# The Solari Report

MARCH 5, 2015

## 1st Quarter Equity Overview

### with Catherine Austin Fitts

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Good evening. Welcome to The Solari Report. This is Catherine Austin Fitts. It's March 5, 2015, and this is our First Quarter Equity Overview. Our theme tonight is Global Equity Valuations.

We're going to do three things:

- One is review performance in the markets year to date. If you haven't taken a look at the Annual Wrap-Up, we reviewed the entire year for 2014. We also have a great section called Planet Equity. You really want to check it out.

- The second thing we're going to do is look at global valuations. Starting several years ago the US market diverged into a very strong bull, leaving a lot of the other markets behind. Now that quantitative easing has ended and US valuations are very high relative to the rest of the world, it's a good time to stop, take a look at global valuations, and the variables that can impact strength over 2015 and ask: Where are the risks and opportunities? Is it time to rebalance?

- The third thing is I wanted to respond to several questions we've gotten about portfolio strategy. I just want to point out for those who've been subscribers for a while, I'm going to cover material that you've heard before. If this is redundant for you, please feel free to cut off after we finish global valuations.

We have a series of charts up on your blogpost. There's a link to global equity charts. There are 19 charts, and I want to make sure you click those open so you can follow along.

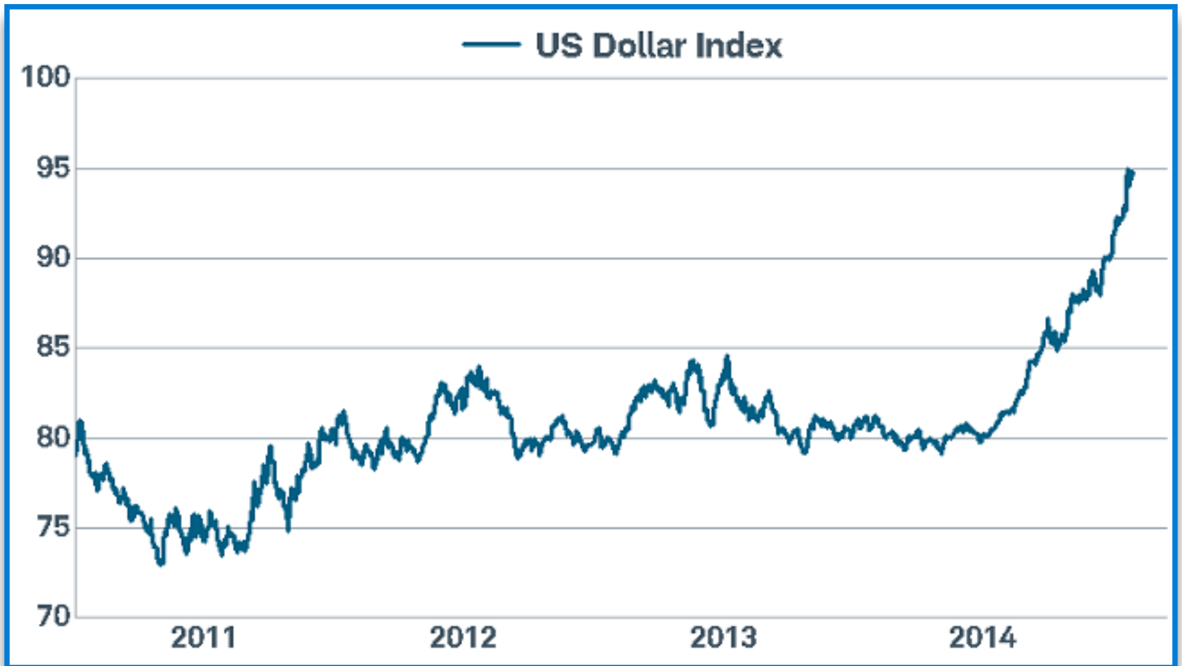
Before we get started I wanted to say thank you to Chuck Gibson. While he and I were in business together I invited him to join me on the equity overviews. We closed our partnership last year, and as a result I haven't asked him to invest the time – it takes a lot of time – to prepare the equity overviews. I'll be inviting other equity market experts to join me this year. I wanted to do the first one of the year myself.

But, I do want to take a moment and thank Chuck and his colleague Melanie Pelayo for the great contributions they've made over the last several years. You can find them in the equity library. The link is also in your blogpost under the subscriber links.

There are several I would point out. In the 3rd Quarter last year Chuck and I covered the Global 3.0 opportunities. I keep talking about the shift from Global 2.0 to Global 3.0. We discussed where some of the opportunities might emerge.

Then we also did one on Emerging Markets which is very pertinent to this year. Then another one very pertinent to 2015 is Why Dividends Matter. Take a look in the equity library. I think those are great background.

| Index | 12/31/2014 | 03/04/2015 | % Change |
|---|---|---|---|
| S&P 500 | 2,058.90 | 2,098.53 | 1.92% |
| DJIA | 17,823.07 | 18,096.90 | 1.54% |
| Russell 2000 (IWM) | 119.62 | 122.36 | 2.29% |
| MSCI EAFE (EFA) | 60.84 | 64.54 | 6.08% |
| MSCI Emerg. Mkts (EEM) | 39.29 | 39.93 | 1.62% |
| Barclays Agg Bond (AGG) | 110.12 | 110.37 | 0.227% |
| Barclays H/Y Bond (JNK) | 38.25 | 39.40 | 3.01% |
| TLT | 125.42 | 126.45 | 0.42% |
| IEF | 105.65 | 106.52 | 0.82% |
| Gold (oz.) | 1,206.00 | 1,199.50 | -0.54% |
| Silver (oz.) | 15.97 | 16.32 | 2.19% |
| US Dollar Index | 90.28 | 95.99 | 6.32% |
| Commodities-Reuters/Jeffries CRB Index - $CRB | 229.96 | 223.20 | 2.94% |
| Baltic Dry Index | 782.00 | 559.00 | -28.52% |
| 10 Year Treasury Yield Index - $TNX | 2.17 | 2.12 | -2.30% |
| 30 Year Treasury Yield Index - $TYX | 2.75 | 2.72 | -1.09% |




## Year to Date Performance

Again, as I said, please make sure you've clicked over to the link Global Equity Charts. I'm going to be walking through 19 charts to help us take a look at both what's been going on in valuations and the global market.

If you turn to Chart #1 let's just take a quick look at the markets. The S&P had a bad January but has finally turned around. This chart is as of the close on March 4th, so it's yesterday's close. The S&P ended up slightly positive for the first two months. The same with the Dow. The strength was in the tech stocks and the smaller stocks.

The developed markets are up strongly – to our surprise given how strong the dollar has been. Emerging markets are almost as good as the S&P. They are up a little bit.

