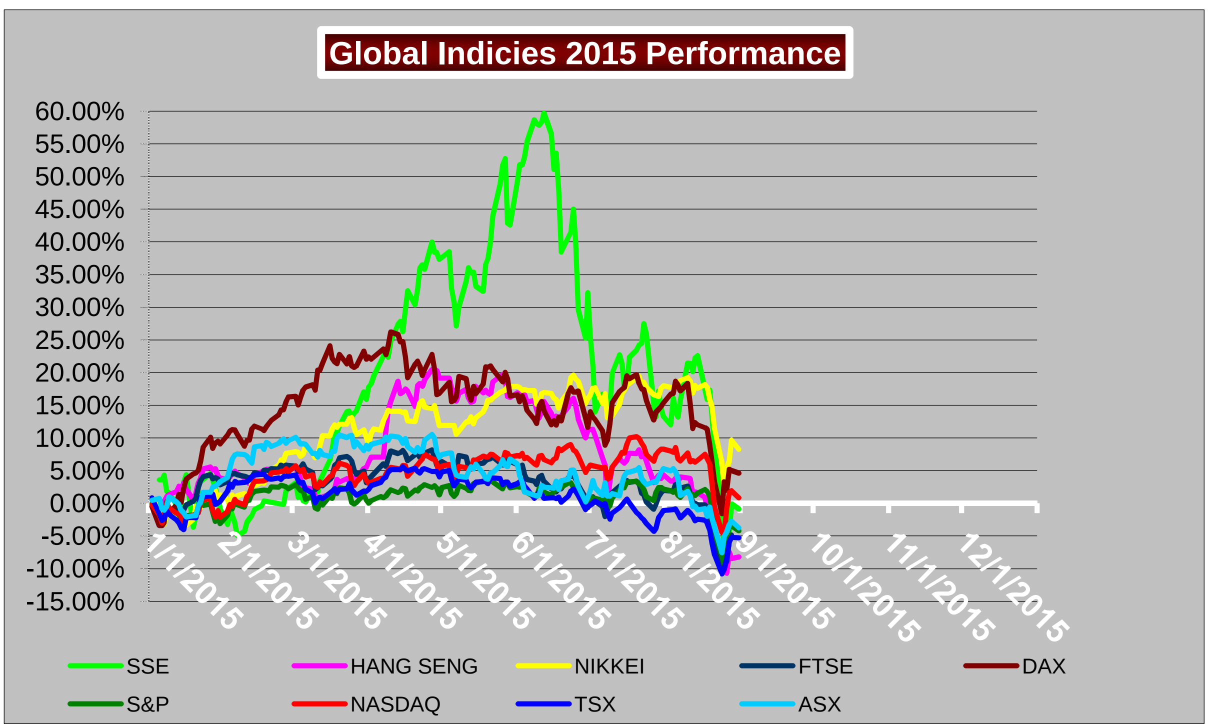
GDB September 2015 Newsletter

Monthly Market Summary:

2015 August Market Activity		
SSE COMPOSITE	*3,205.99*	-457.74 (-12.49%)
HANG SENG	*21,670.58*	-2,965.70 (-12.04%)
NIKKEI 225	*18,890.48*	-1,694.76 (-8.23%)
FTSE 100	*6,247.90*	-448.40 (-6.70%)
DAX	*10,259.46*	-1,049.53 (-9.28%)
DOW	*16,528.03*	-1,161.83 (-6.57%)
S&P 500	*1,972.18*	-131.66 (-6.26%)
NASDAQ COMPOSITE	*4,776.51*	-351.77 (-6.86%)
ASX 200	*5,207.00*	-492.20 (-8.64%)
TSX COMPOSITE	13,859.10	-609.60 (-4.21%)



Investment Themes:

The equity market gyrated violently in late August and early September. The Dow saw its largest intraday point swing of 1,089.42 points on August 24 before closing down 599.40 points. Out of the 13 trading days so far in September, there were 9 days which saw Dow closing up or down triple digits. There is tremendous panic and uncertainty in the US and global equity markets stemmed from concerns of China and emerging markets slowdown and the apprehension surrounding whether the Fed would raise interest rate for the first time in six years during their policy meeting on the 17th.

The volatility in the market is exhibited by the CBOE Volatility Index, the VIX, which has surged to the high 20s and mid 30s level. The velocity of the increase is unprecedented as the index saw its largest weekly increase ever (in the second last week of August) since the establishment of the index in 1990.

The meltdown in stocks has caught many investors off guard. Heightened concerns about China and other emerging market economies have widened risk spreads and tightened financial conditions. Given the significant financial interconnection of US and other economies around the world, on September 17, the Fed decided to hold off raising interest rates until return of more stable market conditions.

With the Fed decision out of the way, we believe the volatility that we have been observing in the market will simmer down much like the shakeout witnessed during October of last year and during the 2013 taper tantrum. The last time when the VIX had moves of this magnitude was back in 2011 during the European sovereign debt crisis. Global economic outlook back then was certainly much bleaker than it is now. In contrast, we believe the fear in the market is unwarranted and much of it an overreaction to the uncertainty of Fed rate decision. The slowdown in China will create headwinds going forward; nonetheless, leadership in China has repeatedly voiced the expectation that the country's economic growth will enter a "new norm", switching from an exporting dependent to a more consumer driven economy. This sort of economic engineering will undoubtedly cause some intermediary pain, but we do not think it will send the global economy into a tail spin. The US economy, though not growing spectacularly, is certainly pulling in its weight. Recent economic data serves as confirmation; and the revised Q2 US GDP grew at a faster pace of 3.7% than the initial reported 2.3%.

With the zero rate interest environment there is a lot of leverage applied to magnify investment returns. The fear of a rate rise prior to September 17th could have triggered an initial sell-off which is exacerbated by high frequency trading, algorithmic trades and huge volumes of trades done by ETFs. This is what caused the volatility mayhem we have seen over the last month. Now with Fed rate hike pushed further out, we do not see volatility remain at elevated levels. Looking back at historical data, volatility drops just as fast as they rise, usually taking anywhere between one to three months to fall back to levels before the surge.

Investors with intermediate term horizon could use this opportunity to short volatility through volatility ETFs. Here is a suggested link to the available products in the market: http://etfdb.com/etfdb-category/volatility/.