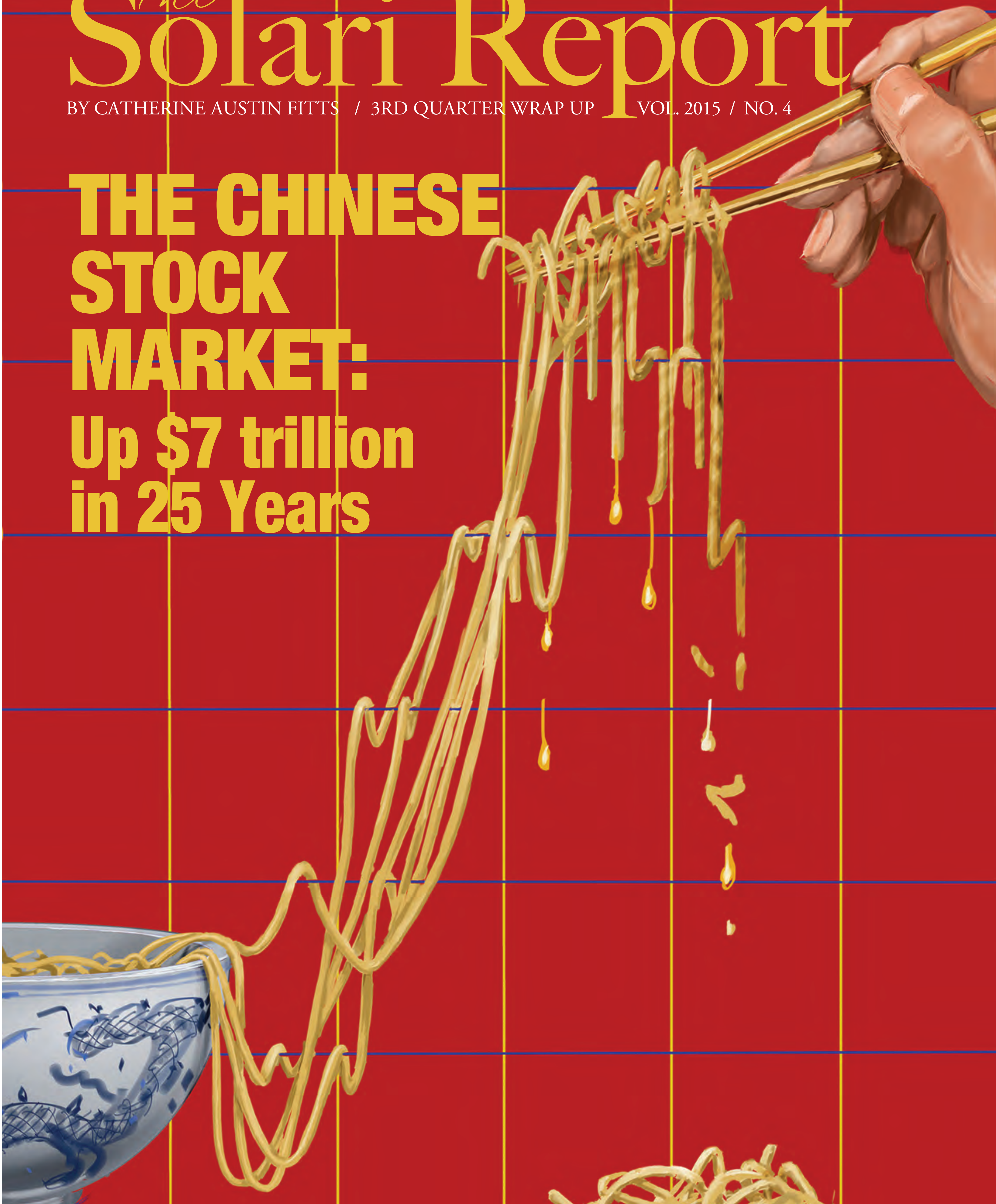
the Solari Report

BY CATHERINE AUSTIN FITTS / 3RD QUARTER WRAP UP VOL. 2015 / NO. 4

THE CHINESE STOCK MARKET:

Up $7 trillion in 25 Years



The Solari Report 3rd Quarter 2015 Wrap-Up:
The Chinese Stock Market *by Catherine Austin Fitts*

Published October 2015 by: Solari, Inc., P. O. Box 157, Hickory Valley, TN 38042 USA

Visit our website at: www.solari.com

Designed by Ben Lizardi / Lizardi Communications, Inc.

Printed in the United States of America

ISBN-13: 978-0-9854251-4-2

Table of Contents

PLEASE NOTE:
For addiional material available in the online version of this Wrap Up, visit: www.Solari.com.

The text in blue throughout this document indicates a hotlink that will take you to websites, pages, or videos, which will provide further information. Visit the Solari website and use the search function to locate the items.

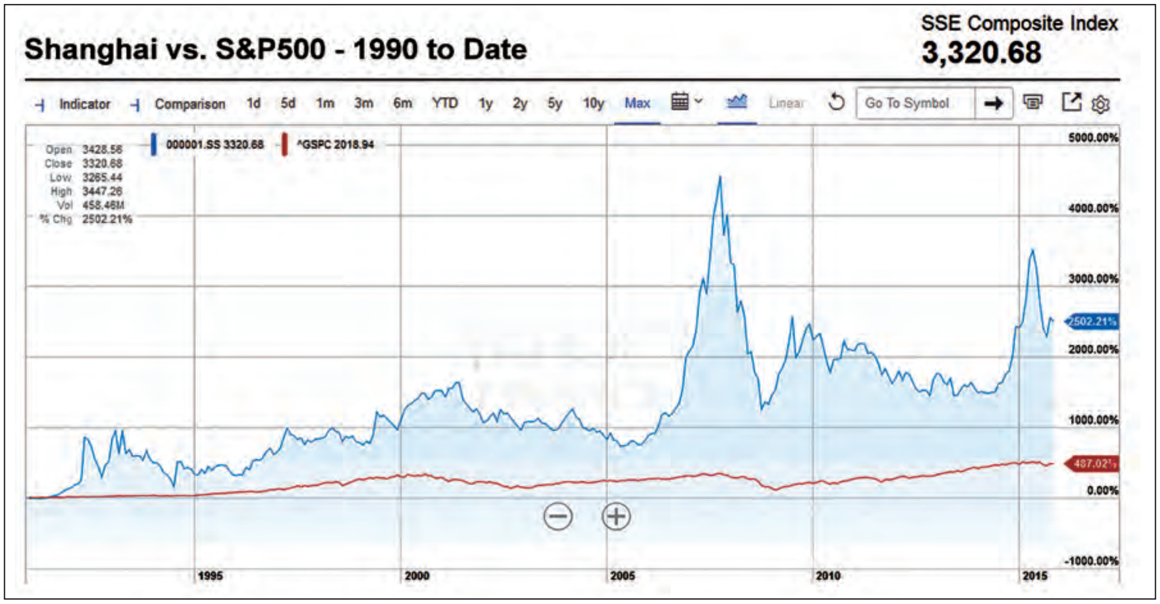
I. The Chinese Stock Market

"The opportunity to secure ourselves against defeat lies in our own hands, but the opportunity of defeating the enemy is provided by the enemy himself."

—SUN TZU

China restarted its equity markets in 1990 after a 40-year hiatus. Now, only 25 years later, the Chinese equity markets have a market capitalization of over $7 trillion. That is approximately 10% of the value of global equity markets. If you include Hong Kong's stock market, it is nearly 15%. Such growth is nothing short of astonishing.

Shanghai Versus S&P500 — 1990-to-Date



Shanghai Versus S&P500 — 2009-to-Date

Shanghai Versus S&P500, Apple, +20 Year Treasury ETF — 2009 To Date

The Chinese market in 2015 has been a rocky ride. As of June 12, 2015, the Shanghai Composite Index was up 60% for the year. Only two months later, on August 25, it had swung down from its high by 43%, closing down -9.5% YTD. To describe the volatility in the Chinese markets as breathtaking would be an understatement.

- **China's Stock Market Value Tops $10 Trillion for First Time**
- **Everything You Need to Know About China's Stock Markets**
- **Making Sense of China's Stock Market Mess**
- **China's Stock Market Collapse**

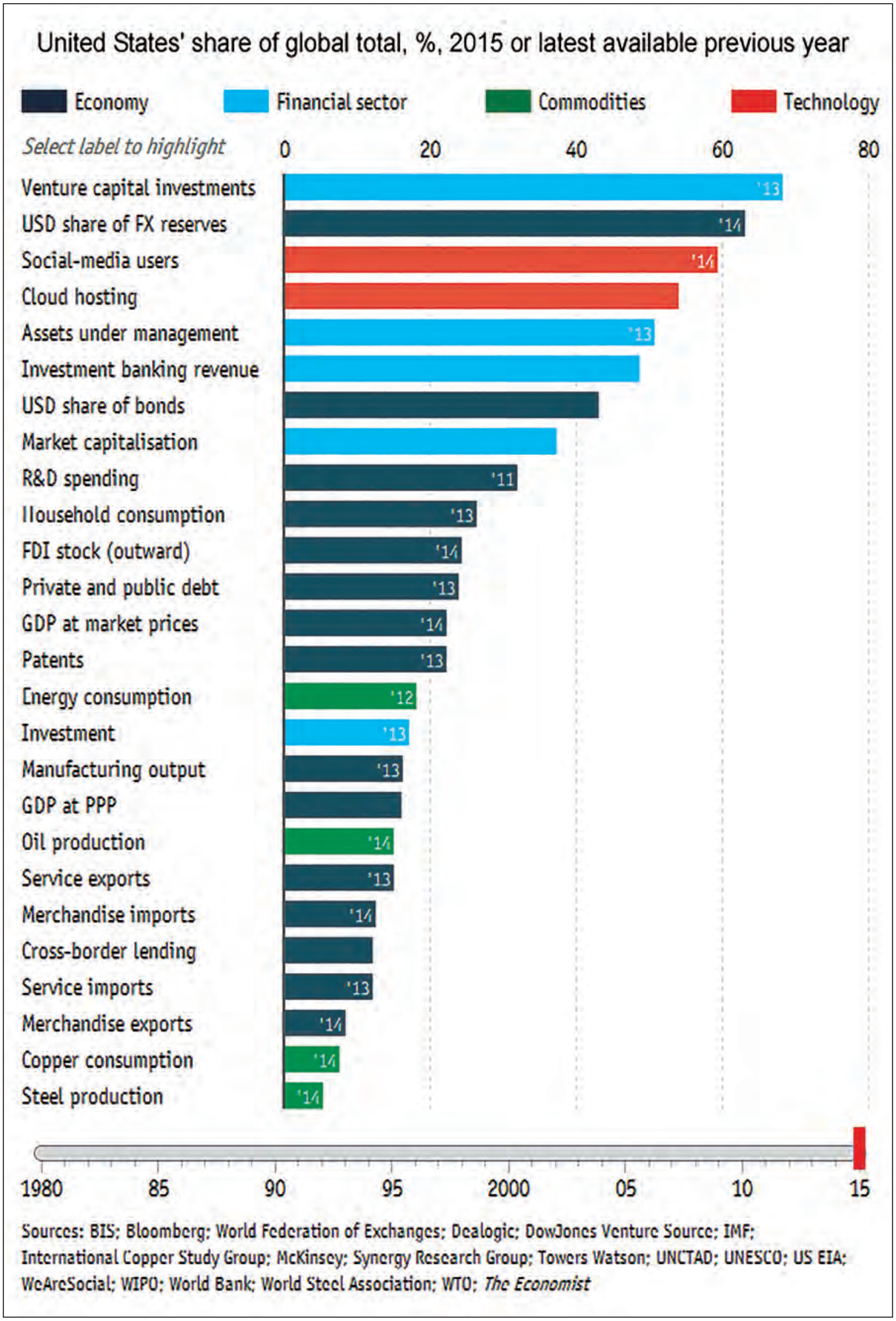
Why It's Important

In one sense, the Chinese stock market is the canary in a coal mine for our planetary financial system:

If we are to evolve the relationship between the United States and China, the economies of both countries must succeed. This will require a more than delicate balance between competition and cooperation. At the heart of the matter is the question put forward by Stratfor in ***China's Place in the Global Order:***

> *"What will China's role be in the international order five, 10 or 15 years from now? This is undoubtedly one of the defining questions in global affairs today, because whichever way we attempt an answer – whether we expect Chinese power to grow or to diminish, and how – will say a great deal about our expectations not only for China as a state and society but also for the future of* ***international political, economic and institutional systems.*** *A world in which Chinese power continues to expand and in which Chinese-led international institutions proliferate and take root would be very different from one in which China recedes from the geopolitical limelight or acquiesces to the norms of the existing order. For the foreseeable future, the People's Republic, for all its constraints, will remain one of the few states credibly challenging the political, economic and military supremacy of the United States, as well as the legitimacy of the U.S. designed-and-led international order. To question China's trajectory is therefore tantamount to asking whether and in what form the current order will persist."*

If we are going to shift out of a global financial model based on debt and towards a more balanced model using equity, we will need stronger global equity markets in both developed and emerging markets. Given its size and importance, China is going to be a part of that process. The Anglo-American alliance continues to dominate across the financial markets – in private equity, venture capital, asset management and in making primary and secondary equity markets.


