experts cited in the article said, "...margin financing in China is equal in size to Indonesia's entire stock market valuation and as high a portion as it has been in any market at any time..."

The problem with buying on margin is repaying the loan if stocks move in the wrong direction. Since the middle of June, Chinese stock markets have lost more than \$3 trillion, reported *CNN.com*. *Barron's* explained how margin works:

"In China, a typical investor can borrow \$1.25 for every dollar of cash she has, giving her what China calls a "guarantee ratio" of 180 percent, or \$2.25 (cash and stock bought on margin) divided by \$1.25 (loan value). But, as her stock loses value, the guarantee ratio also falls. At 150 percent, the broker will start to issue margin calls. When the ratio hits 130 percent, the brokerage will force the liquidation of the position to meet the loan."

About 80 percent of the investors in China's markets live in China. Many have suffered significant losses as markets have moved lower.

The *BBC* reported China's market regulator responded to the market downturn by making it even easier for people to borrow money to invest. Apparently, the hope is small investors will put more money in stocks. Regulators also banned investors who hold 5 percent or more of a company's stock from selling their shares for six months.

By the middle of last week, Chinese markets had stopped losing value. Only time will tell whether they have truly stabilized.

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Closer to home, the New York Stock Exchange (NYSE) suffered a computer glitch that halted trading for several hours last week. The NYSE tweeted, “The issue we are experiencing is an internal technical issue and is not the result of a cyber breach.”

Data as of 7/10/15	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 (Domestic Stocks)	0.0%	0.9%	5.7%	15.7%	14.0%	5.5%
Dow Jones Global ex-U.S.	-1.5	2.2	-6.7	7.5	4.3	3.0
10-year Treasury Note (Yield Only)	2.4	NA	2.5	1.5	3.1	4.1
Gold (per ounce)	-0.7	-3.3	-13.5	-10.1	-0.8	10.6
Bloomberg Commodity Index	-2.5	-4.8	-24.3	-10.3	-4.6	-4.5
DJ Equity All REIT Total Return Index	1.8	-2.3	6.8	10.1	14.2	6.9

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; the DJ Equity All REIT Total Return Index does include reinvested dividends and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance, Barron's, djindexes.com, London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

BIG DATA IS MAKING THE NEWS. A well-known search engine company has introduced a cloud-based big data service and a news laboratory which provides data about trends to journalists. During 2014 and 2015, it provided:

- *The Economist* with information about the employers and industry sectors that were most popular with American job seekers.
- *TIME* with five of the top trending people and topics for 2014: Ebola, the Ice Bucket Challenge, Ferguson [Missouri], Vladimir Putin, and Dilma Rousseff.
- *The New York Times* with a state-by-state assessment of popular Thanksgiving foods. In California they like persimmon bread; in Texas it was sopapilla cheesecake; in Minnesota they were searching for wild rice casserole; and in New York the favorite was stuffed artichokes.
- *The Washington Post* with data on depression, pain, anxiety, stress, and fatigue, so it could create a daily misery index for the year.
- *Buzzfeed* and *Vocativ* with British and American political data, including the most searched candidate names and questions most frequently asked of candidates.

The search engine also tracks what we don't know or can't remember. For instance, it has created a cocktail tool to provide instructions for making the drinks most frequently sought in online searches and a nutrition comparison tool to facilitate food smack downs (mashed potatoes beat sweet potatoes for sugar, but sweet potatoes win when it comes to Vitamin A, potassium, and calcium).

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Always remember: When you go online and use certain search engines, your data is being stored and sorted. It's important to know.

Weekly Focus – Think About It

“We think too small, like the frog at the bottom of the well. He thinks the sky is only as big as the top of the well. If he surfaced, he would have an entirely different view.”

--Mao Zedong, Former Chairman of the Communist Party of China

Best regards,

Leo A. Pitre, MBA, CFP®, CEP®

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.

* The Standard & Poor's 500 (S&P 500) is an unmanaged index. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.

* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.

* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.

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* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.

* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

* Past performance does not guarantee future results. Investing involves risk, including loss of principal.

* You cannot invest directly in an index.

* Consult your financial professional before making any investment decision.

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