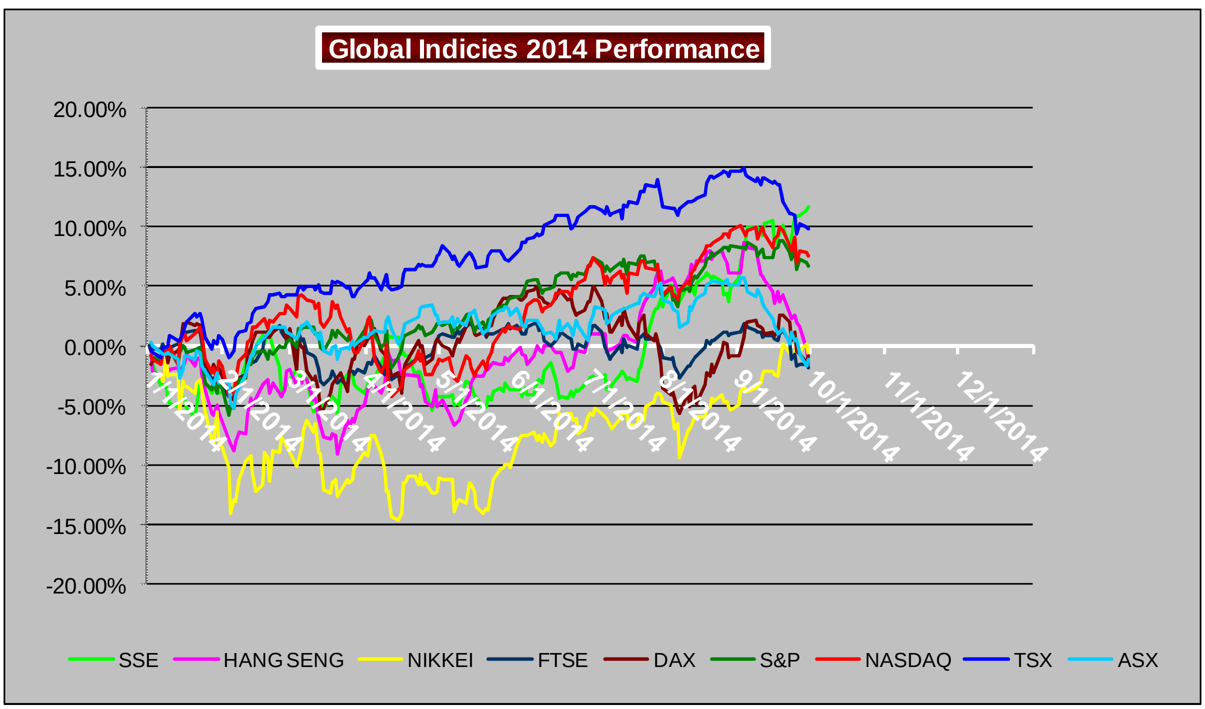
GDB October 2014 Newsletter

Monthly Market Summary:

2014 September Market Activity		
SSE COMPOSITE	***2,363.87***	+146.67 (+6.62%)
HANG SENG	***22,932.98***	-1,809.08 (-7.31%)
NIKKEI 225	***16,173.52***	+748.93 (+4.86%)
FTSE 100	***6,622.70***	-197.10 (-2.89%)
DAX	***9,474.30***	+4.13 (+0.04%)
DOW	***17,042.90***	-55.55 (-0.32%)
S&P 500	***1,972.29***	-31.08 (-1.55%)
NASDAQ COMPOSITE	***4,493.39***	-86.88 (-1.90%)
ASX 200	***5,292.80***	-333.10 (-5.92%)
TSX COMPOSITE	***14,960.50***	-665.20 (-4.26%)



Investment Themes:

What a rollercoaster ride it has been for investors in October! The stomach churning volatility in the global equity markets was something we have not seen since the height of the Eurozone crisis in 2011. The S&P 500 Index experienced a nearly 10% correction from its intraday high of 2,019 on September 19 to an intraday low of 1,820 on October 15. Remarkably, the market has taken a V-shaped rebound since the height of the sell-off on October 15th when the Dow nosedived 400 points intraday. Stocks bounced back in stride just as quickly as they sank. During the month of October, S&P posted its longest losing streak since 2011; it also posted its largest weekly gain of 2014.