United States' share of global total, %, 2015 or latest available previous year
Economy
Financial sector
Commodities
Technology
Select label to highlight
0
20
40
60
80
Venture capital investments '13
USD share of FX reserves '14
Social-media users '14
Cloud hosting
Assets under management '13
Investment banking revenue
USD share of bonds
Market capitalisation
R&D spending '11
Household consumption '13
FDI stock (outward) '14
Private and public debt '13
GDP at market prices '14
Patents '13
Energy consumption '12
Investment '13
Manufacturing output '13
GDP at PPP
Oil production '14
Service exports '13
Merchandise imports '14
Cross-border lending
Service imports '13
Merchandise exports '14
Copper consumption '14
Steel production '14
1980
85
90
95
2000
05
10
15
Sources: BIS; Bloomberg; World Federation of Exchanges; Dealogic; DowJones Venture Source; IMF; International Copper Study Group; McKinsey; Synergy Research Group; Towers Watson; UNCTAD; UNESCO; US EIA; WeAreSocial; WIPO; World Bank; World Steel Association; WTO; *The Economist*

Nevertheless, the financial bailouts and subsequent Treasury and central bank interventions have raised serious questions about the management and integrity of G-7 financial leadership and markets. Consequently, both West and East have reason to distrust the integrity of each other's markets.

Success in Chinese equity markets will mean:

- **A more open flow of onshore and offshore equity capital**
- **A more mature system of cross-listings of Chinese companies in offshore markets**
- **A larger, more stable Chinese institutional and retail investor base**

To date, the process of achieving these goals has been messy and organic. This is likely to continue.

For global investors, the primary question is whether the returns justify the volatility and risks in the Chinese markets. The sources of risk are numerous, ranging from cross-cultural challenges and regulatory complexity to economic warfare related to 1) the unraveling of the Bretton Woods system and 2) the emergence of a multi-polar global order.

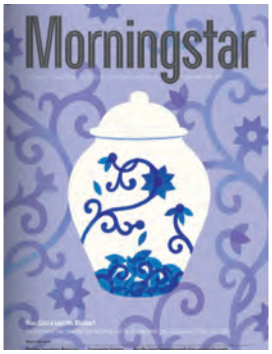
The reason I decided to take an in-depth look at the Chinese stock market for our *3rd Quarter Wrap Up* was to answer the question, "Do the Chinese equity markets present an opportunity or will geopolitical tensions consistently limit returns? Is the risk worth it?"

As an investor, what should I do?

It's Young and It's Big

The Chinese stock market is now the second largest stock market in the world. That means it is very big for a relatively young market. The total market capitalization of the Shanghai Exchange as of the end of September 2015 was $3.95 trillion; the Shenzhen Exchange's capitalization was $2.65 trillion. However, the float of domestic shares available for foreign investment is smaller: approximately $2-3 trillion, which is still smaller than the Japanese stock market.

While its stock market may be relatively young, China's culture and country is not. It is important to remember that China is 5,000 years old and that the United States is 240 years old. China's Mandarin name – the Middle Kingdom – implies that it is the center of the world. China's was the world's largest economy prior to the industrialization of the West. In a sense, the mantle of "largest economy" is simply returning East.



The Chinese market is complex, with two mainland exchanges, bifurcation of shares related to eligibility of purchase and a dazzling array of cross-listing possibilities between domestic exchanges and markets in Hong Kong, Singapore, and Taiwan (as well as exchanges and over-the-counter markets in the US and Europe). Adding to the complexity, Hong Kong remains a separate market under a different regulatory structure according to the **"one nation, two systems"** policy.

For an overview of the Chinese markets and a more detailed description of these issues, I recommend the latest series on **the Chinese markets in *Morningstar Magazine.***

Opening to Foreign Investment

China has taken significant steps in recent years to open domestic markets to foreign investment and to allow for a greater cross-border flow of capital. Over the last twenty years, the Chinese sent a great deal of capital abroad. Grossly oversimplified, China bought US Treasuries which financed government checks to US consumers who then went down to Wal-Mart and bought Chinese goods. China was able to invest in building its production capacity partly as a result of a high domestic savings rate. But, if China is now going to build domestic consumer markets, the Chinese people will have to save less and spend more. This means more foreign capital must flow into China.

One of the biggest issues in the Chinese markets during 2015 was whether the major emerging market index funds would include China "A" Shares as access to shares improved. One of the challenges was that inclusion would result in emerging market funds with as much as 40% of their investments in China. This would result in significant non-diversified country risk unless the funds added a single country cap.

Vanguard said "yes" to inclusion. MSCI said "no, not yet." Some of the run up in the Chinese markets this year was due to local retail speculation via margin debt. This was "front running" in anticipation of foreign funds making significant purchases if China were fully included in the emerging markets indices.

- **MSCI Decides Against China A-Shares In Huge Emerging Market Index**
- **Vanguard Adds China Shares As MSCI…**

The MSCI decision paralleled the IMF's decision to delay inclusion of the renminbi in the SDR system until September 2016. On one hand, the Western financial establishment was demanding greater maturity from the Chinese exchanges and currency managers. On the other hand, there were concerns regarding the long-term costs and consequences to the Anglo-American dominance of financial markets as China "joined the club."

PHOTO BY A.BOURGEOISP
WIKIPEDIA

More than a few suspicions were raised when the **Tianjin explosions** not only rocked the port of Tianjin but Chinese markets, as well. I suspect that the subsequent reverberation which rocked US markets was an unexpected lesson to all parties that markets value competition within **legal boundaries.**

Transforming from an Export Economy

The greatest challenge to global stock markets is fundamental economics. Ultimately, equity markets cannot outperform the fundamental economy in which companies operate and contribute. For decades, printing money has kept bond markets afloat in complete defiance of fundamental economics. However, valuations in equity markets relate more directly to underlying economies.

This is not to say that equity economics are not deeply intertwined with government economic flows. Indeed, they are:

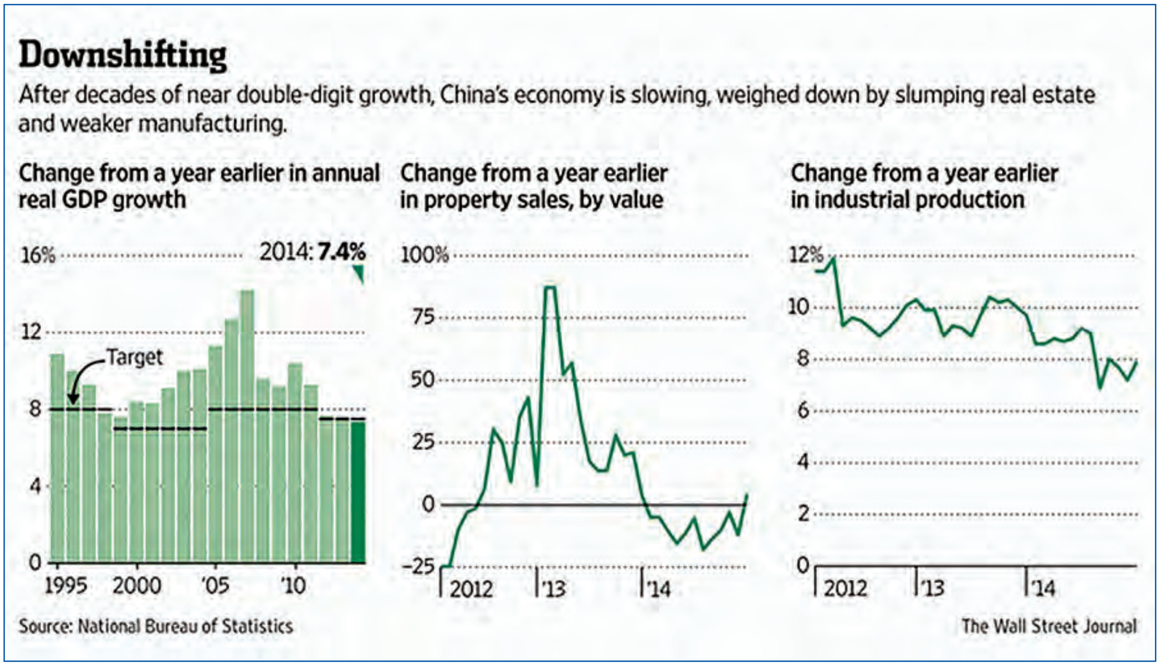
- Government revenues flow to companies in the form of contracts and purchases
- Government laws and regulations create private monopolies and markets
- Governments and central banks invest in and intervene in markets

Nevertheless, a shift to equity markets and away from our over-dependence on debt raises important questions about the health of domestic and global economies. Equity markets inspire us to price out the cost of bad behavior as well as the profits and risks of disaster capitalism and war.

Challenges To China's Economy

Developed nations enjoy per capita incomes in the range of $35,000-$67,000. China has a per capita income of less than $10,000. As technology and trade level the playing field in a global re-balancing, this leaves China with plenty of room to maintain growth rates above the other G-7 nations.

Let's look at some of the challenges facing China's fundamental economy:



Employment

China's emergence on the global stage was the result of US and European outsourcing of manufacturing. As automation advances with a wide range of technologies—robotics, telecommunications, fabrication and material sciences—more manufacturing can revert to developed and local markets. To remain competitive, Chinese companies will have to automate as well. How will a country the size of China provide sufficient employment opportunities? Unemployment and inequality between the coastal cities and inland, rural areas may present formidable political challenges and risks for China's leadership.

Aging Population

China has an aging population which does not depend on a governmental social safety net. One of the challenges to building consumer markets is that the Chinese have a high saving rate to provide for their old age. Alternatively, building a social safety net is an expensive proposition.

Environmental Pollution

By outsourcing low-cost manufacturing to China over the last twenty years, the United States and Europe have succeeded in outsourcing a significant amount of environmental pollution to China. Now China has a serious problem which may have devastating consequences for the health of the Chinese people unless it is successfully addressed.

Infrastructure

China has created significant engineering and construction expertise in the process of developing its domestic infrastructure. Its recent proposal to finance and build infrastructure throughout Asia and the emerging markets is a logical step to continued economic growth. However, as events in 2015 made clear, the effort to build up other BRICS economies can ruffle more than a few political feathers. The US response to China's proposed Asian Infrastructure Investment Bank was quite negative and resulted in 1) redoubled efforts to push through the TransPacific Partnership and 2) a phased withdrawal of forces from the Middle East as the US military pivots to Asia.

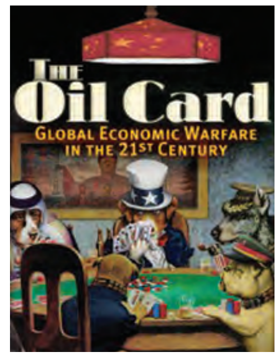
Military & Space

Whether building out its satellite infrastructure, launching its first aircraft carrier or announcing an expedition to the dark side of the moon, China has clearly indicated that it is prepared to expand its projection of force to protect its financial interests. This will include evolving its currency into a globally competitive option for both trade and asset management. While investments in military and space can create significant domestic economic activity and employment, they run the risk of increasing geopolitical tensions with the G-7 and with China's neighbors. This raises an important question: with production capacity breaking free on planet earth, is it possible to have a politically and economically productive space race?

State Owned Enterprises

One of the frequently mentioned problems with Chinese equity markets is the prevalence of state owned enterprises (SOEs). In my opinion, this is a comparison with the G-7 markets which has not been thoroughly analyzed or understood as yet.

When the profits of a US company depend on government contracts and/or purchases, we refer to such a company as being *privately owned and operated.* However, this is not really the case. Often times, government (or a shadow government) considers the company to be a "proprietary" and expects it to function on behalf of long-term strategic interests...as opposed to optimizing profits.



Indeed, as we have seen in the case of the banks, when these companies encounter financial trouble affecting national interests, they are bailed out. The US oil industry has managed oil prices very much in accordance with long-term national strategic interests, versus in a manner which would optimize profits (read or listen to our **interviews with Jim Norman on *The Oil Card***). Numerous industries such as mortgage credit and financing are highly "socialized" via federal credit in both the banking and mortgage systems.

The collusion of US legal, regulatory and tax policy with corporate interests is as significant as it is in China. However, it is much more subtle and invisible.

If anything, the danger in China is that political interests will have the upper hand. The danger in the United States is that the economy will be destroyed in the interest of consolidating cash flows into corporate monopolies created via massive political contributions. The reality is that both markets – China and America – are struggling with "intimacy" between centralized government and large corporations which, in turn, breeds corruption and detracts from healthy long-term performance.