Bonds held their own to all of our surprise, though the treasuries were looking very good at the end of January. They have backed off quite a bit. We'll see where they go from here.

Gold and silver are not doing well. Again, the US dollar index is very strong,

| NAME | INDEX | 1 MO RTN | 1 YR RTN | VALUATION | VOLATILITY | DIVIDEND YIELD |
|---|---|---|---|---|---|---|
| Recent IPOs<br>Created By: Motif Investing | 1482<br>(↓0.31%) | ↑13.6% | ↑12.4% | VERY HIGH | MEDIUM | 0.1% |
| IBD Top 25<br>Created By: Motif Investing | 1711<br>(↑0.39%) | ↑10.6% | ↑5.9% | VERY HIGH | MEDIUM | 0.2% |
| Drug-Patent Cliffs<br>Created By: Motif Investing | 2695<br>(↑0.59%) | ↑10.3% | ↑25.3% | VERY HIGH | MEDIUM | 0.1% |
| Battling Cancer<br>Created By: Motif Investing | 1453<br>(↑1.73%) | ↑9.3% | ↑20.7% | VERY HIGH | MEDIUM | 0.7% |
| Tech Takeout Targets<br>Created By: Motif Investing | 1382<br>(↓1.32%) | ↑9.0% | ↓5.2% | VERY HIGH | HIGH | 0.1% |
| Finding Momo<br>Created By: Motif Investing | 1842<br>(↑0.35%) | ↑8.8% | ↓4.9% | VERY HIGH | MEDIUM | 0.2% |
| Cyber Security<br>Created By: Motif Investing | 1854<br>(↓1.41%) | ↑8.0% | ↑8.6% | VERY HIGH | MEDIUM | 0.6% |
| Democratic Donors<br>Created By: Motif Investing | 1878<br>(↓0.03%) | ↑7.1% | ↑13.8% | MEDIUM | LOW | 1.7% |
| Housing Recovery<br>Created By: Motif Investing | 1522<br>(↑0.96%) | ↑6.7% | ↓1.2% | LOW | MEDIUM | 1.5% |
| Couch Commerce<br>Created By: Motif Investing | 2161<br>(↑0.08%) | ↑6.6% | ↓4.4% | VERY HIGH | MEDIUM | 0.0% |
| Content is King<br>Created By: Motif Investing | 1375<br>(↓0.46%) | ↑6.5% | ↑5.3% | MEDIUM | MEDIUM | 1.1% |
| World of Sports<br>Created By: Motif Investing | 1966<br>(↓0.42%) | ↑6.4% | ↑24.5% | HIGH | MEDIUM | 1.0% |
| Electronic Trading<br>Created By: Motif Investing | 1424<br>(↓0.06%) | ↑6.4% | ↑22.3% | MEDIUM | LOW | 2.1% |
| QE Japan<br>Created By: Motif Investing | 1199<br>(↓0.29%) | ↑6.3% | ↑15.1% | – | LOW | 0.3% |
| Rest In Peace<br>Created By: Motif Investing | 1512<br>(↓1.00%) | ↑6.1% | ↑21.1% | HIGH | LOW | 1.4% |

and commodities are unchanged. They are still in the doghouse.

There is a little bit of concern. The Baltic Dry Index is down another 28%. I know the weather hasn't helped at all. These are real indications of global slowdown.

The second chart is a quick look at the motifs at Motif Investing that have been strongest in the last month. I wanted to point out there were two in there: Democratic donors and housing recovery. If you haven't looked at the commentary that I wrote on the blog about the Democrats looking to kickstart the housing market, check it out. I'll be talking more about it in Money & Markets tonight.

Charts 4 and 5 are from Morningstar. Take a look at what's been strongest most recently in the US markets by sector. This is only domestic. Healthcare continues to be the leader. Healthcare has made an incredible contribution to the strength of the US stock market over the last couple of years. I had a commentary both on the blog ("The Stock Profits of Obamacare") and then in the Annual Wrap-Up about the extent to which Obamacare and the federal government have made a very significant contribution to that.

The other strong sector that's really been carrying the US market is technology, which took a breather in the beginning of this year. I think it will continue to look strong this year. As you can see from the longer-term numbers, it's been very strong and real estate is strong this year despite the fact that the risk of interest rates rising could give real estate some trouble.