S&P 500 Index

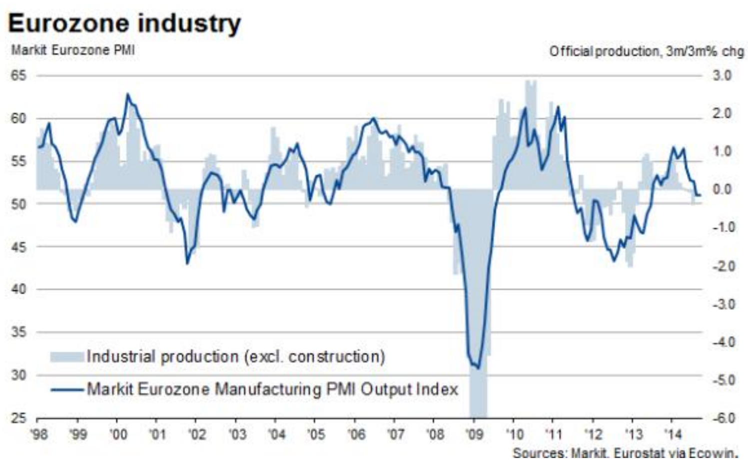
The media converged on many factors which caused the recent sell-off. Some of the main headlines were:

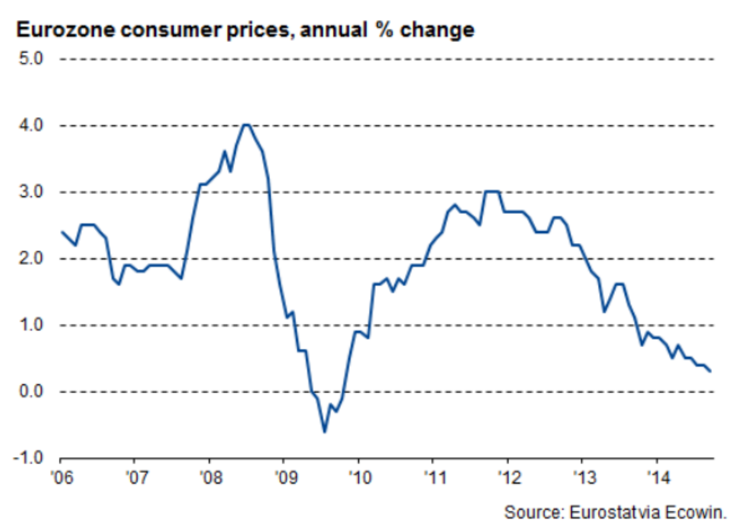
- Deterioration of economic conditions in Europe and deflation fears
- Ebola fears
- Oil price correction pointing to slow global growth

We will look at each of these factors in details and provide you with our analysis.

Fear of Recession in Europe and Deflation:

This was not news to investors. The European malaise has been ongoing in the backburners for quite a while. Investors were fully aware of the struggling economies in Europe trying to find their footings and the deflationary environment. As we can see below, the downward trend in both PMI and consumer price have been established way before the October sell-off. Therefore, to attribute the sell-off to the weakness in Europe is questionable.





Ebola Fears:

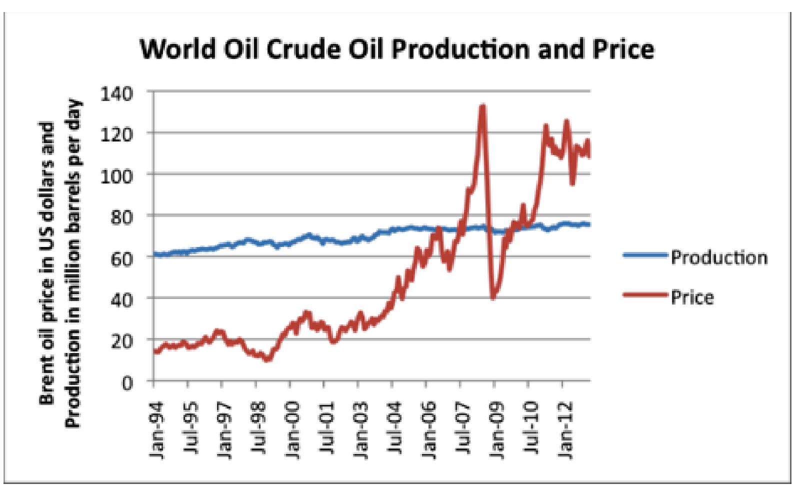
Two nurses have contracted Ebola while treating the first Ebola patient in the US during the week of October 13th. On October 15th, airline stocks tumbled on this Ebola fear, in turn, dragging down the major indices. A full blown Ebola outbreak is hard to model as many media outlets have pointed out. This uncertainty causes investors to be nervous which triggers the sell-off.