In part, the real question for investors is how do we stay away from centralized powers and continue to build financial wealth?

There is a need for a serious analysis and comparison of the real relationships between corporations and the state in China, the United States and the G-7 nations. We must examine what this will imply for best practices in these countries as it relates to the interests of corporate governance, shareholders and taxpayers.

The presence of significant dependencies of large corporations on government financial, legal and regulatory largesse throughout the global economy needs to be taken into account when underwriting companies and comparing price-to-earnings ratios. Currently, this is no easy task – particularly given the size of the hidden system of finance and the *black budget* in the United States. Increased investment in space by both the G-7 and BRICS nations will only exacerbate this situation.

This area calls out for serious academic inquiry – the kind a joint British-Chinese effort might be inspired to undertake.

Investor Base

One of the reasons why the Chinese stock market is so volatile is that it is dependent on a relatively small base of retail investors. The majority of Chinese people are not stock market investors. Chinese personal savings continue to be channeled to property, gold and bank deposits. If the Chinese stock market is to succeed, it must develop a broader base of retail and institutional investors.

This brings us back to a point we made in this year's **Annual Wrap Up: Planet Equity** (and in a number of *Equity Overviews*): will the emerging middle class in the G-20 nations become equity market investors or will the growth of these markets continue to depend on the purchases of government institutions and central banks? Whether or not global retail participation emerges will have important consequences for the direction of the global economy and political order.

This means that it is in **our** interest that the Chinese people broaden their interest and ownership of global equities.

So...What is an Investor to Do?

After much research and soul searching, this is where I stand on the Chinese stock market:

1. The Chinese people, their economy and stock market are too important to ignore or to avoid. I am an investor.
2. I anticipate **significant volatility** in China's markets for some time to come. Consequently, I am planning to cap my portfolio participation at a percentage which is no greater than China's relative contribution to global GNP. I am interested in investing in stocks or funds which I am prepared to hold through significant downturns. Among other things, this means that the quality of governance is essential and that **dividends matter.**
3. For a portion of my "China" investment, I prefer to invest in **derivative investments:** high-quality companies in more mature markets related to China such as Singapore, Hong Kong and Australia, or in G-7 companies which have a significant brand presence in China.
4. The potential impact of overweighting the Chinese market in emerging market ETFs or index funds is a concern, particularly as China continues to grow. I am reminded of the importance of tracking the **terms of inclusion or exclusion** of China in any Asian or emerging market basket.
5. Economic warfare and geopolitical tensions between China, some of its neighbors and the US are likely to lower investment returns and to increase volatility for the foreseeable future. Unfortunately, this means that the ideal time to buy will be when **"blood is in the water."**
6. Given the size, complexity and politics of this market, I will continue to look for **active fund managers who specialize** and who have historically outperformed the broad index funds.
7. I will continue to track the emergence of a **global middle class** and its meaning to the markets.

This process of re-balancing the global economy means that you and I live in unique and interesting times. As always, I wish you good luck and good hunting!

Resources:

The Shanghai Stock Exchange

- Official Website: Shanghai Stock Exchange
- Wikipedia: Shanghai Stock Exchange
- Wikipedia: SSE Composite Index

The Shenzhen Stock Exchange

- Official Website: Shenzhen Stock Exchange
- Wikipedia: Shenzhen Stock Exchange
- Wikipedia: SZSE Component Index
- SME (Small & Medium Size Enterprise) Board

The Hong Kong Stock Exchange

- Official Website: Hong Kong Stock Exchange
- Wikipedia: Hong Kong Stock Exchange
- Wikipedia: Hang Seng Index
- Wikipedia: Growth Enterprise Market (GEM)
- Wikipedia: Shanghai-Hong Kong Stock Connect

China also maintains a special exchange for **State Owned Enterprise:**

- Wikipedia: China Beijing Equity Exchange

Chinese Stock Market Regulators

- Wikipedia: Communist Party of China
- Wikipedia: China Securities Regulatory Commission
- Wikipedia: Financial Regulation

Global Stock Exchange Statistics

- Wikipedia: Top 20 Stock Exchanges
- Monthly Reports from World Federation of Exchanges

Major Chinese Stock Market Corrections

- Wikipedia: 2007
- Wikipedia: 2015

Important Terminology

- **Wikipedia: A-Shares**
- **Wikipedia: B-Shares**
- **Wikipedia: CSI 300 Index**
- **Wikipedia: IPO (Initial public offering)**

Chinese Credit Rating Agencies

- **China Rating Companies Say Honesty Doesn't Pay**
- **Wikipedia: Dagong Global Credit Rating**
- **Wikipedia: China Chengxin Credit Rating Group**

Other

- **Wikipedia: Commodity Trading in China**
- ***"How They Fell: the Collapse of Chinese Cross Border Listings"* McKinsey Global Institute December 2013**

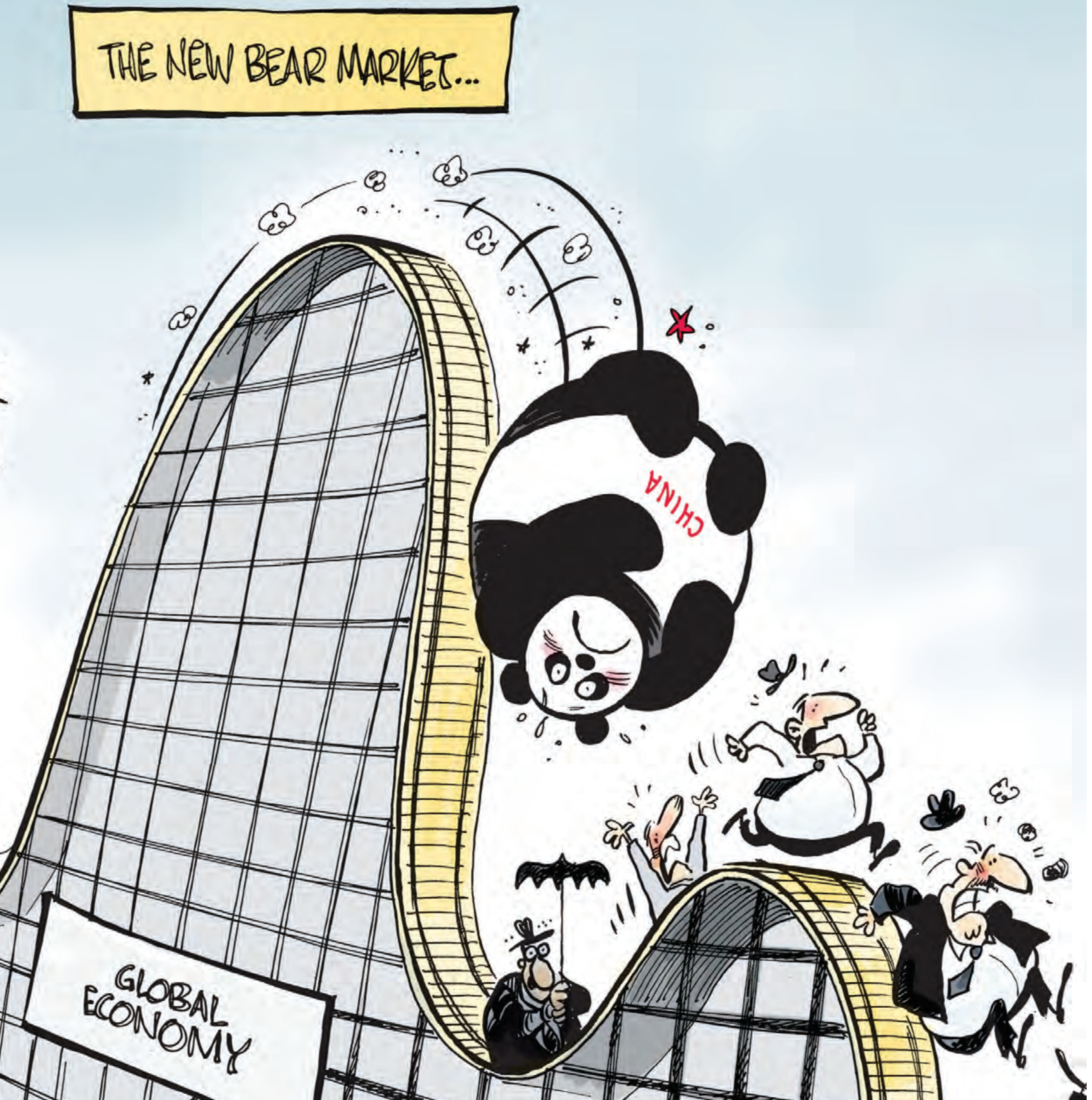
References

- ***The Chinese Stock Market: Volume I: A Retrospect and Analysis from 2002,*** edited by Siwei Cheng and Ziran Li, Palgrave Macmillan, 2014
- ***The Chinese Stock Market: Volume II: Evaluation and Prospects,*** edited by Siwei Cheng and Ziran Li, Palgrave Macmillan, 2014
- ***China's Stockmarket: A Guide to its Progress, Players and Prospects (The Economist Series),*** Stephen Green, 2003
- ***Chinese Companies and the Hong Kong Stock Market (Rutledge Growth and Economic Development Series),*** Flora Xiao Huang and Horace Young, 2014

II. 3rd Quarter 2015 Stories & Trends

What an intense year! And the 3rd quarter of 2015 was no exception.

Clearly, policy makers were expecting a stronger economy. We spent Q3 listening to back-pedaling on growth projections while the Fed continued to back-pedal on raising interest rates. We ended Q3 with the Wall Street ducks quacking for more QE.



China: A Bigger Footprint

Try watching the *Solari Report* video below: *Stephen Roach – Seeking US-China Balance.* There is no greater challenge facing the global economy than the rebalancing of the US-China relationship. For many years, China's growth was based on providing low-cost manufactured goods to Europe and the United States. After 2007 and the recession in the developed countries, China's growth continued with significant increases in debt that fueled a housing and real estate bubble and investment in infrastructure. The effort to build domestic consumer markets has produced mixed results. Efforts to 1) market infrastructure and development efforts to the emerging markets and 2) to organize the Asian Infrastructure Investment Bank have been greeted by U.S. fears regarding changes in the global order. Does the West want China to grow or not? There were times during the 3rd quarter where it looked like the answer was "NOT."

- **Yuan Reforms did Little for China IMF Push**
- **5 Ways China's Devaluation Could Shake Up the Markets**
- **The Asian Infrastructure Investment Bank**
- **China Space Program Targets Dark Side of Moon**
- **China Stock Market Rescue Surges to $236 Billion**
- **Aftershock of the Tianjin Port Explosion Is Altering Asian Shipments and Having Global Effects**

Solari Report Resources

- **Special Report: Stephen Roach – Seeking US-China Balance**
- **The Tianjin Crater**
- **China's Expanding Military Role**

The Limits of US Power

As we discussed in our 2014 Annual Wrap Up, the Bretton Woods system is clearly unraveling. The US is overextended. Throughout 2015, U.S. military commitments were clearly more expensive than the U.S. federal budget could afford. During Q3, US diplomatic and military efforts reduced commitments in the Middle East and tried to plug diplomatic holes around the world. As the limits of US power become clear, the rejection of US initiatives such as GMOs were apparent. The US was able to push through a preliminary agreement on the Trans-Pacific Partnership. However, it was clear that this was a defensive response to the increased presence of China and a rising Asia on the global stage.

- **Europe Rejects GMO Crops**
- **Gulf States Plan Military Response as Putin Raises the Stakes in Syria**

Solari Report Resources

- **Trans Pacific Partnership Agreement**
- **The Iran Deal**
- **The Modern Mercenary**
- **Guinea Pigs: Technologies of Control**

Deflation

The drop in commodities prices has continued beyond what was expected, surprising many insiders. Combined with a correction in the equities markets and concerns about credit quality and interest rates in the bond market, fears of deflation continued to grow.

- **Commodity Carnage Contagion Crushes Stocks & Bond Yields**
- **"Far Worse Than 1986:" The Oil Downturn Has No Parallel In Recorded History, Morgan Stanley Says**
- **Oil Prices Fall as Iran Nuclear Deal Seems Likely**
- **GoldMoney Stock Down on Continued Losses**

The G-20 Pushes for Growth

For the BRICS nations, the way to keep economic growth going was to work together and to secure financing outside G-7 controlled institutions. There was a lot of noise and several moves to enhance economic independence – and the tensions between the G-7 and G-20 grew.