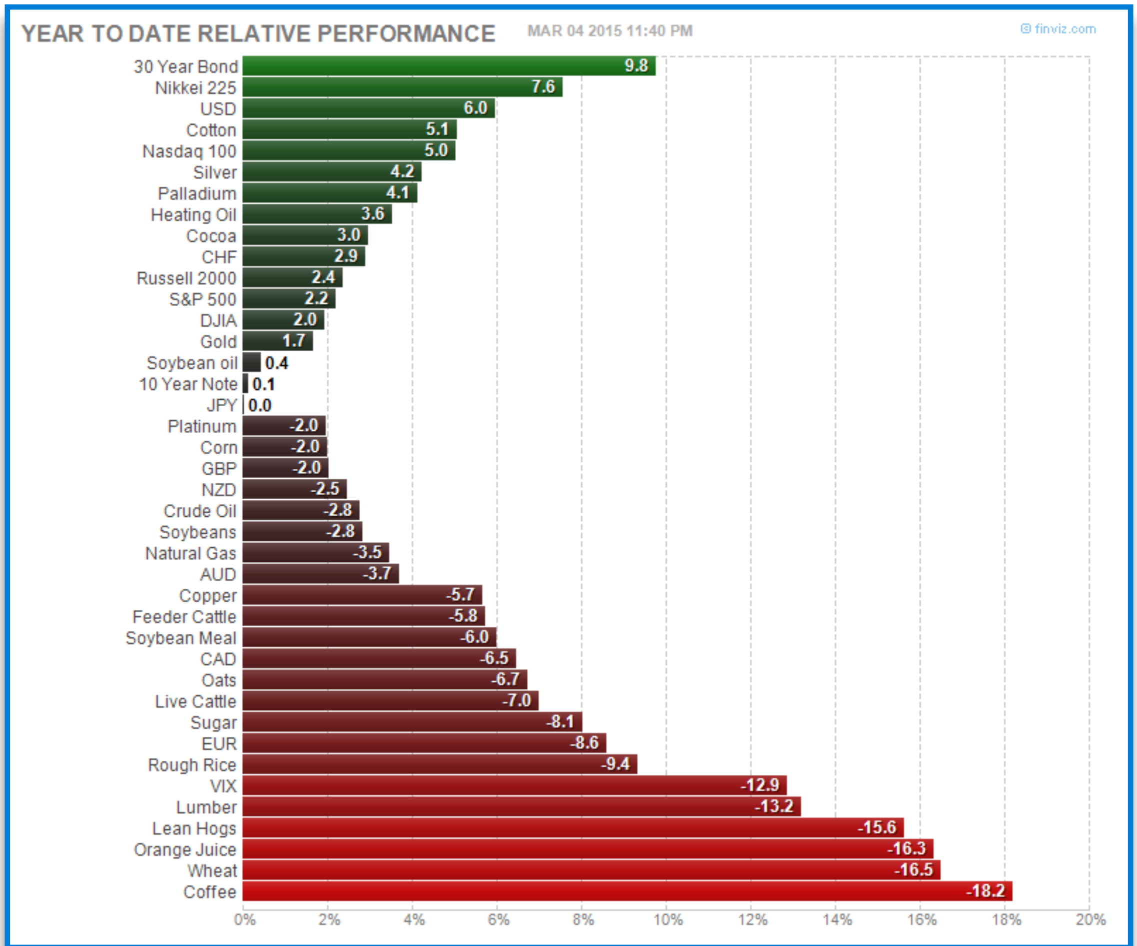
**Stock Sectors: Total Returns ( % )**

| Sector Name | 5-Day | YTD | 1-Month | 3-Month | 1-Year | 3-Year | 5-Year |
|---|---|---|---|---|---|---|---|
| Real Estate | 1.98 | 5.71 | 5.03 | 9.65 | 25.73 | 14.75 | 14.90 |
| Healthcare | 0.52 | 4.48 | 3.53 | 7.22 | 24.53 | 26.89 | 19.05 |
| Communication Services | 2.07 | 3.84 | 2.63 | 4.19 | 11.27 | 15.81 | 12.73 |
| Consumer Defensive | 1.74 | 3.26 | 2.07 | 6.47 | 13.36 | 15.76 | 14.01 |
| Consumer Cyclical | 2.48 | 1.06 | 0.16 | 7.85 | 7.47 | 19.85 | 18.82 |
| Utilities | 1.41 | 1.02 | -0.74 | 2.24 | 18.85 | 11.54 | 7.74 |
| Industrials | 1.35 | 0.42 | -0.33 | 4.72 | 8.95 | 15.66 | 14.35 |
| Energy | 3.80 | 0.37 | -1.22 | -8.90 | -4.30 | 1.76 | 5.77 |
| Technology | 1.00 | 0.18 | -1.61 | 5.51 | 19.26 | 19.19 | 15.49 |
| Basic Materials | 1.01 | -0.01 | -0.44 | -1.38 | -1.83 | 0.53 | 3.33 |
| Financial Services | 1.39 | -1.50 | -1.93 | 4.23 | 12.76 | 14.35 | 9.16 |

Stock Industries: Total Returns ( % )

