LAUREATE
WEALTH MANAGEMENT

Mid Year Outlook

July 28th, 2015

Dear Clients and Friends,

There are several key issues I wish to discuss related to the U.S. economy and its financial markets. As we turn the pages of the calendar toward August, I hope each of you are finding time to enjoy friends and family somewhere relaxing. Without further ado:

1) **Greece:** I am tired of talking about Greece. I think we all are… Though sadly, we will be talking about them again in the not too distant future. Greek debts are unpayable. We have not solved anything --- we have simply allowed them to kick the can down the road with yet another bailout. Greece's economy is inconsequential to the Eurozone and the global economy. However, the pattern that Greece sets becomes a precedent for other European countries. Think Italy, Spain, and France. Their economies are in similar shape. Their debts are also quickly becoming unpayable. And most importantly --- their economies DO matter.

   Bottom line: This is about the Eurozone vision --- not about Greece. And the long term prognosis does not look good. However, I don't believe there is a substantial threat to European disintegration in the short term. This feels much more like a longer term problem.

2) **China:** China is getting far less attention than the Eurozone. Yet the situation in China matters far more. Chinese stocks are in correction mode. After a meteoric rise over the past year, they fell 30% in 2 weeks at the end of June. The Chinese government came to the "rescue" with unprecedented market manipulation. Institutional investors have been simply disallowed from selling their shares. Government agencies have been instructed to purchase shares to prop up markets. Stock trading has been halted for price action deemed undesirable/inappropriate.

   To be clear, a Chinese stock market crash is not that important to U.S. markets. However, a stock market crash that creates real economic pain in China DOES matter. China is the world's incremental provider of global GDP. The other 3 major economic centers --- the U.S., Eurozone, and Japan --- are essentially struggling to maintain stable economies with anemic growth. China is the world's primary growth engine.

   Bottom line: It would be very bad news if China's stock market crash translated into a significant economic downshift for China.

3) **U.S. Economic Cycle:** We are currently in the 3rd longest bull market in modern history here in the U.S. Our rate of growth as an economy is very anemic compared to all past cycles at this late stage. The Federal Reserve is now essentially backed into a corner where it must raise interest rates --- in an attempt to save its own credibility. All of this would seem to heighten the risks of a recession.

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4) **Presidential Election:** The markets are far more political than they were 10 or 15 years ago. Understanding the common narrative --- what people "think" is true about the markets --- matters a great deal. Far more than the actual truth/fundamentals. Presidential election years have historically been good for the markets. However, I believe this phenomenon is even more important today in a time where markets are dominated by central bankers (who are appointed by presidents in the U.S.). Essentially everyone has a vested interest in creating hope around the notion that the next president/central banker can "fix things". Therefore, I believe the election cycle is a positive for the markets going into 2016.

5) **Energy Prices:** The price of a barrel of oil has been cut in half. While that will be very difficult for certain segments of the energy industry (but certainly not for all of them), it should be a tail wind for the economy. It is a tax cut for the lower and middle class whose spending patterns will change as prices at the gas pump drop.

Overall Bottom Line: My attitude toward the U.S. economy and financial markets is more guarded than it was at the end of the first quarter. However, my best guess would be that the market ends the year higher than where it started. Gaining double digits for the year is still possible. I am also becoming more confident that a recession is very much in our future at some point between 2016 and 2018. A portfolio diversified with investments that can excel in both a rising and a falling stock market is becoming increasingly more important.

Human Interest Story: The world is largely not paying attention the genocide currently happening in the Sudan. The link below was posted 2 weeks ago by the New York Times and is under 10 minutes. I encourage you to watch it: http://nyti.ms/1CAloCF

As always, please reach out with thoughts or questions.

Kind Regards,
Jeremy Boynton