- **The Moscow-Beijing Express: From May 9th in Moscow to September 3rd in Beijing, the Anti-West Order Comes Full Circle**
- **It's Official: BRICS Bloc Examining SWIFT Alternative**
- **Russia to Issue 30MN National Payment Cards in 2016**
- **BRICS Bank to Consider New Infrastructure Projects by 2016**
- **BRICS Bank, AIIB Pledge Partnership, Loans To Be Issued In Yuan**
- **BRICS Bank Opens for Operations in Shanghai**

The End of the Bond Bull

After Greece and Puerto Rico "rang the bell" in the first half of 2015, we spent Q3 with market makers and investors trying to figure out exactly how the turn in the bond market was going to work. When the Fed declined to raise interest rates in September, the message was clear. The world is struggling to carry an untenable amount of debt and "kicking the can" appears to look like the best option.

- **Surge in Junk Bond Defaults Imminent**
- **High-yield Bond ETF Slumps to 4-Year Lows: Video**
- **Yellen Announces Possible Decrease In Liquidity; Suffers Bout of Dehydration**
- **Fed Reporter Pedro Da Costa Is Leaving The Wall Street Journal After Asking Yellen "Uncomfortable" Questions**

Solari Report Resources

- **Planet Debt – 1st Quarter Wrap Up**
- **Greece and Puerto Rico Ring the Bell**

Refugee Mass Migration

One way to manage an aging population and a furious middle class is to overwhelm them with immigrants. Now Europe has their hands full.

- **The Refugee Migration**

Leadership: Tag, You're It

There is nothing more painful than a struggle with corrupt leadership. From overwhelming immigration in the US and Europe, to intense campaigning of the US Presidential candidates more than a year before the 2016 election, to the hypocrisy of a Pope flying around in private planes lecturing us about our carbon footprint while settling more pedophilia litigation and fielding a PR team the size of Dallas – struggling with corrupt leadership was arguably our foremost concern. Not to mention our foremost disgust.

- **Jimmy Carter: The U.S. Is an "Oligarchy With Unlimited Political Bribery"**
- **America's Top Fears 2015**
- **Trump: Common Core is a Disaster**
- **The PR Pope was Picked to Save the Vatican Not the World**

Solari Report Resources

- **Comment on Pope's Encyclical: Care for Our Common Home**

- World Leaders Gather
- What's Up This Fall 2015?
- Shadow Work: Your Stolen Time
- Health Freedom: Trump on Autism
- Guns and Violence in America
- Infrastructure: Conquest or Creation – 2nd Quarter Wrap Up

The Push for Vaccines and The Mysterious Deaths of The Natural Doctors

The new policy wars are fought with junk science. The way to make junk science effective is to kill all the scientists and experts who are willing to prove that it is junk. The number of sudden, violent deaths among holistic doctors was proof positive of the extraordinary, desperate push against health freedom in the United States. It will not succeed. Please take a moment to honor the people who have lost or risked their lives in the service of mankind. Their courage in Q3 was a continuous source of inspiration.

- Holistic Doctor Mitchell Gaynor Found Dead
- Holistic Doctor Found Murdered; What is Going On?
- Dr. Nicholas Gonzalez Dies Unexpectedly
- Anti-Vaccine Doctor Found Dead
- CDC Destroyed Vaccine Docs
- CDC Scientist Scheduled Meeting to Destroy Vaccine Autism Study
- GOA Responds to the President on the Oregon Shooting – Top Ten Misstatements Made by Obama

Equity Markets Correct

The only sector that performed well was U.S. consumers. Is that because consumers are being *forced* to spend on higher food prices and higher medical costs?

- U.S. Consumer Spending Rises
- U.S. Consumers Take on More Debt, Signaling Confidence in the Economy

Solari Report Resources

- Global Equity Markets

Blue Chip Volatility

The stocks of blue chip companies such as Volkswagen are taking big dives. This is creating uncertainty regarding risk management...and helping index fund marketing.

- Volkswagen Scandal May Cost Up To $87 Billion
- Clouds Darken for America's Blue-Chip Stocks
- P&G to Shed More Than Half Its Brands

Solari Report Resources

- The Shift from Global 2.0 to Global 3.0

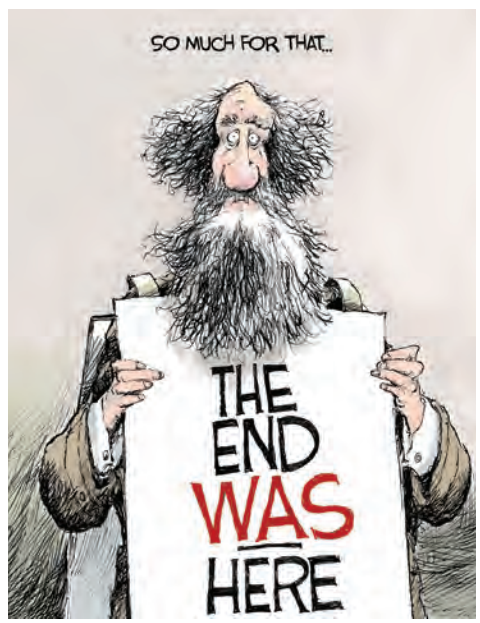
Fear Porn Hits New Highs

Numerous attention-grabbing predictions of catastrophic market meltdowns did not come true – again. See our efforts to bring folks back to the ground:

Solari Report Resources

- What's Up this Fall 2015

The great truth is that life marches on. If you did not ignore the fear porn in Q3, you have a new time-saving opportunity – to ignore it in Q4!

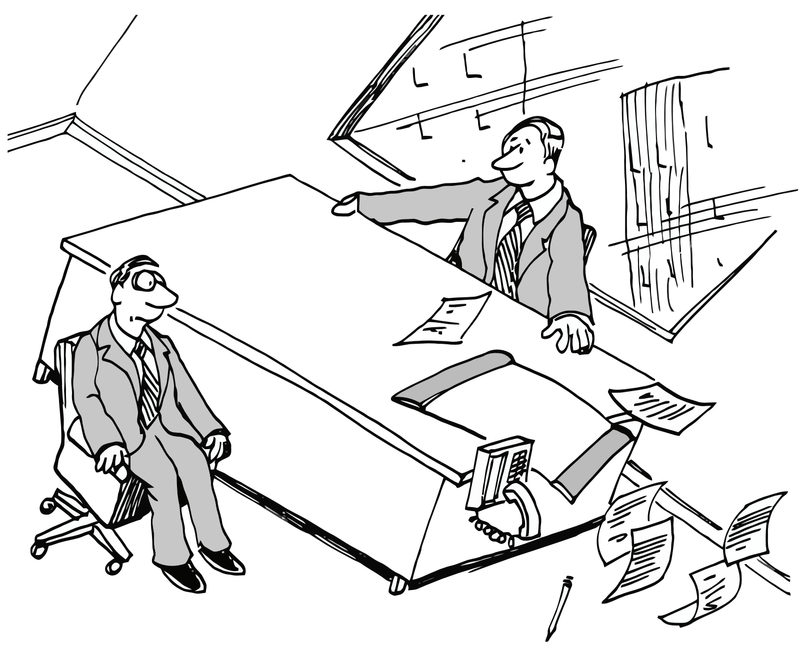


III. 3rd Quarter 2015 Financial Markets

Overview

Well, now I can stop saying, "The US stock market is long overdue for a 10-25% correction." In August, the S&P was down 14% from its Q2 and Q3 highs and closed Q3 down 11%. However, an overview of the charts showed that just about everything was down across the equity, fixed income and commodities markets. Cash was the Q3 king.

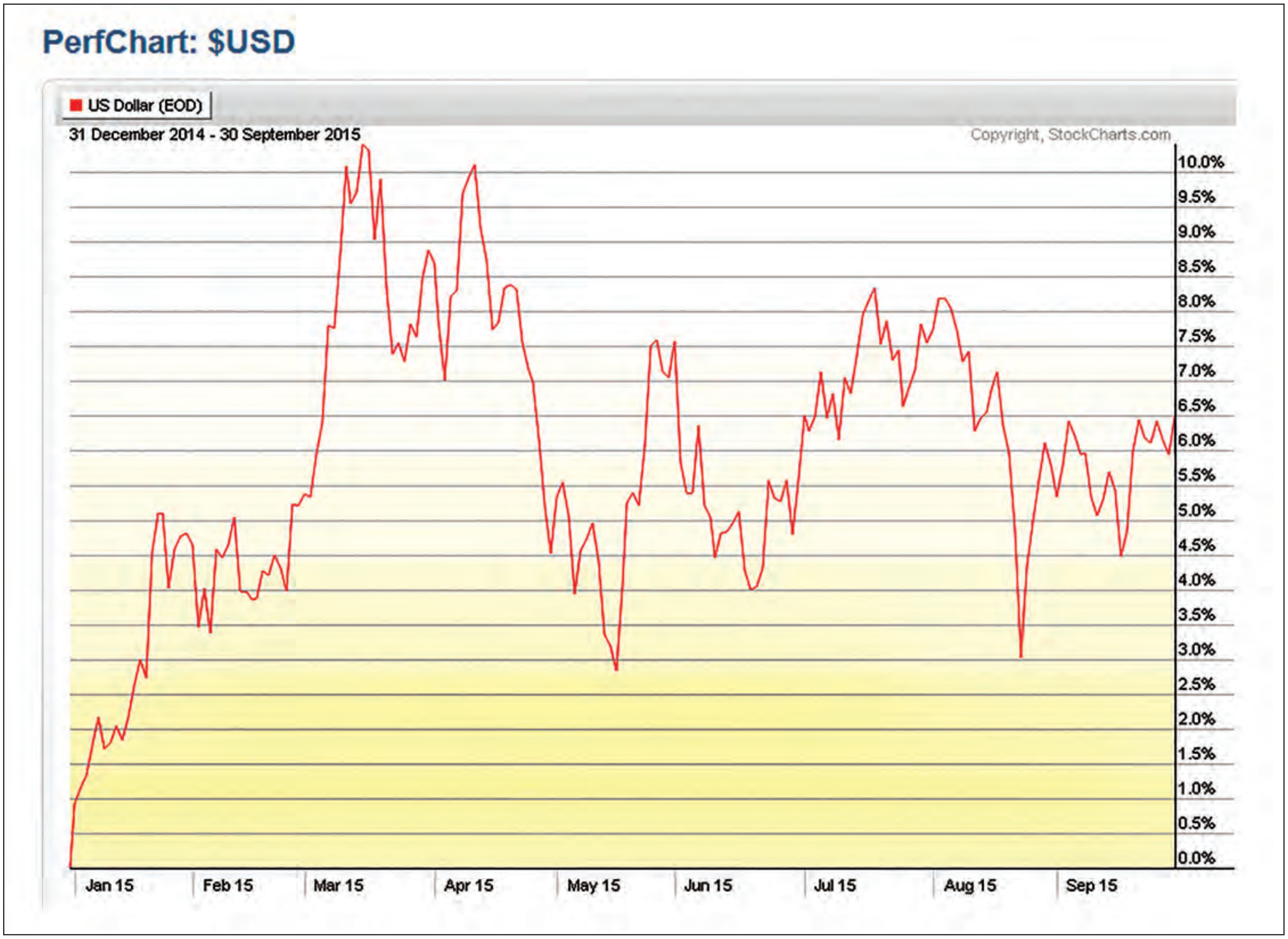
Index	12/31/14	06/30/15	09/30/15	% Q3 Change	% YTD Change
S&P 500	2,058.90	2,063.11	1,920.03	-6.94%	-6.74%
DJIA	17,823.07	17,619.51	16,284.70	-7.58%	-8.63%
Russell 2000 (IWM)	118.41	123.96	109.22	-11.89%	-7.76%
MSCI EAFE (EFA)	59.83	63.49	57.32	-9.72%	-4.20%
MSCI Emerg. Mkts (EEM)	39.00	39.62	32.78	-17.26%	-15.95%
Barclays Agg Bond (AGG)	108.50	108.13	109.58	1.34%	1.00%
DAX (^GDAXI)	9,805.55	10,944.97	9,660.44	-11.74%	-1.48%
iShares China Large-Cap (FXI)	41.41	46.10	35.46	-23.08%	-14.37%
PowerShares India ETF (PIN)	20.87	21.58	19.83	-8.11%	-4.98%
Gold (oz.)	1,206.00	1,171.00	1,114.00	-4.87%	-7.63%
iShares 20+ Year Treasury Bond (TLT)	123.82	116.76	123.54	5.81%	-0.23%
US Dollar Index	90.28	95.53	96.26	0.76%	6.62%
Commodities-Reuters/Jeffries CRB Index ($CRB)	229.96	227.17	193.76	-14.71%	-15.74%
Baltic Dry Index	782.00	800.00	900.00	12.50%	15.09%
iShares 7-10 Year Treasury Bond (IEF)	104.66	104.52	107.87	3.21%	3.07%



"Hold on, the market is shifting again."