| Industry Name | 5-Day | YTD | 1-Month | 3-Month | 1-Year | 3-Year | 5-Year |
|---|---|---|---|---|---|---|---|
| Gold | 38.80 | 24.71 | 25.69 | 11.70 | -3.57 | -24.85 | -10.92 |
| Silver | -1.80 | 20.38 | 21.02 | 22.24 | 1.80 | -18.49 | 0.45 |
| REIT - Healthcare Facilities | 2.55 | 10.57 | 9.54 | 18.15 | 40.39 | 17.48 | 18.53 |
| REIT - Retail | 1.59 | 10.53 | 9.25 | 18.61 | 46.30 | 21.21 | 24.40 |
| REIT - Industrial | 1.53 | 10.36 | 8.57 | 15.71 | 39.46 | 20.40 | 22.71 |
| Banks - Regional - Asia | 2.35 | 8.89 | 6.94 | 5.68 | 15.71 | 11.36 | 5.13 |
| REIT - Office | 3.52 | 8.78 | 7.02 | 13.42 | 35.22 | 14.26 | 14.37 |
| REIT - Residential | 168.36 | 8.24 | 6.44 | 13.80 | 41.57 | 12.61 | 20.86 |
| Biotechnology | 1.03 | 6.73 | 5.70 | 8.43 | 33.29 | 39.92 | 30.40 |
| Grocery Stores | 1.94 | 6.71 | 7.93 | 25.81 | 34.50 | 20.31 | 12.96 |
| Beverages - Brewers | 0.07 | 6.54 | 5.77 | 9.01 | 14.92 | 18.79 | 19.65 |
| Banks - Regional - Australia | 0.65 | 6.11 | 7.55 | -13.05 | 27.26 | 17.88 | 12.79 |
| Tobacco | 2.33 | 5.25 | 2.82 | 4.36 | 25.39 | 16.13 | 20.71 |
| Medical Distribution | -0.90 | 5.24 | 3.99 | 11.80 | 29.82 | 33.35 | 26.50 |
| Health Care Plans | 13.52 | 5.21 | 3.78 | 18.84 | 40.75 | 26.08 | 22.92 |
| Utilities - Regulated Electric | 2.21 | 5.16 | 2.87 | 11.81 | 34.85 | 17.89 | 12.70 |
| Beverages - Wineries & Distilleries | 0.38 | 5.14 | 2.89 | 6.32 | 4.59 | 19.04 | 19.11 |
| Telecom Services | 26.23 | 4.94 | 2.96 | 2.75 | 8.77 | 7.67 | 7.50 |
| Drug Manufacturers - Specialty & Ge | 1.83 | 4.88 | 4.60 | 14.79 | 41.28 | 31.41 | 22.16 |
| REIT - Hotel & Motel | -0.99 | 4.06 | 2.18 | 11.80 | 42.30 | 22.33 | 20.87 |
| REIT - Diversified | 1.01 | 3.68 | NaN | NaN | NaN | NaN | NaN |
| Utilities - Regulated Gas | -0.49 | 3.59 | 2.10 | 7.67 | 26.25 | 18.28 | 17.77 |
| Home Furnishings & Fixtures | -0.99 | 3.47 | 3.81 | 14.39 | 19.57 | 25.91 | 25.55 |
| Drug Manufacturers - Major | 2.19 | 3.45 | 2.19 | 5.03 | 16.50 | 20.30 | 14.78 |
| Electronic Components | 45.84 | 3.44 | 1.49 | 18.22 | 22.27 | 24.45 | 14.31 |
| Airports & Air Services | 1.73 | 3.41 | 2.47 | 2.51 | 17.42 | 23.54 | 22.67 |
| Diagnostics & Research | 63.15 | 2.93 | 1.63 | 8.12 | 14.57 | 20.59 | 14.39 |
| Packaged Foods | 1.71 | 2.86 | 0.84 | 6.00 | 23.92 | 18.07 | 15.72 |
| Medical Instruments & Supplies | 4.22 | 2.70 | 1.74 | 10.98 | 30.37 | 24.05 | 15.86 |
| Banks - Regional - Latin America | 2.40 | 2.69 | 3.49 | -2.27 | 16.83 | -5.50 | -0.14 |
| Auto Manufacturers | 124.72 | 2.43 | 1.47 | 10.51 | 6.68 | 16.72 | 9.24 |
| Broadcasting - Radio | -0.44 | 2.41 | 2.27 | 5.70 | -13.55 | 17.43 | 28.13 |
| Agricultural Inputs | 7.85 | 2.36 | 1.02 | 8.55 | 12.92 | 7.68 | 9.96 |
| Airlines | 1.79 | 2.30 | 4.26 | 29.78 | 57.64 | 36.53 | 23.38 |
| Health Information Services | -0.14 | 2.24 | 0.86 | 7.96 | 11.18 | 16.76 | 15.69 |
| Utilities - Diversified | -0.63 | 2.21 | -0.44 | 7.37 | 24.69 | 13.06 | 11.80 |
| Real Estate - General | 9.78 | 2.19 | 1.85 | 5.19 | 27.96 | 22.35 | 18.85 |
| Real Estate Services | 4.23 | 2.19 | 0.93 | 10.13 | 21.42 | 20.68 | 18.60 |
| Medical Devices | 12.69 | 2.09 | 0.86 | 11.91 | 25.22 | 21.31 | 13.65 |
| Restaurants | 1.31 | 2.07 | 2.00 | 9.75 | 17.00 | 13.10 | 20.61 |
| Apparel Stores | 0.41 | 2.02 | 2.72 | 15.26 | 19.90 | 19.20 | 20.87 |
| Waste Management | 6.67 | 1.85 | 1.08 | 5.98 | 20.14 | 14.76 | 8.53 |
| Beverages - Soft Drinks | -3.56 | 1.82 | -0.28 | 3.92 | 15.83 | 13.37 | 14.06 |
| Publishing | 1.72 | 1.72 | 0.51 | 8.08 | 15.29 | 20.00 | 12.44 |
| Utilities - Regulated Water | 0.68 | 1.64 | 0.31 | 3.37 | 8.83 | 9.05 | 15.49 |
| Lumber & Wood Production | 1.83 | 1.44 | -0.10 | 4.78 | 12.05 | 14.84 | 16.10 |
| Aerospace & Defense | 8.69 | 1.39 | -0.44 | 9.03 | 14.33 | 26.54 | 18.87 |
| Utilities - Independent Power Produ | 1.10 | 1.31 | 1.59 | 1.32 | 13.39 | 9.17 | 4.58 |
| Advertising Agencies | 0.70 | 1.21 | 0.19 | 11.10 | 5.95 | 22.49 | 18.63 |
| Business Services | 49.25 | 1.02 | -0.79 | 6.84 | 17.34 | 22.98 | 19.38 |
| Business Equipment | -1.27 | 0.94 | -1.99 | 7.88 | 13.71 | -2.24 | 1.74 |
| Oil & Gas Refining & Marketing | 4.25 | 0.93 | 0.09 | -1.37 | 3.57 | 23.83 | 23.10 |
| Confectioners | 0.87 | 0.90 | -2.17 | 7.39 | 10.16 | 17.10 | 19.21 |
| Discount Stores | -0.26 | 0.85 | 0.19 | 14.08 | 24.99 | 18.01 | 15.44 |
| Electronic Gaming & Multimedia | 98.73 | 0.83 | -1.49 | 13.61 | 20.92 | 12.51 | 8.71 |
| Personal Services | 23.12 | 0.79 | -0.12 | 7.03 | 17.69 | 14.45 | 12.72 |
| Semiconductors | 1.11 | 0.79 | -0.74 | 12.41 | 33.73 | 15.46 | 15.14 |
| Food Distribution | -0.33 | 0.73 | -0.78 | 8.87 | 17.21 | 17.94 | 15.78 |
| Home Improvement Stores | 0.77 | 0.69 | 2.13 | 15.53 | 37.29 | 36.25 | 31.15 |
| Gambling | -1.00 | 0.65 | -0.42 | 3.01 | 7.44 | 9.65 | -2.68 |
| Household & Personal Products | -0.21 | 0.59 | -1.76 | 5.66 | 12.01 | 13.78 | 11.72 |
| Insurance - Specialty | -1.20 | 0.50 | -0.83 | 12.75 | 25.14 | 26.79 | 16.64 |
| Building Materials | 0.78 | 0.20 | 0.06 | 3.23 | -0.09 | 17.06 | 9.61 |
| Insurance - Reinsurance | 0.36 | 0.04 | -0.41 | 3.69 | 15.77 | 19.92 | 14.83 |
| Information Technology Services | -0.33 | 0.03 | -1.71 | 5.44 | 3.04 | 6.92 | 10.05 |
| Electronics Distribution | 31.68 | -0.04 | -1.45 | 7.91 | 8.48 | 12.57 | 14.97 |
| Conglomerates | 8.96 | -0.37 | -0.31 | 2.94 | 1.12 | 31.77 | 15.22 |
| Staffing & Outsourcing Services | 0.52 | -0.39 | -1.99 | 5.37 | 10.93 | 19.38 | 12.92 |
| Lodging | -0.05 | -0.60 | -1.15 | 3.32 | 19.27 | 21.26 | 19.66 |
| Consumer Electronics | 2.65 | -0.68 | -3.73 | 5.02 | 35.53 | 20.26 | 23.98 |
| Oil & Gas Integrated | 11.04 | -0.69 | -2.50 | -8.72 | -6.17 | -2.78 | 2.25 |
| Insurance - Property & Casualty | 1.52 | -0.79 | -1.36 | 5.10 | 21.20 | 19.86 | 16.62 |
| Medical Care | 3.37 | -0.94 | -2.08 | 4.83 | 29.77 | 27.98 | 17.84 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Specialty Retail | 8.35 | -0.99 | -1.77 | 7.58 | 4.17 | 18.17 | 18.61 |
