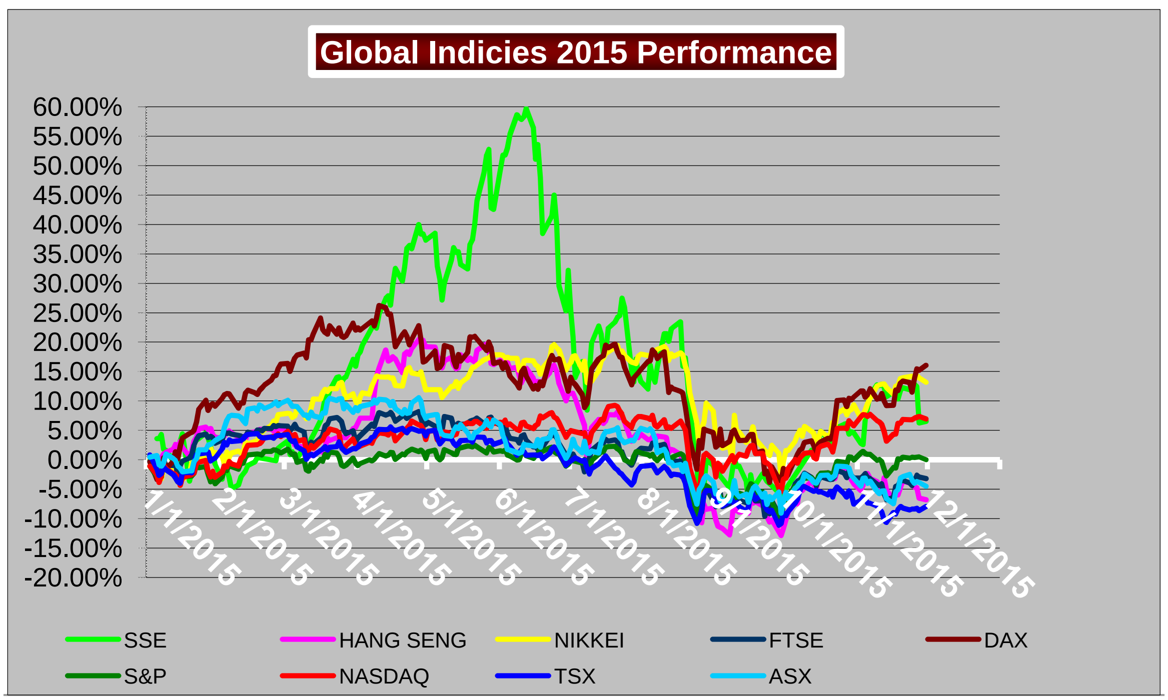
GDB December 2015 Newsletter

Monthly Market Summary:

2015 November Market Activity		
SSE COMPOSITE	***3,445.40***	+62.84 (+1.86%)
HANG SENG	***21,996.42***	-643.62 (-2.84%)
NIKKEI 225	***19,747.47***	+664.37 (+3.48%)
FTSE 100	***6,356.10***	-5.00 (-0.08%)
DAX	***11,382.23***	+532.09 (+4.90%)
DOW	***17,719.92***	+56.38 (+0.32%)
S&P 500	***2,080.41***	+1.05 (+0.05%)
NASDAQ COMPOSITE	***5,108.67***	+54.92 (+1.09%)
ASX 200	***5,166.50***	-72.90 (-1.39%)
TSX COMPOSITE	***13,469.80***	-59.40 (-0.44%)



Investment Themes:

It's that time of the year again. GDB Capital's last Newsletter of 2015 is a look back at the predictions we have made throughout the year. Here is how they stacked up:

	Call	Comment	Score
January	Crude over supply imbalance is temporary. China's attempt to build up its Strategic Petroleum Reserves would absorb some of the excess supply while other emerging markets nations such as India and Pakistan would also follow suit. Crude price at the level at the time presents an entry opportunity.	Although China oil imports are seen at record levels as it took advantage of the cheaper oil to fill up its Strategic Petroleum Reserves throughout the year, Brent continued to slide from USD 55 in the beginning of the year to around USD 43 at the end of November; WTI dropped from USD 52 to USD 40. Resilient US shale supply and the lifting of sanctions on Iran are contributors to the miss.	✗
February	ECB QE allocation based on each member's capital key. QE would most likely benefit countries with larger capital key allocation such as Germany. This would be positive for German equities while have minimal impact to reduce the cost of	Although DAX was down during volatile months of August and September, it is up 6.4% at the end of November from February.	✓