US Dollar Index

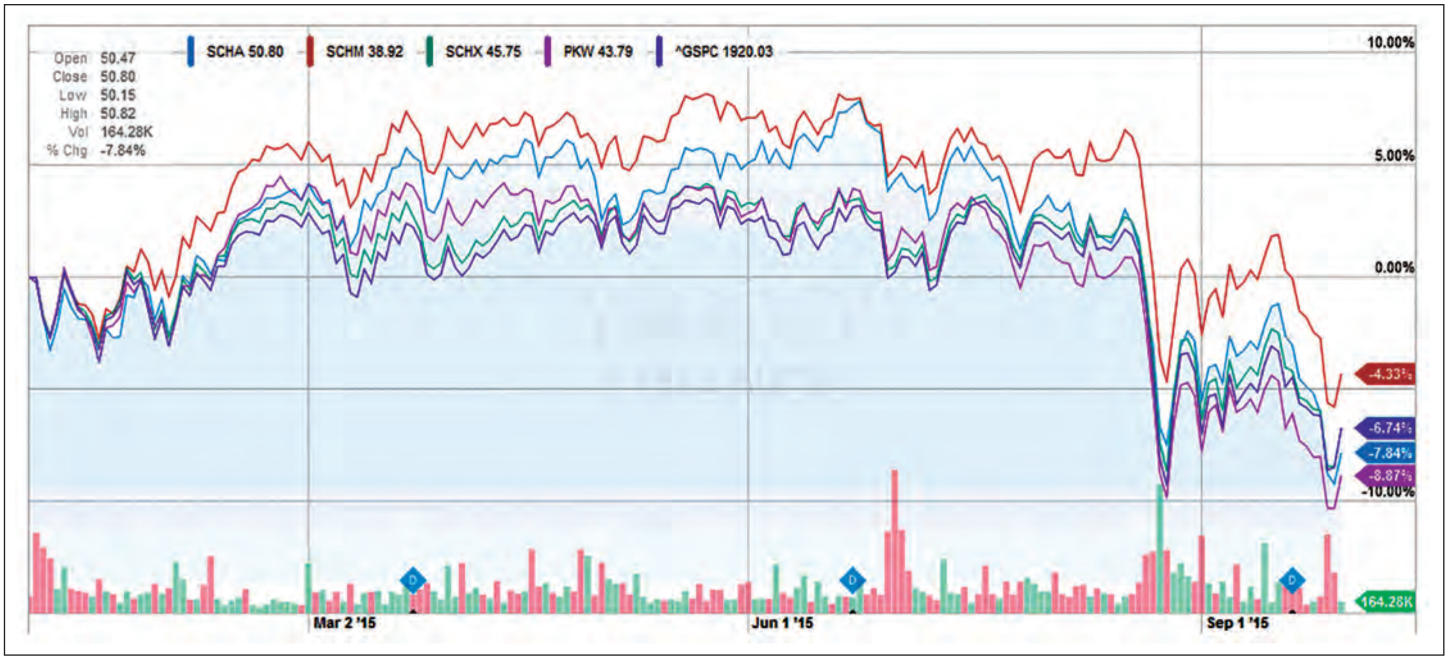
The US dollar index has been down and sideways since peaking in the spring. It closed Q3 up 6.6% - combined with last year's increase of 12% the result is nine straight months of a strong dollar.



Equities

The S&P closed Q3 down -6.7%. There was not a lot of divergence between small, medium and large caps stocks – they were all correcting together.

SCHA (US Small Caps), SCHM (US Mid Caps), SCHX (US Large Caps), PKW (Buybacks)



Q3 & YTD US Equities Sector Performance

The one positive sector in the S&P was consumer discretionary, up 4.1% for the year. Consumer staples was the next best performing sector at -1.0%.

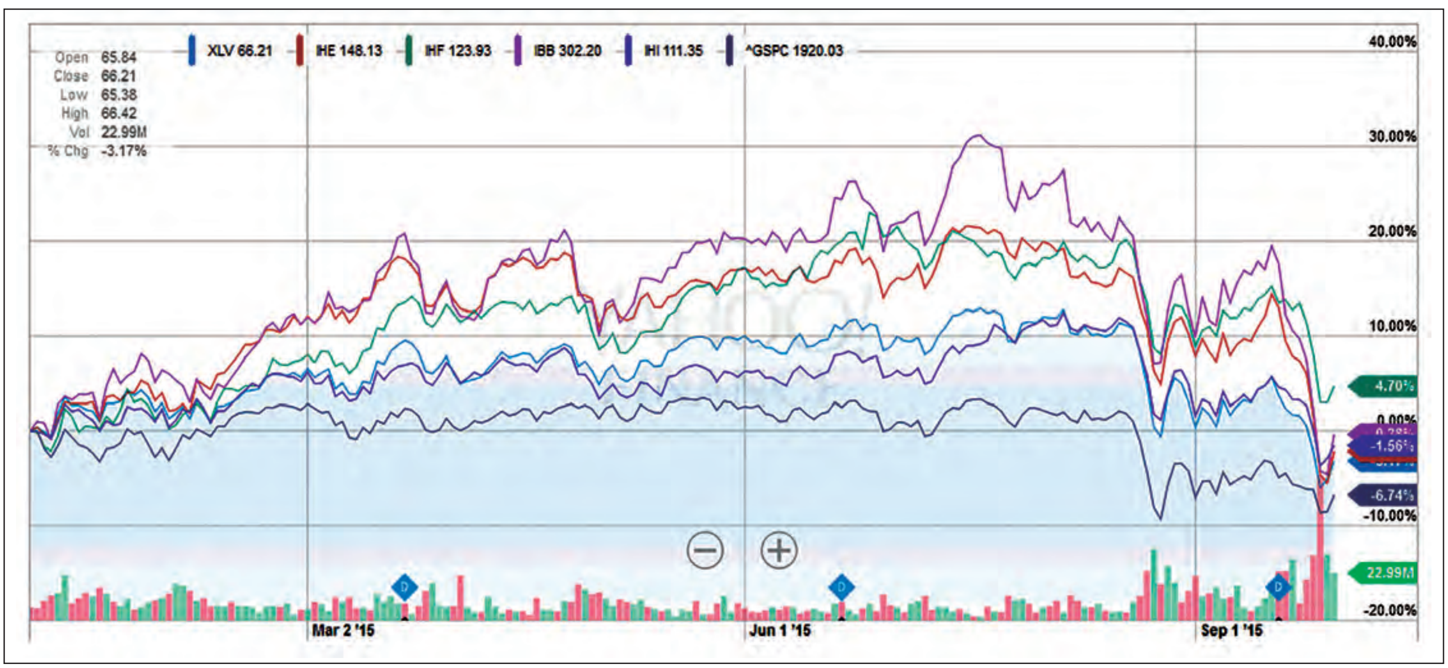
	S&P 500		S&P 500 Equal Weight		S&P 500 Midcap 400		S&P 500 Smallcap 600	
	Q3	YTD	Q3	YTD	Q3	YTD	Q3	YTD
Consumer Discretionary	-2.56%	4.08%	-6.20%	-3.36%	-7.17%	-2.53%	-12.25%	-8.99%
Consumer Staples	-0.20%	-0.97%	0.94%	3.49%	-5.74%	-2.70%	-3.50%	-2.71%
Energy	-17.41%	-21.28%	-22.62%	-25.54%	-24.25%	-26.26%	-39.09%	-42.37%
Financials	-6.72%	-7.06%	-5.52%	-6.03%	-3.52%	0.44%	-3.78%	-1.19%
Health Care	-10.67%	-2.13%	-11.70%	-0.73%	-10.70%	4.02%	-8.70%	-6.12%
Industrials	-6.90%	-9.75%	-8.49%	-11.09%	-10.23%	-7.16%	-11.87%	-10.54%
Materials	-16.90%	-16.48%	-15.76%	-13.20%	-15.48%	-17.26%	-20.38%	-22.98%
Technology	-3.70%	-2.97%	-5.25%	-5.11%	-10.65%	-4.34%	-7.23%	-8.69%
Telecom	-6.85%	-3.91%	-8.76%	-14.23%	-14.65%	-14.74%	-9.73%	-8.77%
Utilities	5.40%	-5.85%	6.27%	-4.79%	2.26%	-9.54%	9.77%	4.10%

IBB – Biotech

The biotech stocks took quite a nosedive in Q3.

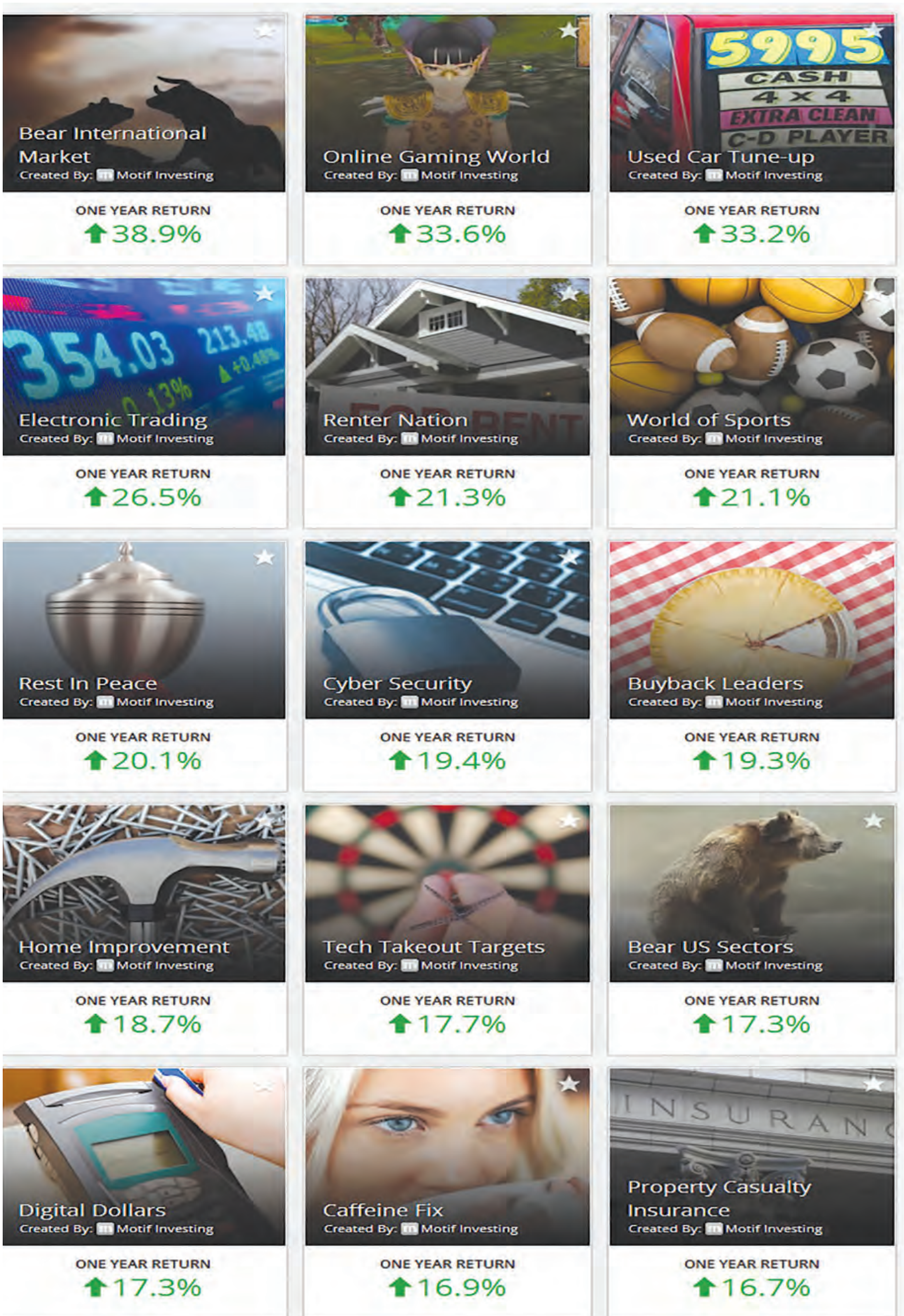
Obamacare ETFs: XLV(Health Care Select), IHE (US Pharmaceuticals), IHF (Providers), IBB (Biotech), IHI (Medical Devices)

The broader health care stocks, which have been leading the S&P, closed Q3 at -2.13 YTD.



Motif Investing

Once again, a review of Motif Investing's website proves that even when it feels like everything is down, there is a bull market somewhere. However, it does make things look a tad gruesome: Bear traders, funeral homes, cyber security and (presumably to help us cope with falling markets, death and being hacked) coffee!



ITB (US Home Construction)

US Homebuilders continue to outperform the market – which is not surprising given the fact that 2016 is a US Presidential election year. Freddie Mac 3% down 3% interest mortgages anyone?

IYR (US Real Estate)

Real estate, however, struggled with the market's concern about rising interest rates.

