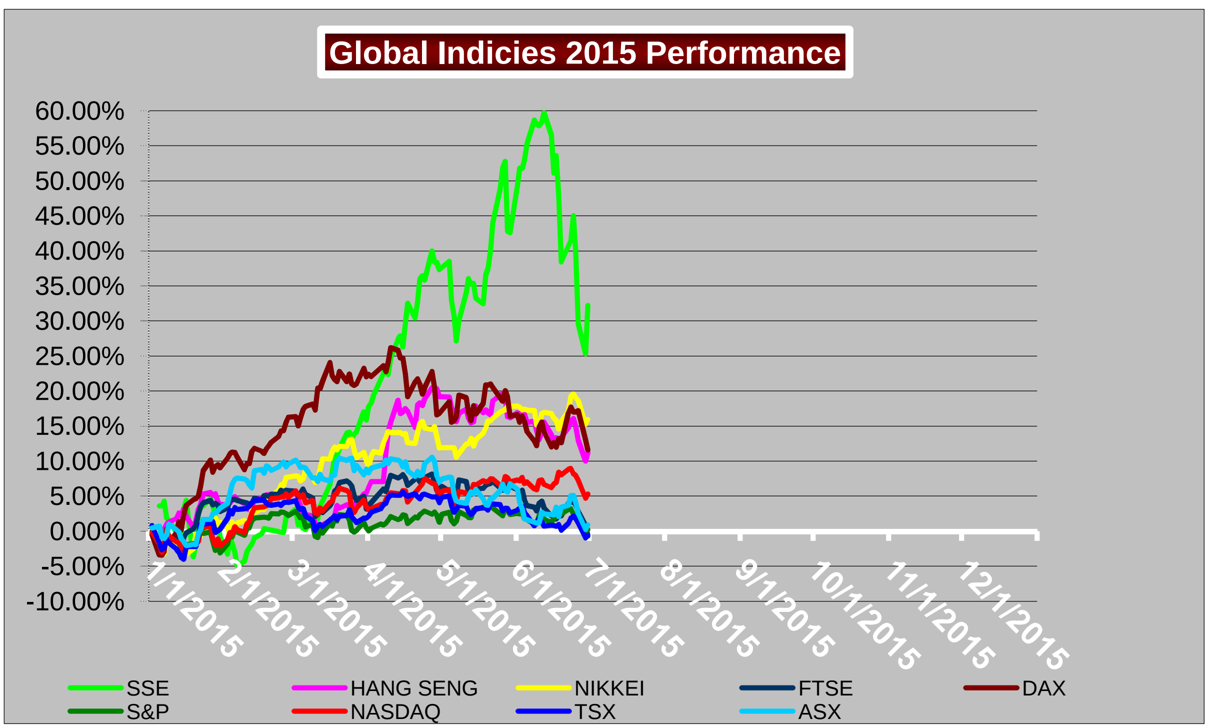
GDB Capital Inc.

GDB July 2015 Newsletter

Monthly Market Summary:

2015 June Market Activity		
SSE COMPOSITE	*4,277.22*	-334.52 (-7.25%)
HANG SENG	*26,250.03*	-1,174.16 (-4.28%)
NIKKEI 225	*20,235.73*	-327.42 (-1.59%)
FTSE 100	*6,521.00*	-463.40 (-6.63%)
DAX	*10,944.97*	-468.85 (-4.11%)
DOW	*17,619.51*	-391.17 (-2.17%)
S&P 500	*2,063.11*	-44.28 (-2.10%)
NASDAQ COMPOSITE	*4,986.87*	-83.16 (-1.64%)
ASX 200	*5,459.00*	-318.20 (-5.51%)
TSX COMPOSITE	14,553.30	-460.80 (-3.07%)



Investment Themes:

In the month of July two major global events shook the global financial markets:

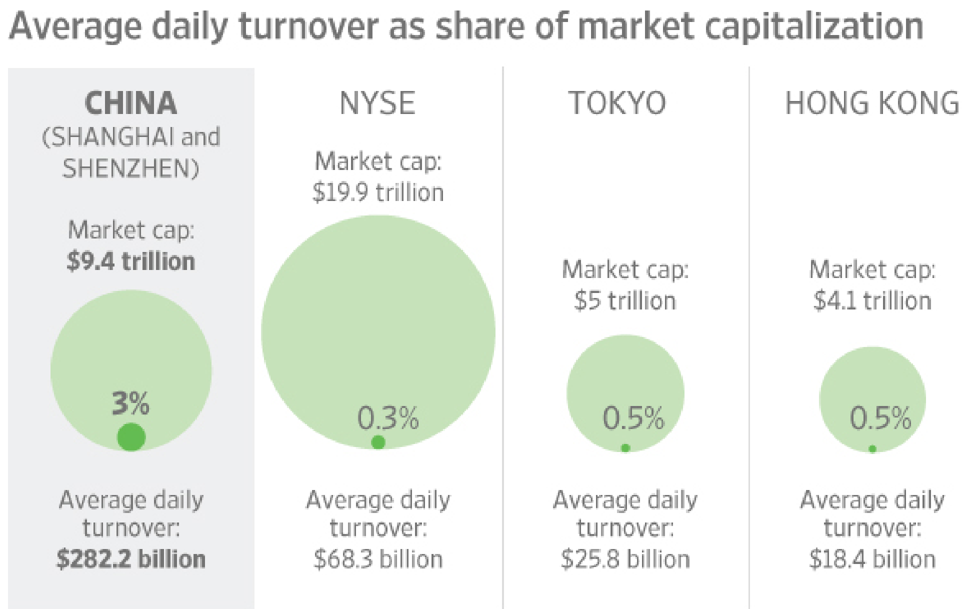
1) The Greek referendum and the eventual submission to new austerity measures for a third bail out.