	funds on troubled nations such as Greece.		
March	Equity markets were too complacent with the Greek debt situation. Given the impressive gain in February and March and the low volatility levels, recommended appropriate hedge against risk of a negative price movement.	S&P 500 had record high close of 2,130.82 on May 21; NASDAQ had YTD highest close on July 20 at 5,218.86; DAX topped at 12,390.80 on April 10.	✓
April	Chinese stock market had risen relentlessly while its economy deviated in the other direction. SSE Composite Index had almost doubled in value from September of 2014, while China's first quarter GDP printed 7%, the worst level since the financial crisis. To exploit this disconnect, we recommended a long short play: shorting the real estate sector which is the biggest driver or of Chinese GDP and long the overall market in case the market momentum continues.	The CSI 300 Index dropped 33.2% from 4,749.89 on April 30 to 3,566.41 on November 30. The CSI 300 Real Estate Index suffered a smaller decline of 11.7% from 8,030.73 on April 30 to 7,191.27 on November 30.	✗

May	EUR/USD had its largest monthly gain in April in four and half years largely from short squeeze on hedge fund's leveraged positions. The strength lacked fundamental substance. ECB's expansive monetary policy, the step up of further ECB QE, uncertainty of Greek default, and UK's referendum on EU exit were all pointing to further weakness in EUR/USD. Recommended shorting the Euro.	EUR/USD cross rate declined from 1.1215 on April 30 to 1.0570 on November 30, representing a gain of 6.1%.	✓
June	QDII2 was expected to unveil in six Chinese cities. QDII2 would provide an additional channel for capital to flow from Mainland to overseas financial markets. Financial intermediaries, asset managers, and insurance companies would benefit from this additional outbound investment activity.	China's State Council announced its approval of the QDII2 in late October. Initially the program will be limited to the Shanghai Free Trade Zone. It will then be rolled out to the other five pilot cities: Tinjin, Chongqing, Shenzen, and Wenzhou. The expectation is for the program to be implemented before the end of 2015.	N/A

July	The Greek referendum for a third bail out and the tumble in the Chinese stock market in June caused a sell-off in late July. Did not see this as an opportunity to dive into the market. Further predicted that the Chinese market would trade sideways for the remainder of the year as retail investors who had suffered losses would be reluctant to step back in.	August and September saw unprecedented volatility in global equity markets. CSI 300 Index has been treading water in between the 3,000 to 4,000 level since the end of July. Ending November at 3,566.41.	✓
August	Chinese Yuan devaluation put additional burden on Chinese companies with off-shore debt obligations. It would also significantly impact other emerging markets as those countries engage in competitive devaluation of their currencies. Headwind faced by emerging markets could see further re-pricing for risks among its assets.	EM equities definitely underperformed evident by comparing the monthly performances between MSCI Emerging Market Index vs. MSCI International World Index are as follow: Aug: -9.20% vs. -6.81% Sep: -3.26% vs. -3.86% Oct: +7.04% vs. 7.83% Nov: -2,69% vs. -0.67%	✓

September	Unprecedented volatility seen in the equity markets in August and early September was an over-reaction to the uncertainty of a rate lifts off during September's Fed Meeting. With the meeting out of the way and an assuring reading on US Q2 GDP, the volatility will calm down. Investor could ride the volatility down through shorting of volatility ETFs.	The iPath S&P 500 VIX ST Futures ETN (VXX) declined from $30.76 on September 1 to $18.80 on November 30, representing a total gain of 63.6%.	✓
October	Low earnings estimates in the third quarter were enabling companies to continue beating expectations. Top line and bottom line continued to contract during Q3. Valuations were also rich from historical standards. Neutral on US equities until year-end.	The S&P 500 Index barely nudged in November from October.	✓
November	November 13th terrorist attack on Paris highlighted the rise in terrorism activities in recent years. Counter-terrorism initiatives including surveillance, cyber securities, drone manufacturing and defense will benefit	From November 13th to November 30th: The PureFunds ISE Cyber Security ETF (HACK) was up 5.0%; iShare U.S. Aerospace & Defense ETF (ITA) was up 4.6%;	✓

	from increased spending from government agencies around the world.	Compared to S&P 500 which rose 2.8% during the same period.	

Overall, we had two strikes this year on the calls we made on crude price in January and the short and long play on Chinese real estate and the overall benchmark in April.

We look forward to continue to provide you with our independent market insights in 2016.