OIL (Crude Oil)

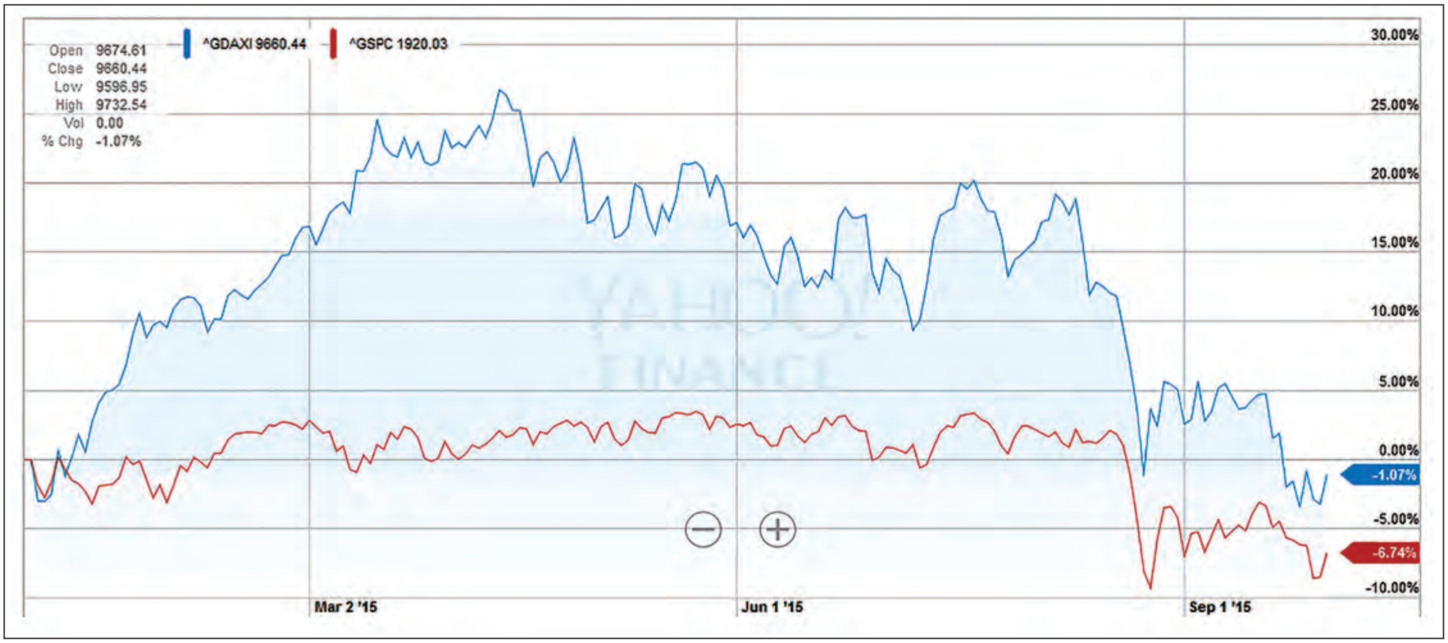
Oil never regained its losses of 2014 and the first half of 2015, not even close. Oil closed Q3 down -32.8% for the year as producers kept pumping to cover overhead and debt service. The junk bond market started to worry about how low oil prices would translate into debt defaults.

RSX (Russia), OIL (Crude Oil)

The Russian ETF closed Q3 up 7.3%, a strong performance given the impact of oil prices on Russian revenues and G-7 economic sanctions.

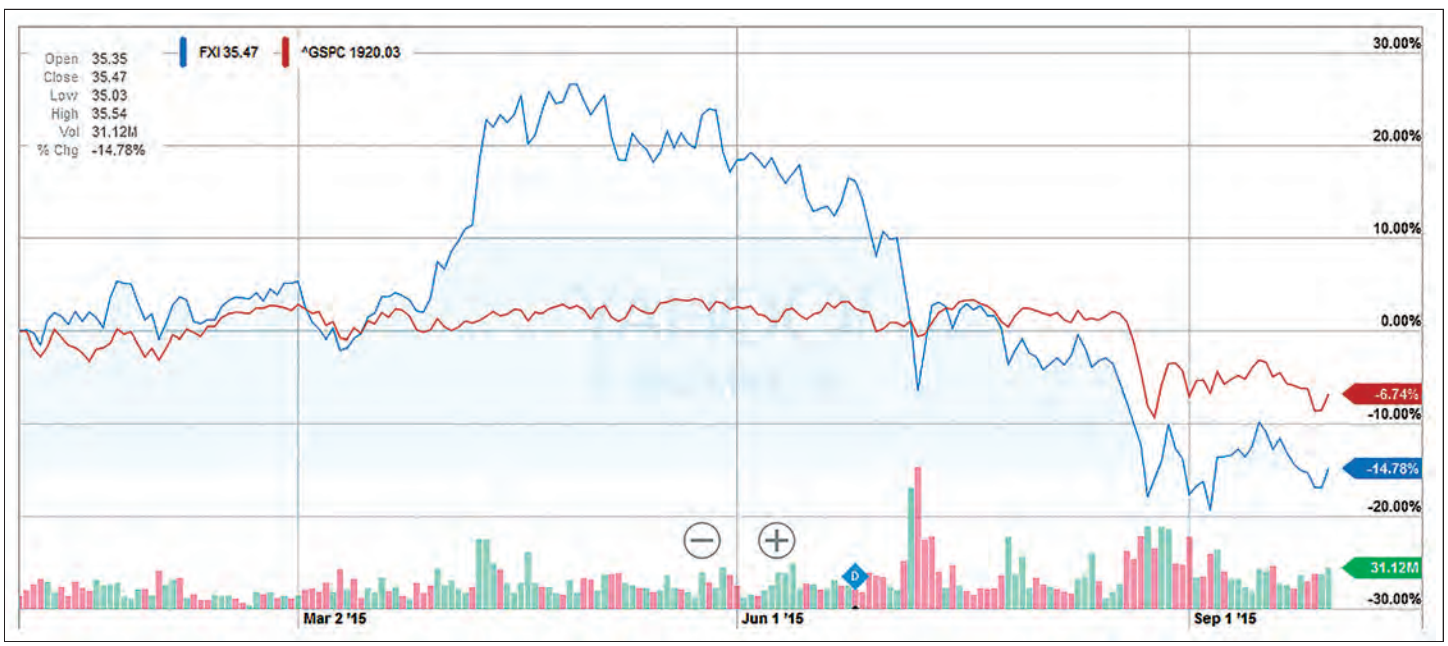
DAX (Germany)

The German DAX closed Q3 down, which was quite a swan dive after having been up over 26% earlier in the year.



FXI (China Large Caps)

The deepest swan dive was, of course, China with the large cap China ETF closing Q3 down -33% from its 2015 high.



PIN (India)

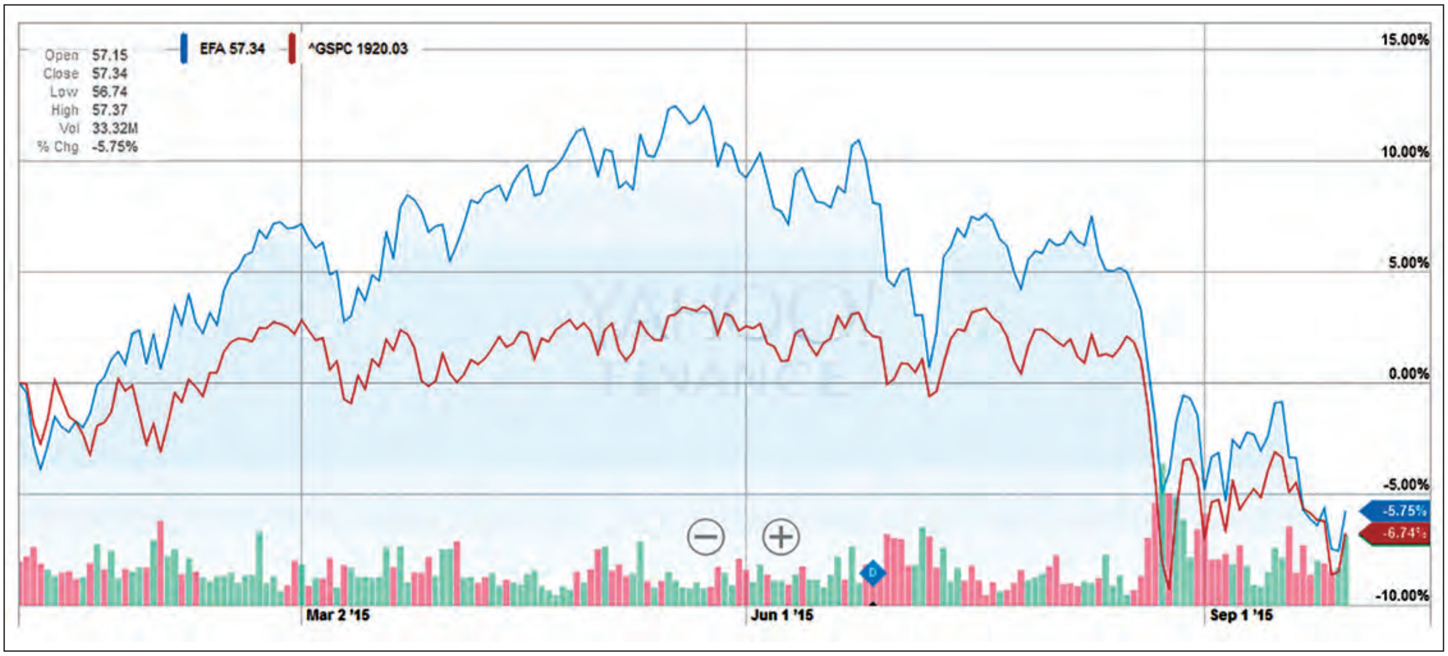
India closed Q3 down -5.6%.

EEM (Emerging Markets)

The greatest concerns were for the emerging markets. What would happen if the Fed raised interest rates? The emerging market ETF closed Q3 down -17%.

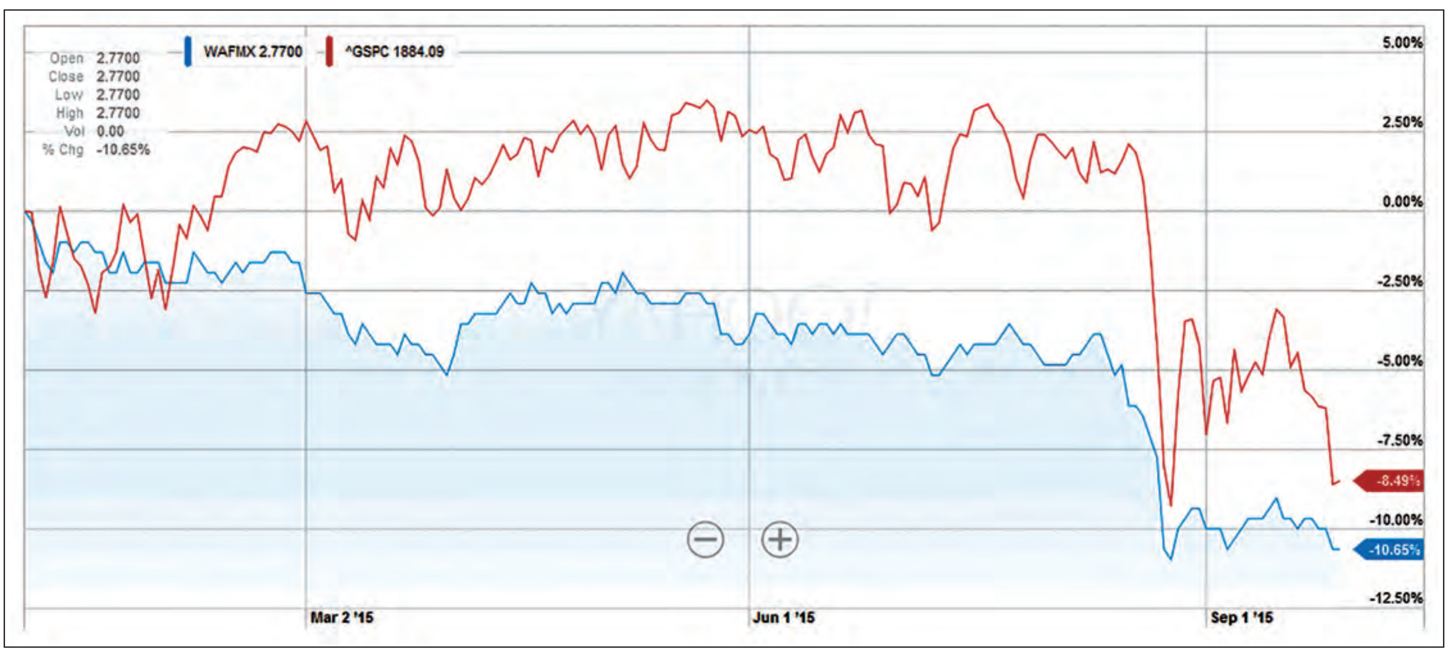
EFA (International Developed)