2) Chinese stock market tumbled 30% before government intervention to stabilize the market.

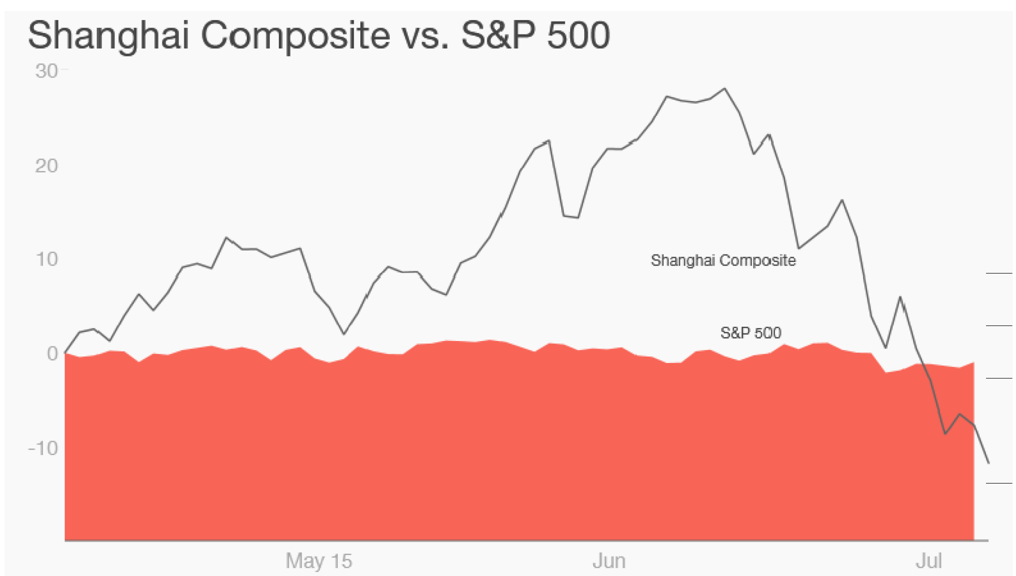
Will this be an opportune time to enter the market and buy on the dip? Let's have a closer look below.

In terms of the Greek default and its impact on the EUR and the European equities, we believe the problem Greece is facing is a solvency issue rather than a liquidity crisis. In order to prevent Greece from falling out of the Eurozone, the European institutions will need to continue throw money at Greece to keep the state from defaulting on its existing debts. This is a drag for the common currency and there will be further downside for the EUR. Greek equities have fallen 85% since peaking in 2007. The Athens Stock Exchange's combined market cap is now $41 billion, which is less than 1/10th the market cap of Apple. Once the market re-opens, if the government imposes trading restrictions to preserve liquidity, they will discourage new capital flows into the market; if no capital restriction is introduced, then the market will suffer from capital flight. Either way, it is a lose-lose scenario and investors should avoid Greek stocks for the time being.

The Chinese stock market has rallied 16% from its July 8th trough of 3,507.19. However, during the worst days of the massive stock rout, heavy handed government intervention and the fact that half of the listed companies suspended trading are exposing the fundamental weaknesses of the Chinese stock markets. These events illustrate that China's two stock markets, although ranked second in the world in terms of market capitalization, still pales in comparison to matured markets such as the NYSE in terms of market efficiency and transparency. The dominance of small retail investors with gambling tendencies and overtrading is evident by comparing the average daily trading volume in China with other major markets.



The dominance of small investors, the heavy usage of margin, and the lack of long-term investment horizon will continue to make the Chinese stock market volatile. Once bitten, twice shy. Given the large losses the small investors have suffered during the recent carnage, there will be no catalyst to fuel another rally. In the best case scenario, Chinese equities are likely to trade sideways for the near future.



In conclusion, the recent sell offs in the global equity markets do not present a compelling reason for investors to rush back into the market. Giving slower activities in the summer and the possibility of the Fed lift off in the fall, investors should exert patience and take a wait and see approach after the volatile month we have experienced in July.