| Broadcasting - TV | 1.59 | -1.03 | -1.43 | 1.53 | 4.34 | 19.83 | 10.05 |
| Oil & Gas E&P | 17.26 | -1.13 | -2.49 | -12.19 | -15.03 | -3.64 | 2.31 |
| Long-Term Care Facilities | 37.93 | -1.18 | -2.02 | 4.84 | 20.59 | 24.59 | 15.35 |
| Specialty Chemicals | 4.53 | -1.29 | -2.75 | 2.37 | 13.59 | 22.67 | 24.27 |
| Packaging & Containers | -0.66 | -1.30 | -2.80 | 11.26 | 19.80 | 20.22 | 17.55 |
| Resorts & Casinos | 14.64 | -1.31 | -1.02 | -5.04 | -16.23 | 15.32 | 27.76 |
| Pharmaceutical Retailers | -2.84 | -1.34 | -1.41 | 21.43 | 36.87 | 33.34 | 22.76 |
| Asset Management | 3.39 | -1.35 | -2.28 | 5.39 | 9.28 | 21.14 | 12.35 |
| Banks - Regional - Canada | -0.90 | -1.74 | 1.43 | -2.22 | 14.66 | 9.20 | 11.65 |
| Internet Content & Information | 4.07 | -1.74 | -4.19 | -3.61 | 5.89 | 21.69 | 16.11 |
| Aluminum | 0.51 | -1.77 | -2.36 | -3.65 | 25.93 | 6.45 | -2.49 |
| Oil & Gas Midstream | 3.75 | -2.01 | -1.57 | -4.76 | 13.85 | 14.81 | 18.91 |
| Pay TV | 3.07 | -2.02 | -2.57 | 5.07 | 4.06 | 24.15 | 24.76 |
| Railroads | 1.47 | -2.03 | -2.88 | -0.66 | 31.28 | 24.65 | 26.05 |
| Paper & Paper Products | 2.25 | -2.04 | -2.72 | 3.60 | 4.76 | 14.27 | 3.93 |
| Auto & Truck Dealerships | -1.71 | -2.13 | -2.95 | 13.90 | 29.79 | 23.76 | 25.27 |
| Footwear & Accessories | 5.46 | -2.21 | -2.65 | 2.94 | 26.94 | 20.74 | 24.87 |
| Communication Equipment | 44.37 | -2.29 | -4.16 | 5.44 | 8.51 | 11.75 | 4.16 |
| Department Stores | 1.17 | -2.29 | -0.42 | 2.03 | 15.02 | 9.08 | 10.15 |
| Insurance Brokers | 1.04 | -2.40 | -3.44 | 8.32 | 15.77 | 19.71 | 19.90 |
| Software - Application | 31.92 | -2.44 | -5.00 | 3.78 | 0.62 | 13.25 | 14.74 |
| Leisure | 1.16 | -2.58 | -3.35 | 7.96 | 11.11 | 22.70 | 17.86 |
| Financial Exchanges | 4.92 | -2.71 | -4.21 | 7.23 | 17.11 | 26.19 | 14.55 |
| Diversified Industrials | 1.85 | -2.87 | -4.52 | 1.06 | 4.04 | 13.89 | 14.76 |
| Semiconductor Equipment & Materials | 0.47 | -2.94 | -4.33 | 9.43 | 25.97 | 20.60 | 14.68 |
| Industrial Metals & Minerals | 7.65 | -3.03 | -3.14 | -18.40 | -25.36 | -15.94 | -7.50 |
| Farm Products | 1.52 | -3.07 | -4.71 | 6.35 | 23.30 | 17.43 | 13.62 |
| Insurance - Life | 0.85 | -3.22 | -4.02 | 9.44 | 16.09 | 17.68 | 7.79 |
| Recreational Vehicles | 0.54 | -3.22 | -3.18 | 1.81 | 3.88 | 21.13 | 25.68 |
| Insurance - Diversified | -0.90 | -3.30 | -4.02 | 1.31 | 18.01 | 21.91 | 11.87 |
| Oil & Gas Equipment & Services | 0.05 | -3.36 | -4.88 | -14.60 | -13.33 | -0.40 | 4.99 |
| Scientific & Technical Instruments | 0.20 | -3.39 | -5.20 | 0.37 | 3.49 | 10.33 | 14.73 |
| Education & Training Services | 2.49 | -3.52 | -3.94 | 4.12 | -5.12 | -2.97 | -6.47 |
| Savings & Cooperative Banks | 0.56 | -3.65 | -3.85 | 3.56 | 0.86 | 17.25 | 8.47 |
| Tools & Accessories | 5.13 | -3.68 | -4.77 | 1.96 | 11.01 | 13.57 | 18.67 |
| Chemicals | 3.06 | -3.76 | -5.08 | -1.00 | 3.62 | 8.07 | 12.51 |
| Banks - Regional - Europe | -0.69 | -3.83 | -6.21 | -7.83 | -24.05 | 12.75 | -0.90 |
| Apparel Manufacturing | -0.07 | -4.02 | -3.86 | 3.88 | 15.30 | 24.38 | 24.78 |
| Media - Diversified | 2.27 | -4.05 | -5.10 | 3.64 | 15.44 | 28.20 | 24.00 |
| Residential Construction | 0.67 | -4.14 | -1.74 | 0.79 | 2.60 | 18.01 | 9.59 |
| Auto Parts | -1.36 | -4.21 | -4.80 | 5.38 | 10.14 | 20.83 | 19.49 |
| Textile Manufacturing | 2.42 | -4.35 | -4.13 | 5.44 | -6.63 | 17.43 | 15.10 |
| Marketing Services | 9.50 | -4.38 | -3.24 | 15.00 | -8.63 | 1.70 | 1.00 |
| Oil & Gas Drilling | -0.07 | -4.78 | -6.23 | -29.77 | -45.61 | -16.89 | -10.82 |
| Contract Manufacturers | 1.06 | -4.80 | -6.34 | 9.09 | 17.58 | 6.12 | 4.65 |
| Rubber & Plastics | 3.18 | -4.97 | -5.22 | 14.71 | 16.36 | 16.72 | 12.75 |
| Solar | 12.26 | -5.07 | -6.76 | -18.05 | -33.70 | 9.00 | -12.85 |
| Security & Protection Services | 7.35 | -5.17 | -5.73 | 1.17 | -2.71 | 9.28 | 11.71 |
| Integrated Shipping & Logistics | 0.35 | -5.29 | -6.22 | 1.86 | 15.98 | 14.37 | 14.30 |
| Trucking | -0.56 | -5.61 | -6.67 | 7.80 | 28.27 | 25.02 | 17.71 |
| Computer Systems | 123.03 | -5.62 | -7.20 | 0.71 | 10.81 | 9.30 | -4.24 |
| Software - Infrastructure | -0.13 | -6.04 | -8.52 | 0.00 | 16.47 | 13.85 | 11.40 |
| Truck Manufacturing | 1.03 | -6.14 | -7.31 | 3.47 | 7.59 | 13.17 | 11.46 |
| Credit Services | -1.06 | -6.17 | -7.66 | 5.99 | 8.82 | 26.64 | 21.41 |
| Pollution & Treatment Controls | -0.17 | -6.25 | -7.40 | -1.31 | -1.46 | 5.41 | 10.51 |
| Banks - Regional - US | 0.08 | -6.30 | -6.89 | 1.40 | 2.17 | 16.44 | 10.57 |
| Rental & Leasing Services | 5.94 | -6.50 | -6.92 | 0.23 | 8.23 | 22.31 | 24.95 |
| Shipping & Ports | -0.07 | -6.56 | -6.09 | -17.41 | -21.02 | -11.14 | -9.38 |
| Computer Distribution | -7.47 | -6.72 | NaN | NaN | NaN | NaN | NaN |
| Banks - Global | 1.10 | -7.00 | -8.02 | -6.40 | -2.68 | 11.09 | 3.94 |
| Engineering & Construction | 0.38 | -7.26 | -7.39 | -14.82 | -27.37 | 0.10 | 3.42 |
| Industrial Distribution | -0.65 | -7.68 | -8.49 | -2.54 | -4.81 | 5.37 | 18.18 |
| Steel | 0.29 | -7.99 | -8.54 | -21.11 | -24.77 | -15.12 | -14.80 |
| Capital Markets | 0.00 | -8.16 | -8.86 | 0.44 | 5.54 | 21.92 | 4.83 |
| Luxury Goods | 4.79 | -8.21 | -7.92 | 1.38 | 10.32 | 12.40 | 20.95 |
| Coal | -2.22 | -8.47 | -8.29 | -14.23 | -23.13 | -23.14 | -16.10 |
| Farm & Construction Equipment | -0.04 | -8.83 | -10.86 | -10.51 | -13.15 | -5.08 | 7.49 |
| Specialty Finance | -0.17 | -9.59 | -10.19 | -7.31 | -20.44 | 4.06 | 6.67 |
| Data Storage | 27.55 | -10.38 | -12.98 | -1.67 | 6.46 | 11.08 | 12.30 |
| Copper | 9.98 | -12.38 | -12.70 | -24.37 | -24.62 | -14.83 | -2.84 |
| Semiconductor Memory | 9.08 | -13.44 | -13.58 | -4.02 | 33.25 | 54.17 | 17.85 |
| Metal Fabrication | 442.21 | -14.82 | -14.87 | -9.55 | -22.94 | 0.06 | 4.32 |
| Banks - Regional - Africa | 2.12 | NaN | NaN | NaN | NaN | NaN | NaN |
| Infrastructure Operations | -0.98 | NaN | NaN | NaN | NaN | NaN | NaN |