The developed markets away from North America were relatively stronger, closing Q3 at -5.7%



WAFMX (Frontier Markets)

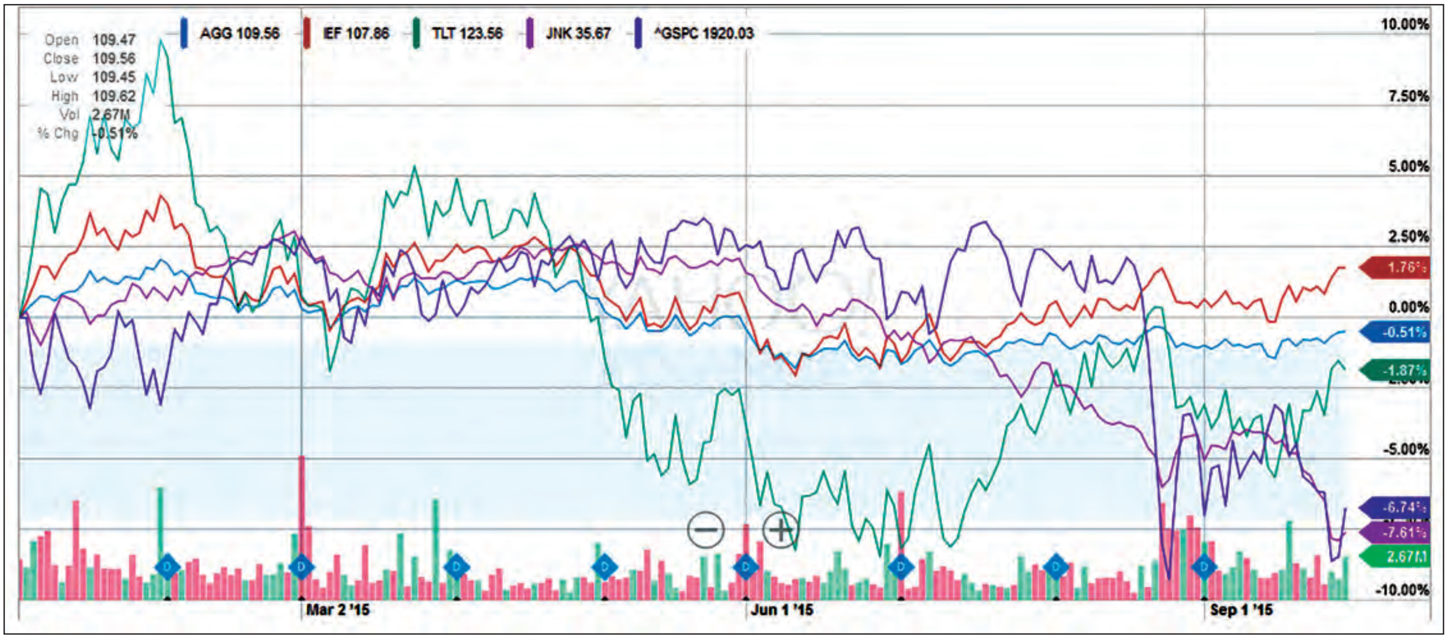
If emerging markets were a concern, clearly frontier markets were not going to do well. The Wasatch frontier market fund closed Q3 down -10.7% for the year.



Fixed Income

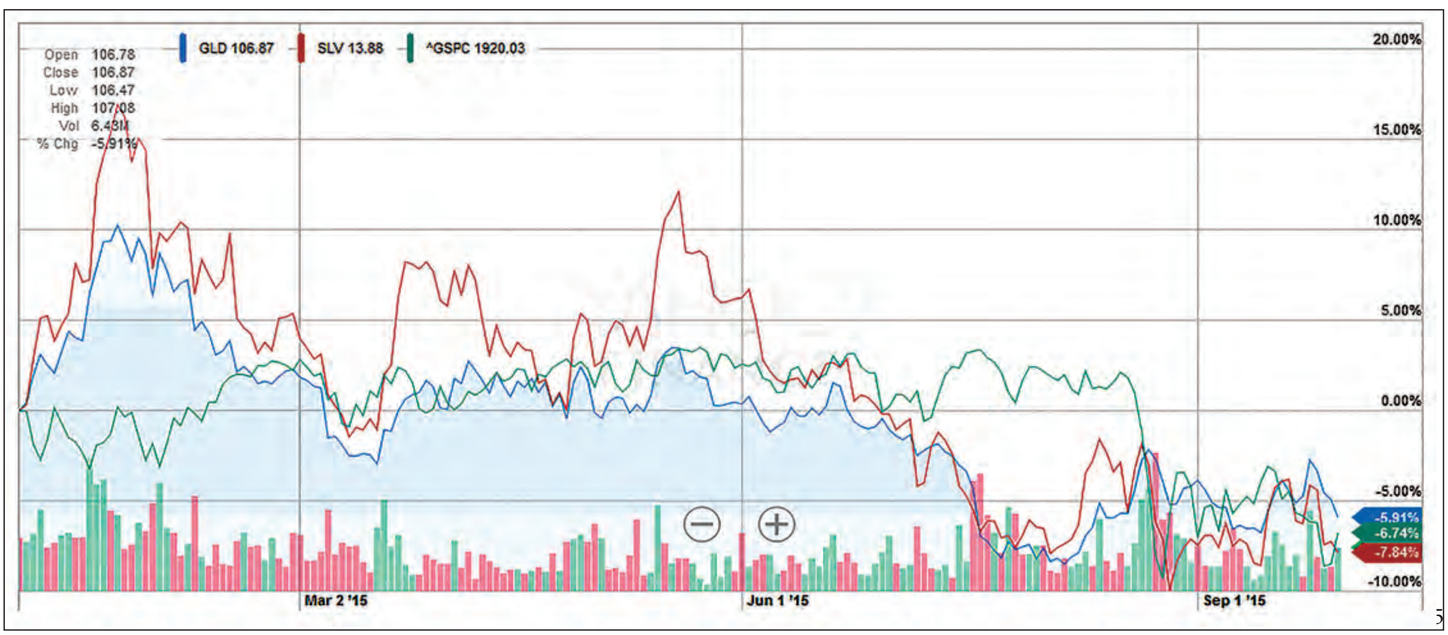
The fixed income markets have been more than interesting all year. All eyes continued on the Fed expecting an interest rate hike in September that never came. Market rates did rise in anticipation, but the real problems were in the high yield bond market as the revenue of commodities producers continued to suffer from plunging commodities prices.

AGG (Bond Aggregate), IEF (5-7yr Treasury), TLT (20yr+ Treasury), JNK (High-Yield)



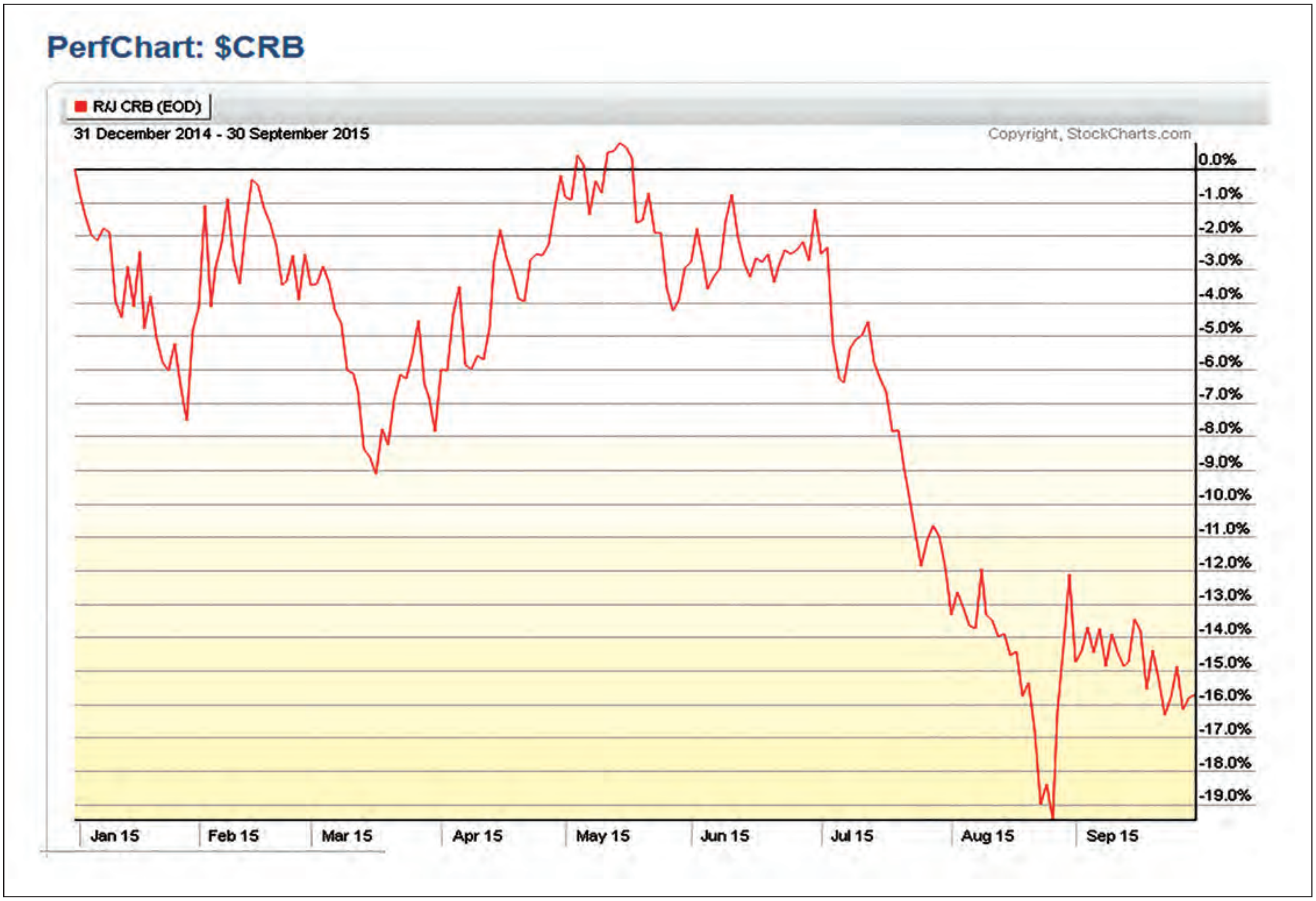
Commodities GLD (Gold), SLV (Silver)

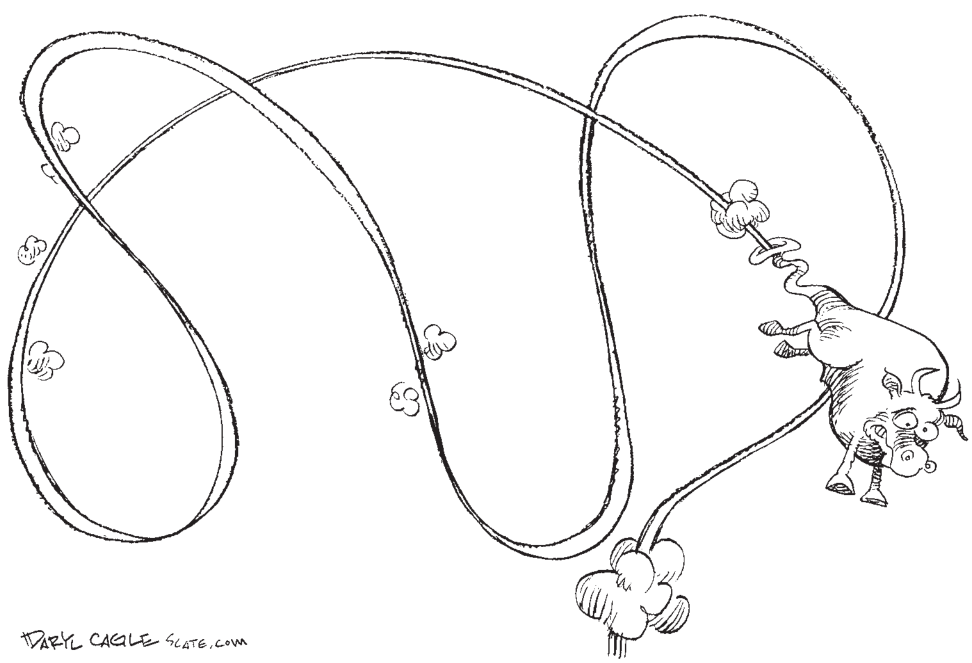
Bull or bear? Bull or bear? The precious metals market was defined by emotional exhaustion trying to figure out which way things were going to go. This year, Schwab launched their intelligent portfolio index product with an automatic allocation to gold—a clear indication that retail investors now consider gold a core allocation in a balanced portfolio.