We find this argument also difficult to substantiate as the culprit for the market down drift. Following the massive sell-off on October 15th, on October 24th, a physician in New York was tested positive for Ebola. In comparison to the cases in Dallas, New York is a much densely populated metropolis. In addition, the doctor rode the city subway in the days before he was diagnosed with the disease. So in theory, he possesses a much higher transmission risk than the Ebola nurses in Dallas. What did the market do? It shrugged off the news with the Dow surging 127 points on the day and closing with the highest weekly gain in 2014.

Oil Plunging:

Slowing global demand is having an impact on global oil prices. The sharp sell-off in crude oil causes a meltdown in stocks.

The theory that has been floating around is that lower oil prices are forcing many companies to cut production as the price approaches their break-even point.



As we can see in the chart above, oil production has been steadily rising since the last decade even during times of price fluctuations that are much wider than the current USD 20 dollar plunge we have observed. Oil companies are profit driven organizations. In a lower pricing environment, they will seek ways to cut costs to strive for cheaper means of production. So to say that many oil companies, especially US shale companies will become unprofitable is unfounded.

More importantly, retail gasoline at the pump in the US is down around $3.15 a gallon from nearly $4 a gallon, a 21% drop. This will translates to substantial household savings that will be instantly redeployed into the economy. In addition, the US is about to go into holiday season. The saving from the pump should boost holiday spending and lift US GDP in the last quarter.

After examining all these factors circulating in the media, we do not find any substantial reason to deviate from the long-term bull trend in equities. What we think happened was a self-prophesized correction since the market valuation was reaching a saturation point prior to the sell-off. Furthermore, as investors were taking chips off the table, the speed and media focus on the sell-off created panic which triggered selling from large leveraged players who may have been affected by margin calls. This further exacerbated the downward gyration.

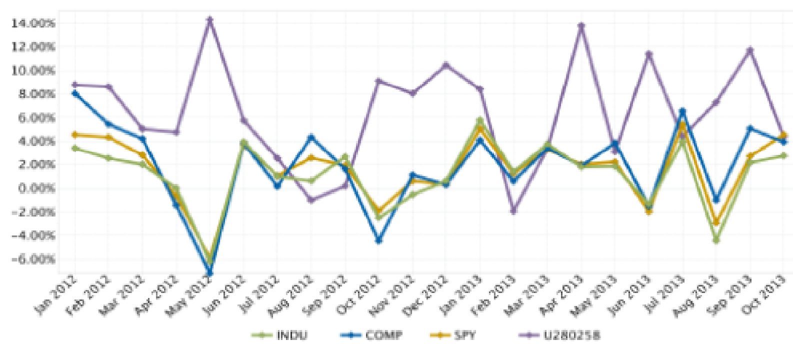
The V-shaped rebound in the latter half of October provides investors with some confidence that there is still a lot of support in the market. Going forward, we suggest that our investors to be cognizant of the volatility we have seen in October. Nonetheless, we are still cautiously long in US equities towards year-end given the improving economic fundamentals and an accommodative Fed.

Investment Opportunities:

1. GDB Monthly Income Fund

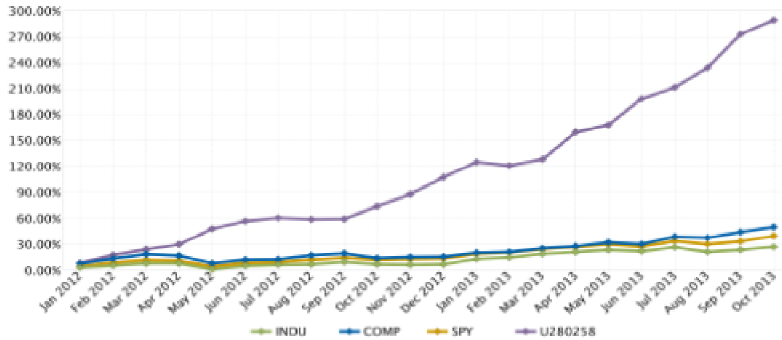
Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, and returned 108% in 2012 and 194% in 2013. Following are the benchmark comparisons of GDB Fund performance against the major US Indices.