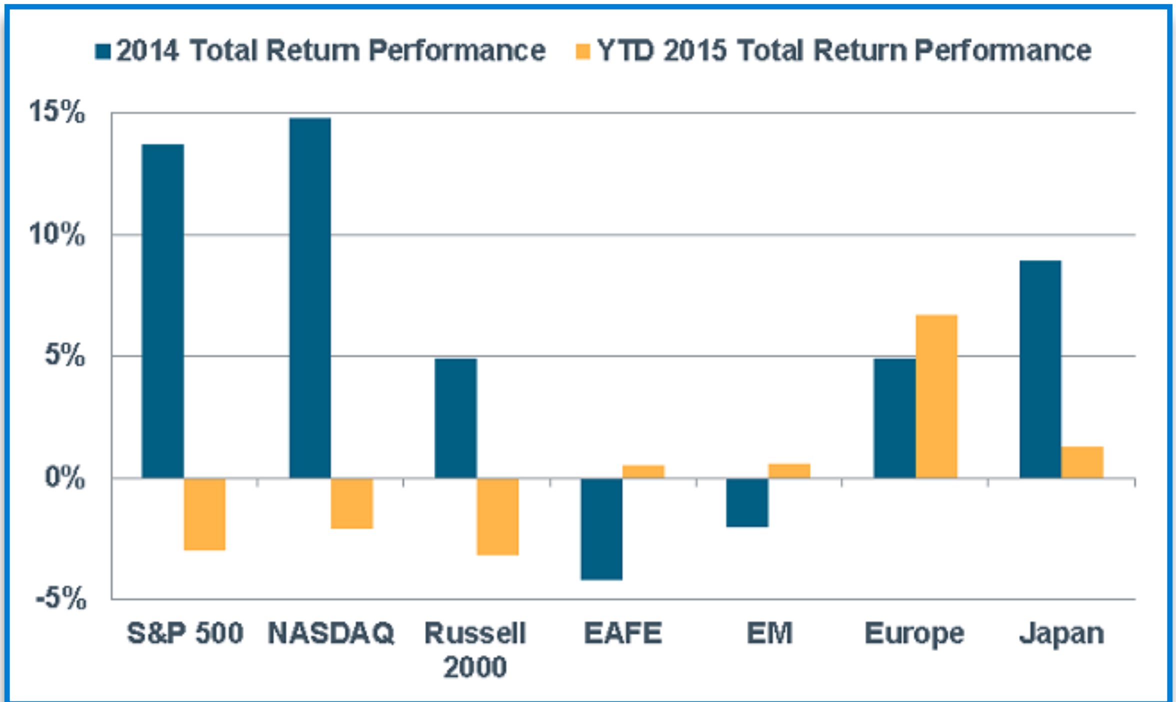



Turn to Chart #6 and we'll take a look at a chart that I love to get from the future's performance over at Finvis.com which is one of my favorite sites for charts. What you'll see is commodities are still in the doghouse. I'd hate to be a commodities manager right now.

The next chart, Chart #7, just quickly – and it was done earlier in the year so if you look at the 2015 performance they show a very different picture of the year. It's a January picture of the year.

If you look at 2014 Total Return, as I said, the US performance continued to outperform and you could see the general developed markets were down, but Europe and Japan were up but not up as much as the US market.

You can see the NASDAQ really carried the day last year for the US markets.





Let's just turn to Chart #8. I had shown something like this in the Wrap-Up so I wanted to do it again. This is a chart of Russia versus oil versus the S&P. Oil, as we know toward the end of last year, between summer and the end of the year, dropped almost 50%. We see oil still having a difficult time over the last three months, but Russia not quite as difficult as they had last year but still significantly underperforming the S&P. I think one of the big questions we all have is: How long is that game going to continue?