CRB (Commodities Index)

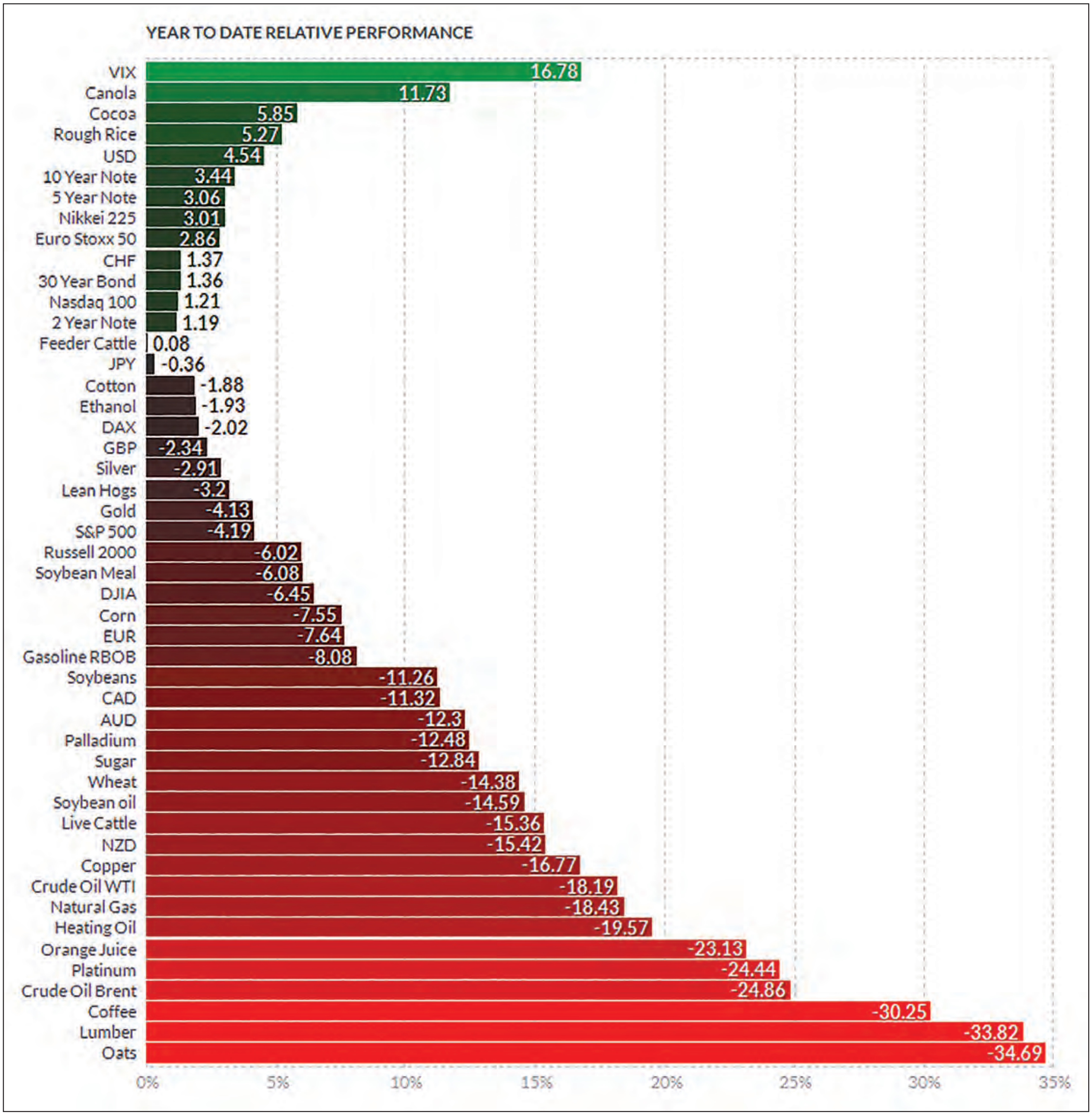
The air just kept coming out of the commodities balloon.





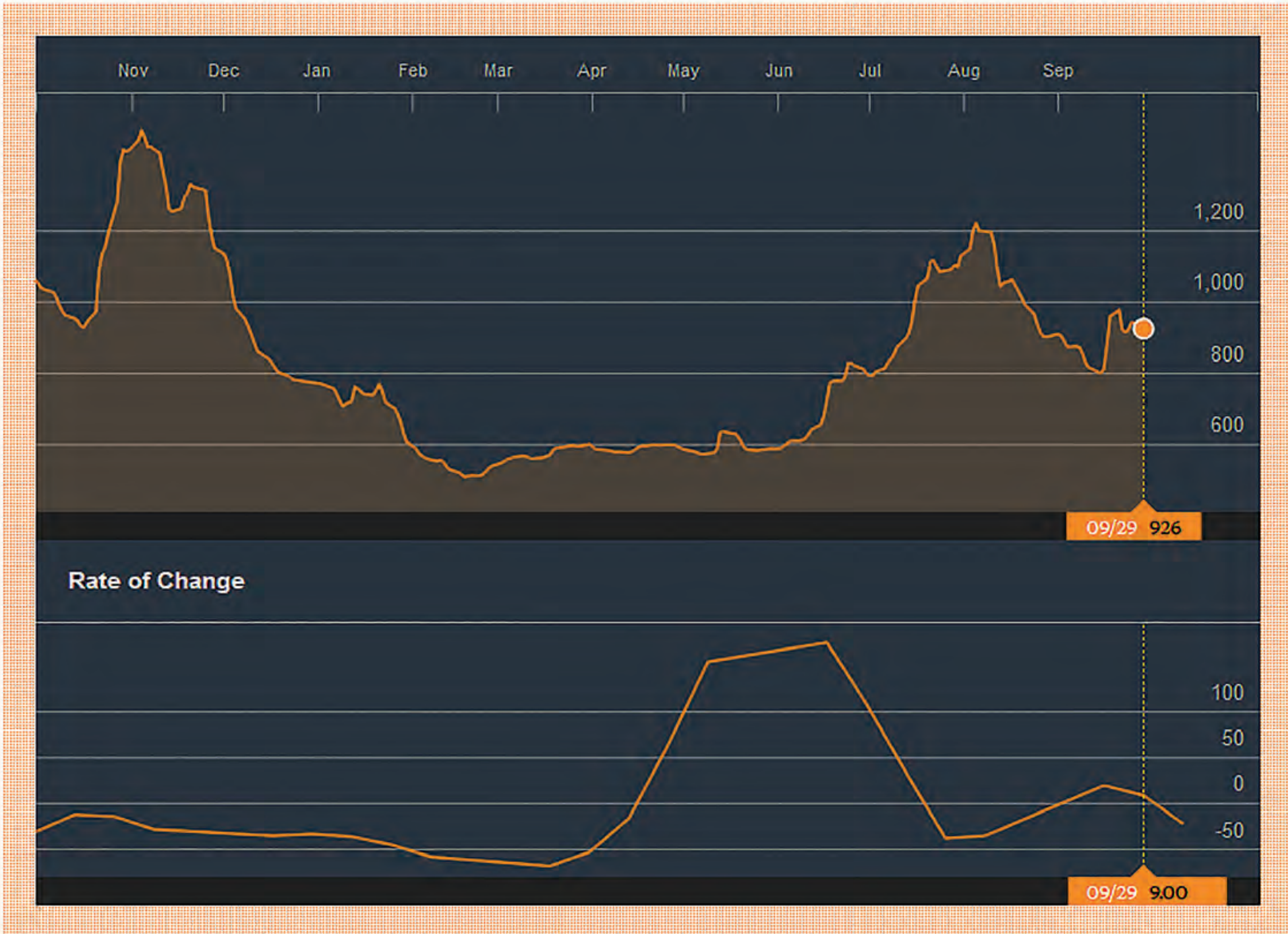
YTD Commodities Performance

To see how tough things were, we thought you might like a more detailed breakdown.

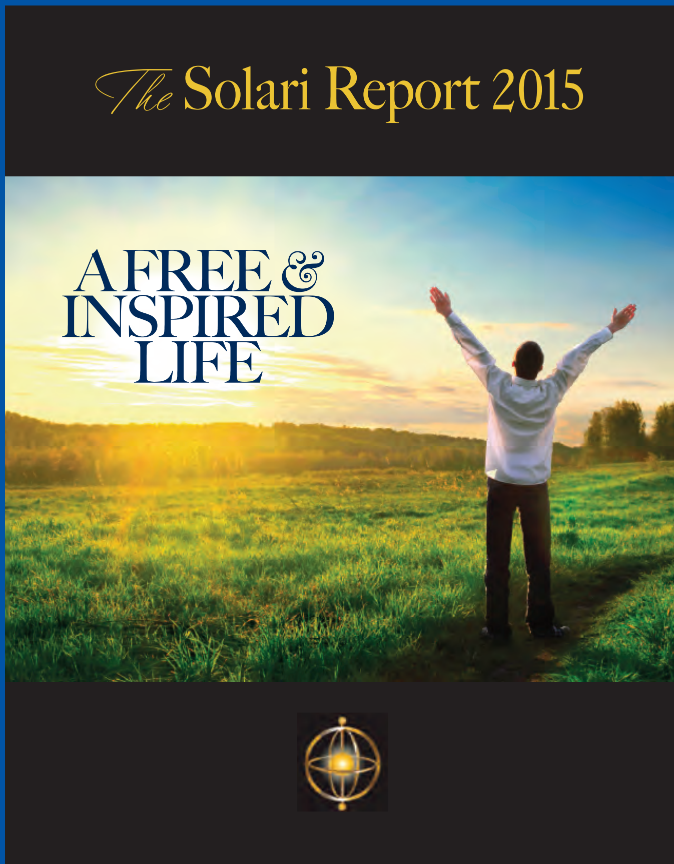


Baltic Dry Index

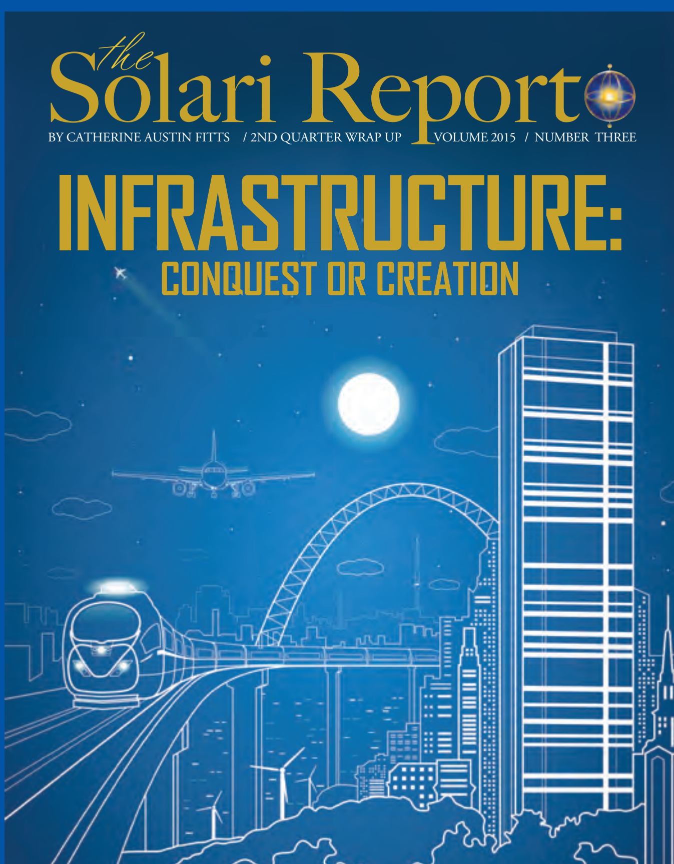
Shipping volume was way down in the summer but started to move up coming into the fall.



Markets go up and down. And for Q3 2015, the operative word was DOWN. While the central banks kept trying not to use the "D" word, we used "deflation" in our commentaries throughout Q3.


The Solari Report 2015
A FREE & INSPIRED LIFE


the Solari Report
BY CATHERINE AUSTIN FITTS / 1ST QUARTER WRAP UP
VOLUME 2015 / NUMBER TWO
"Invasive digital computing and telecommunications combined with artificial intelligence have made it possible for large global lenders to use debt in combination with other tools of economic warfare to govern and harvest at an individual level."
Planet Debt
FORECLOSURE


the Solari Report
BY CATHERINE AUSTIN FITTS / 2ND QUARTER WRAP UP
VOLUME 2015 / NUMBER THREE
INFRASTRUCTURE:
CONQUEST OR CREATION


the Solari Report
BY CATHERINE AUSTIN FITTS / 3RD QUARTER WRAP UP
VOL. 2015 / NO. 4
THE CHINESE STOCK MARKET:
Up $7 trillion in 25 Years