Time Period **Benchmark Comparison**



Date	INDU	COMP	SPY	U280258
Jan 2012	3.40%	8.01%	4.55%	8.77%
Feb 2012	2.53%	5.44%	4.31%	8.60%
Mar 2012	2.01%	4.20%	2.81%	5.03%
Apr 2012	0.01%	-1.46%	-0.68%	4.74%
May 2012	-6.21%	-7.19%	-5.92%	14.32%
Jun 2012	3.93%	3.81%	3.64%	5.73%
Jul 2012	1.00%	0.15%	1.06%	2.53%
Aug 2012	0.63%	4.34%	2.56%	-1.03%
Sep 2012	2.65%	1.61%	1.90%	0.18%
Oct 2012	-2.54%	-4.46%	-1.91%	9.12%
Nov 2012	-0.54%	1.11%	0.62%	8.03%
Dec 2012	0.60%	0.31%	0.32%	10.43%
Jan 2013	5.77%	4.06%	5.04%	8.38%
Feb 2013	1.40%	0.57%	1.22%	-1.94%
Date	INDU	COMP	SPY	U280258
Mar 2013	3.73%	3.40%	3.31%	3.37%
Apr 2013	1.79%	1.88%	2.00%	13.77%
May 2013	1.86%	3.82%	2.23%	3.09%
Jun 2013	-1.36%	-1.52%	-1.98%	11.38%
Jul 2013	3.96%	6.56%	5.41%	4.39%
Aug 2013	-4.45%	-1.01%	-2.97%	7.27%
Sep 2013	2.16%	5.06%	2.72%	11.74%
Oct 2013	2.75%	3.93%	4.54%	4.35%
Date	INDU	COMP	SPX	U4280258
Nov 2013	3.48%	3.58%	2.80%	6.49%
Dec 2013	3.05%	2.87%	2.36%	5.44%

Cumulative **Benchmark Comparison**



Date	INDU	COMP	SPY	U280258
Jan 2012	3.40%	8.01%	4.55%	8.77%
Feb 2012	6.01%	13.89%	9.06%	18.13%
Mar 2012	8.14%	18.67%	12.13%	24.07%
Apr 2012	8.15%	16.94%	11.37%	29.95%
May 2012	1.44%	8.53%	4.77%	48.56%
Jun 2012	5.42%	12.66%	8.58%	57.06%
Jul 2012	6.48%	12.83%	9.73%	61.03%
Aug 2012	7.15%	17.73%	12.54%	59.38%
Sep 2012	9.98%	19.62%	14.69%	59.66%
Oct 2012	7.19%	14.28%	12.49%	74.22%
Nov 2012	6.61%	15.55%	13.20%	88.22%
Dec 2012	7.26%	15.91%	13.56%	107.84%
Jan 2013	13.45%	20.61%	19.28%	125.27%
Feb 2013	15.04%	21.31%	20.74%	120.90%
Mar 2013	19.32%	25.43%	24.74%	128.34%
Apr 2013	21.46%	27.78%	27.24%	159.78%
May 2013	23.72%	32.66%	30.07%	167.80%
Jun 2013	22.03%	30.64%	27.50%	198.28%
Jul 2013	26.86%	39.20%	34.39%	211.37%
Aug 2013	21.22%	37.80%	30.40%	234.01%
Sep 2013	23.84%	44.77%	33.94%	273.20%
Oct 2013	27.24%	50.46%	40.02%	289.44%
Jan 2012 to Oct 2013	27.24%	50.46%	40.02%	289.44%

Date	INDU	COMP	SPX	U4280258
Nov 2013	3.48%	3.58%	2.80%	6.49%
Dec 2013	6.63%	6.55%	5.23%	12.28%
Nov 2013 to Dec 2013	6.63%	6.55%	5.23%	12.28%

Total 301.72%