the market at a glance

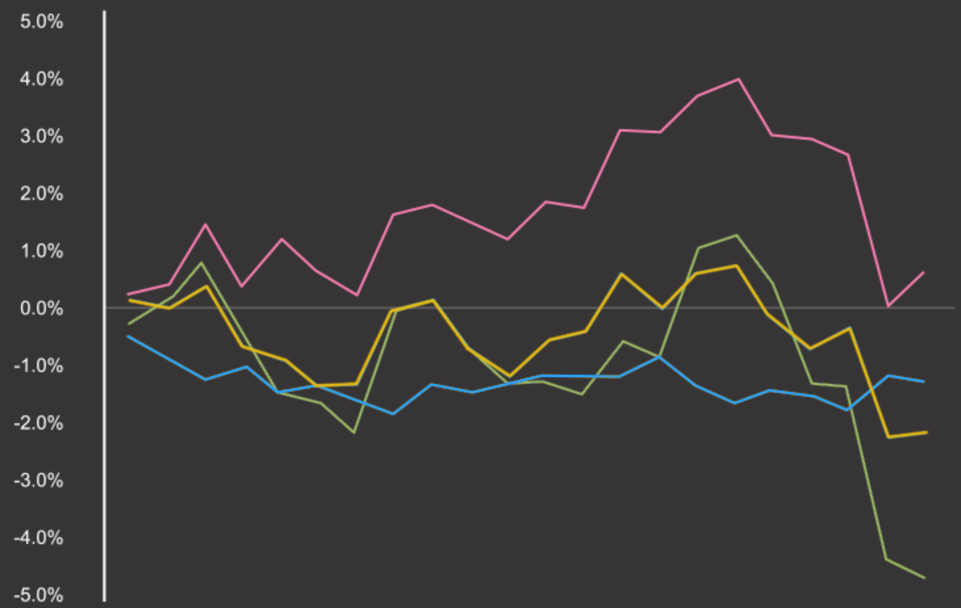
JUNE

U.S. Large Cap
(Dow Jones Industrial Average)
17,619.51 (-2.17%) ▼

U.S. Mid/Small
(Russell 2000)
1,253.95 (0.60%) ▲

Foreign Large
(MSCI EAFE Index Fund)
63.49 (-4.73%) ▼

Bond Market
(Barclays Aggregate Bond Fund)
108.78 (-1.26%) ▼



Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly.

the market in action

- Bailout talks between Greece and other Eurozone countries break down in the last days of the month, just before Greece is scheduled to default on its debt. Global market volatility jumps as investors see the conflict as a potential threat to the stability of the entire Eurozone.

- Intel, the world's largest manufacturer of microchips, agrees to buy rival chipmaker Altera Corp. for $16.7B. The move comes shortly after the merger of tech giants Avago Technologies and Broadcom Corporation.

- Reports show that U.S. auto sales climbed to a seasonally adjusted annual rate of 17.79M in May, the highest rate since 2005.

- The Federal Trade Commission reaches a settlement in its first case involving a "crowdfunding" project. The suit was levied against a board game creator who used money raised on crowdfunding-site Kickstarter for personal expenses and never delivered a finished product. Kickstarter, which merely acts as facilitator for crowdfunding projects, was not targeted by the suit.

- Prince al-Waleed bin Talal of Saudi Arabia pledges to donate his $32B fortune to charity. One of the richest men in the world, the prince says his charitable efforts will focus on gender equality, world health and disaster relief.

- General Electric moves to sell its private-equity business to the Canadian Pension Plan Investment Board in a $12B deal. General Electric says the sale will allow the company to refocus on its core businesses.

- In an effort to combat a sudden market downturn and slowing growth, China lowers its bank borrowing rates for the fourth time in the past seven months.

China: More Money, More Problems

When it comes to economic growth, no country can compare to China. The country's expansion over the past quarter-century has been staggering, posting annual GDP growth rates between 7.4 and 14.3 percent. What makes the growth rate even more impressive is the scale on which it's happening: China is the world's most populous country, home to approximately 1.3 billion people.

Although it is mostly communist, China has tried to introduce more free-market principles into its economy. It has encouraged—and limited—its citizens to make domestic investments. The government knows that if it can attract foreign investment while keeping Chinese capital within the country, it could perpetuate economic growth. The only question is how difficult it will be for citizens to integrate financial markets into their lives.

The Sharp Climb

So far, China's market behavior has been extremely volatile. The county experienced a massive stock bubble in 2006-07 that sent the Shanghai Index up more than 400 percent in just 21 months. When the government suspected moved to temper the growth rate, the market panicked and the index dropped 70 percent from its peak in less than a year; its performance remained stagnant for years after.

But as one bubble deflated, another began to ramp up. Real estate—already widely promoted and used as an investment—became the only sensible investment a person could make. Purchasing apartments became (and continues to be) frenzied. Developers built dozens of still-uninhabited "ghost cities," solely to meet the demand for real estate property.

Then, in late 2014, stocks found renewed popularity when the Chinese government opened Shanghai's stock market to foreign investors. Although the government limited the amount of foreign capital that could be spent on the market each day, stock prices began to rise quickly. This caught the attention of Chinese citizens, who began pouring money into the market. The Shanghai Index took off like a rocket, more than doubling in the seven months from mid-November 2014 to mid-June 2015.

Partying Like It's 1999

So what's the problem? Isn't the Chinese economy expected to continue growing? While many economists believe China has a bright long-term future, there are serious concerns about the "irrational exuberance" of the Chinese investor. By April 2015, the Shanghai Index looked like the dot-com Nasdaq of the late 1990s: stock prices were extremely high and a huge number of ordinary Chinese citizens had begun to use margin accounts so they could borrow money to invest.

Starting in mid-June, the Chinese market began to take major steps back. Within two weeks, the Shanghai index dropped nearly 20 percent from its high. Where the market will move in the coming months and years is anyone's guess. Despite the government's direct involvement in the economy, China's markets seem to be impossible to control.

The Learning Curve

From an American perspective, China's volatility and repeated involvement with bubbles may seem foolish. But before we judge China too harshly, we should think about some of the underlying factors that lead to this "wild" financial behavior.

China has a staggering amount of money to invest and citizens that are unsure how to invest it. The average Chinese person saves almost 10 times as much of their income as the average American but has no experience with things like "trading," "margin accounts" or "investment risk." Since investment options are limited, those encouraged/allowed by the government are going to experience a lot of buying pressure.

Ultimately, China is a unique country going through difficult economic transitions. Despite wielding the second largest GDP in the world, China is still trying to understand the basics of investing. Its markets are unlike anything the world has seen before, and trying to define or predict its "bubbles" may be pointless. All of its dramatic movements are the result of 1.3 billion people trying to make the best choices available to them.

Kelly Pedersen *CFP®, CDFA*
Kelly@CaissaWealth.com

(952) 777-2273

7825 Washington Ave S
Bloomington, MN 55439