**Figure 1**

## Relative sizes of world stock markets, end-1899

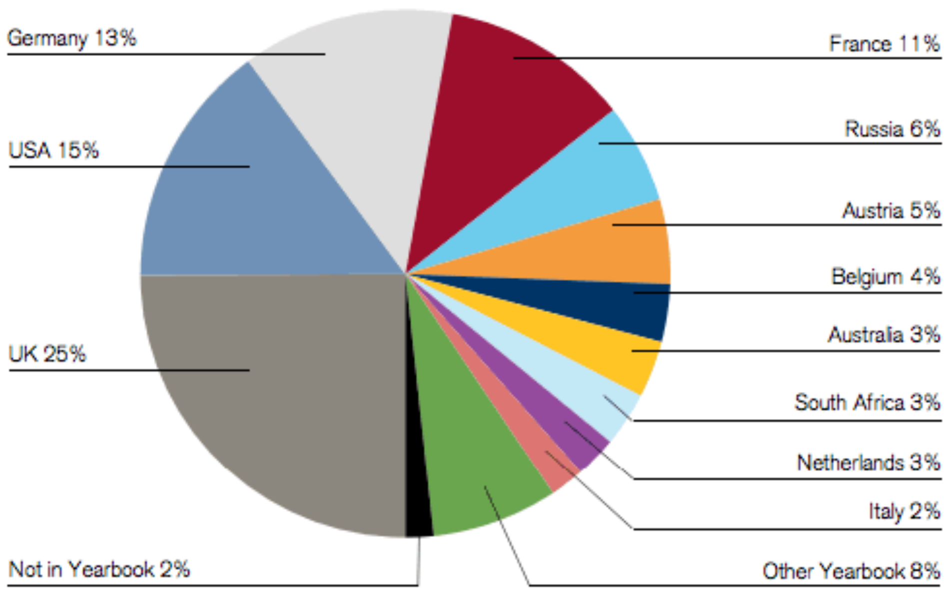
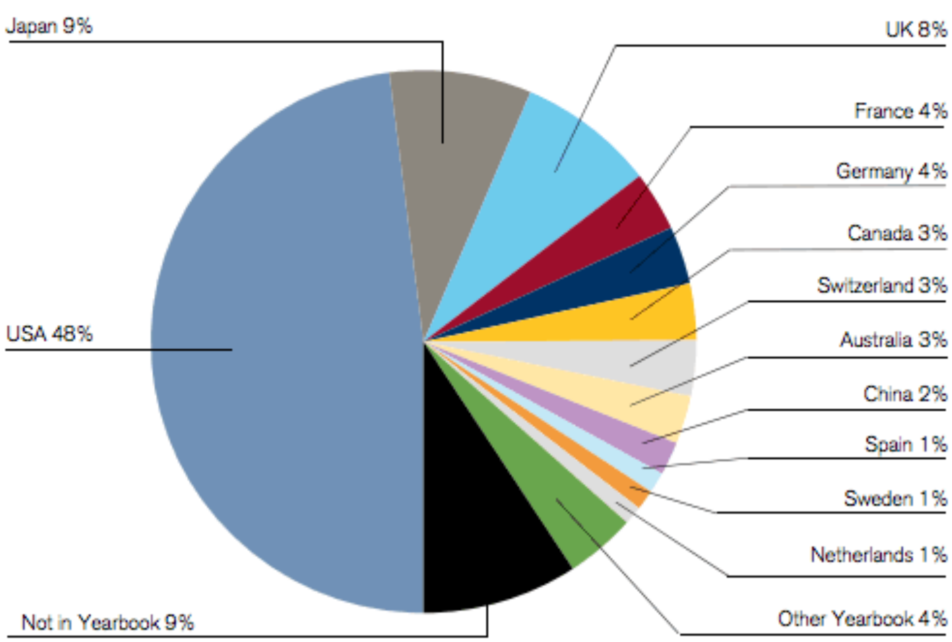



**Figure 2**

## Relative sizes of world stock markets, end-2013




Source: Elroy Dimson, Paul Marsh, and Mike Staunton, Credit Suisse Global Investment Returns Sourcebook 2014.

## Global Valuations

That's it for performance over the last two months and four days. Let's turn to global valuations. I repeated a chart we had in the Wrap-Up, Chart #9, which is the relative size of the world stock markets, both at the end of 1899 and at the end of 2013 so you can get some real perspective.

It's interesting. I looked at one analysis as of 2013 and the stock market that had produced the best returns for the entire period was – believe it or not – South Africa. It goes back to what Franklin says about the wealth of the world is what people take from the ground. What was interesting is if you see, the US was 15% of the total world stock markets in 1899 and 48% in 2013.

What is particularly important if you look at those 2013 numbers is the enormous growth from 1990 on. As I said in the Planet Equity section in the Wrap-Up, in 1990 the world stock markets were about $11 trillion and today

**List of Top Twenty Stock Exchanges Worldwide**

| Rank | Exchange | Economy | Headquarters | Market cap (USD bn) | Trade volume (USD bn) |
|---|---|---|---|---|---|
| 1 | New York Stock Exchange | United States | New York | 18,779 | 11,299 |
| 2 | NASDAQ | United States | New York | 6,683 | 8,739 |
| 3 | Japan Exchange Group – Tokyo | Japan | Tokyo | 4,485 | 4,011 |
| 4 | Euronext | Netherlands<br>France<br>Belgium<br>Portugal | Amsterdam<br>Paris<br>Brussels<br>Lisbon | 3,504 | 1,443 |
| 5 | London Stock Exchange Group | United Kingdom<br>Italy | London | 3,396 | 1,890 |
| 6 | Hong Kong Stock Exchange | Hong Kong | Hong Kong | 3,146 | 1,093 |
| 7 | Shanghai Stock Exchange | China | Shanghai | 2,869 | 2,920 |
| 8 | TMX Group | Canada | Toronto | 2,204 | 1,008 |
| 9 | Shenzhen Stock Exchange | China | Shenzhen | 1,913 | 3,677 |
| 10 | Deutsche Bourse | Germany | Frankfurt | 1,716 | 1,095 |
| 11 | SIX Swiss Exchange | Switzerland | Zurich | 1,527 | 579 |
| 12 | Bombay Stock Exchange | India | Mumbai | 1,519 | 94 |
| 13 | National Stock Exchange of India | India | Mumbai | 1,485 | 480 |
| 14 | Australian Securities Exchange | Australia | Sydney | 1,344 | 609 |
| 15 | Korea Exchange | South Korea | Seoul | 1,273 | 990 |
| 16 | NASDAQ OMX Nordic Exchange | Northern Europe, Armenia | Stockholm | 1,243 | 542 |
| 17 | BME Spanish Exchanges | Spain | Madrid | 1,146 | 782 |
| 18 | BM&F Bovespa | Brazil | São Paulo | 992 | 518 |
| 19 | JSE Limited | South Africa | Johannesburg | 951 | 254 |
| 20 | Taiwan Stock Exchange | Taiwan | Taipei | 848 | 552 |

SOURCE: WIKIPEDIA.ORG

they're about $70 trillion. That's significant growth. I believe in the next 10-15 years we could see that increase by as much as another $70 or $80 trillion. So figure $150 trillion.

