LAUREATE
WEALTH MANAGEMENT

Year End Market Commentary
December 7th, 2015

Dear Clients and Friends,

It is hard to believe we are nearing the end of 2015. From a global economic and financial market perspective, the year seems to be coming to a close in a decidedly volatile fashion. There are a few key events I would like to discuss, which I think will have an impact on next year's market action. And beyond.

Refugee Crisis / Paris Attacks:
As you are likely aware, there are currently roughly 20 million refugees seeking to enter the Eurozone from the Middle East, Asia, and Africa mostly through the Eurozone's southern periphery countries. To put that number into perspective, Germany has agreed to assimilate up to 1 million refugees within its borders. The problem is --- that number is far higher than any other Eurozone country has pledged. In spite of the fact that this problem has been steadily gaining global attention throughout the year, there are still no viable solutions on the table.

As you are also likely aware, on November 13th, Paris was attacked by ISIS (Islamic State of Iraq and Syria) terrorists. While there has been massive press coverage about these attacks, I mention it here to draw your attention to the fact that these terrorists hail from the Middle East --- which is generating some of those 20 million refugees.

In short, this is a recipe for disaster. Perhaps the understatement of the year would be to say that a skepticism toward refugee immigrants that appear to look anything like Middle Eastern or Islamic --- is running very high across much of Europe. Here are three notable outcomes:

1) Anti-immigration politics are gaining popularity across Europe.
2) Border controls: Germany, Sweden, Slovenia, and Hungary have re-established border controls. Hungary and Slovenia are literally building fences along their respective borders. This has not happened since the Schengen Agreement was signed in 1985.
3) No union: There is massive disagreement within the Eurozone regarding how to deal with this crisis. As far as economic/political unions go --- I believe the Eurozone's ultimate survival depends upon its members coming up with a unified, cohesive plan to deal with these refugees. I am not holding my breath.

Bottom line: Whether the Eurozone figures out how to deal with this crisis and continues to exist going forward is quite certainly up for debate. What is most certainly NOT up for debate is that re-established border controls and the economic costs of a refugee crisis are decidedly detrimental to an already fragile economy in the Eurozone.

Mario Draghi's Mistake
Mario Draghi is the president of the European Central Bank. He is to Europe what Janet Yellen is to the United States. Last week, he released a plan to increase monetary stimulus by extending quantitative easing and lowering short term interest rates to -.3%. That's right --- negative interest rates, as in you pay the bank to have them hold your money versus the other way around.

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The amazing thing is that the financial markets reacted in disgust to his announcement --- not because people think the stimulus is bad, rather they were massively disappointed in how small the additional stimulus package was. -.5% or -.75% was more likely what they were looking for!

Bottom line: We are going to read about these delusional policies in an economics text book twenty years from now. When the world is so upside down that people want higher negative interest rates from banks, something is wrong…

OPEC becomes the non-cartel
Over this past weekend, the Organization of Petroleum Exporting Countries announced a very surprising shift in its policy aimed at "controlling" the energy industry.

It might be helpful to provide some background for context. In the 1960s, OPEC nations controlled approximately 50% of the world's oil output each year. In that era, they were able to essentially control the price of oil by controlling the volume that was released into global markets.

Today OPEC controls more like 33% of global annual output. U.S. production and Russian production competes against OPEC --- unrestricted by volume caps. Consequently, individual OPEC members have gradually begun to ignore quotas and production caps, rendering them more symbolic than anything else.

That changed this weekend as OPEC unexpectedly removed all production caps. As you might expect, oil traded down roughly 6% today, closing below $40 per barrel at a seven year low.

Bottom line: I like the energy business at these prices long term.

Wrap Up:
It is possible, perhaps even likely that more monetary stimulus will be used to combat the geo-political realities in the Eurozone. It is also possible, perhaps even likely that the next wave of economic uncertainty in our own country will precipitate another round of monetary stimulus. However, as the economic expansion continues to age (already 3rd longest on record in the U.S.), the likelihood of an eventual recession is becoming more of a certainty. I am growing increasingly wary of most stock and bond markets.

As usual at LWM, we are working hard to build portfolios that invest in strategies that don't require bull markets or bear markets to make money. They are hard to find, but there are a few such alternative investment strategies out there. Please feel free to contact me to discuss further if interested.

I want to wish you and your family a very Merry Christmas, and a Happy New Year,

Kind Regards,
Jeremy Boynton