The US shares are likely to decrease because we're going to see China, India, and the emerging markets growing. If you look at Chart #10 I put a list of the top 20 stock exchanges worldwide. If you look at what's happening with the Shanghai Stock Exchange or the Shenzhen or the Bombay, they are growing and the growth is dramatic.

China announced that it was slowing and it's only going to grow 7% a year. If you live in the United States, that's a phenomenal growth rate. Anyway, that will give you a sense of the strength of the different exchanges and the extraordinary signs of the US in comparison to everybody else still.

The next chart is where I'm going to really focus for global valuations. What I did is I took a list of country ETFs. This was at the end of January because I don't think month to month it makes a difference, so I just repeated the one we used in the Wrap-Up.

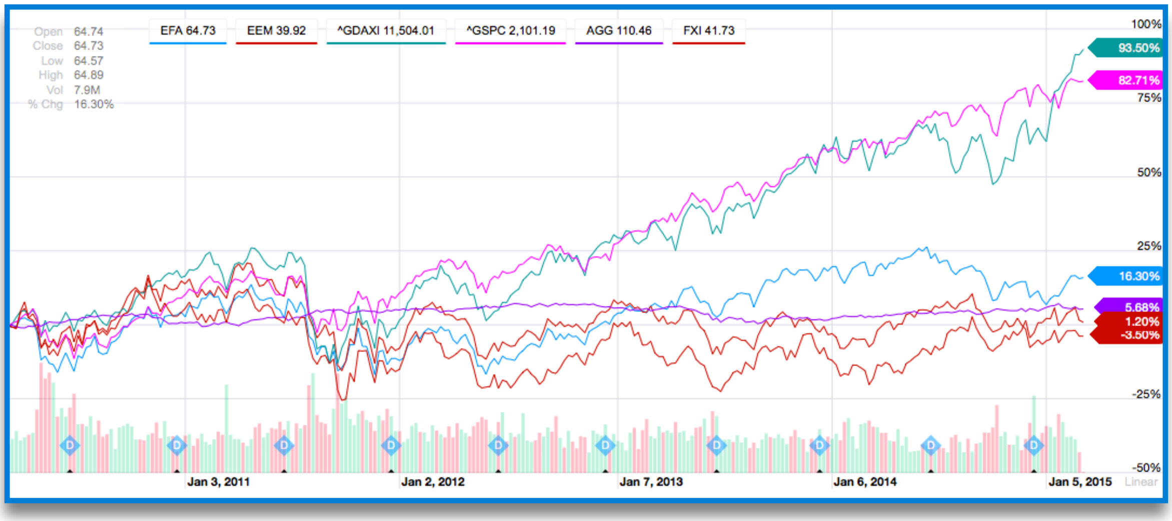
What we've done is we've taken global ETFs and shown the price earnings ratio reported for each one. What you'll see is there is some dramatic differences still. We see Russia, of course, in the basement with a P/E of seven. It's very interesting if you look into the Russian market you can see some amazing stocks that are trading at two and three times earnings with some pretty significant assets. In theory in terms of value opportunities, there is a lot there if the squabble ever ends.

China is at a P/E of nine. Norway, one of my favorites, is at a P/E of 11 compared to the United States which – in this one – we used the Vanguard S&P 500 and it's at 17. We have others in the mix that are 18 and 19. Clearly the US and the developed world are way, way ahead of many others.

There is still a fair amount of divergence in the global price earnings ratio and how much a dollar of income or dividends is worth in one place versus at the other. One of the big questions I have is: If China is growing at 7% and the United States is growing at 2%, at what point does it make sense to shift money into China?

**P/E Ratios of Country ETFs**
January 27, 2015 US Closing Price

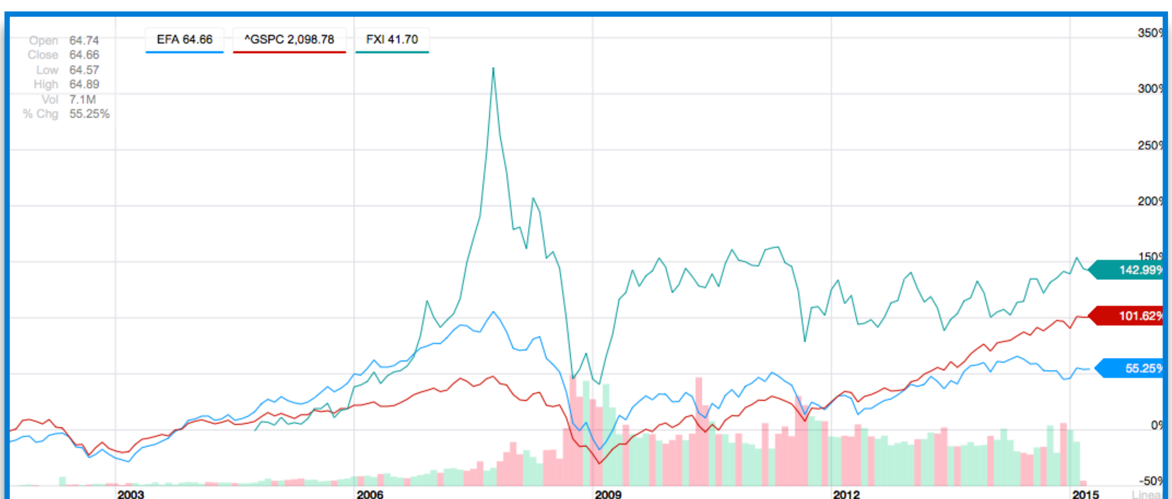
| | | |
|---|---|---|
| **Argentina** | Global X MSCI Argentina (ARGT) | **14X** |
| **Australia** | iShares MSCI Australia (EWA) | **15** |
| **Belgium** | iShares MSCI Belgium Cap. (EWK) | **16** |
| **Brazil** | iShares MSCI Brazil Cap. (EWZ) | **14** |
| **Canada** | iShares MSCI Canada (EWC) | **16** |
| **Chile** | iShares MSCI Chile Cap. (ECH) | **14** |
| **China** | SPDR S&P China ETF (GXC) | **9** |
| **Denmark** | iShares MSCI Denmark Cap. (EDEN) | **16** |
| **Finland** | iShares MSCI Finland Cap. (EFNL) | **16** |
| **France** | iShares MSCI France (EWQ) | **14** |
| **Germany** | iShares MSCI Germany (EWG) | **14** |
| **Hong Kong** | iShares MSCI Hong Kong (EWH) | **15** |
| **India** | PowerShares India (PIN) | **16** |
| **Indonesia** | iShares MSCI Indonesia (EIDO) | **13** |
| **Italy** | iShares MSCI Italy Cap. (EWI) | **13** |
| **Japan** | iShares MSCI Japan (EWJ) | **15** |
| **Mexico** | iShares MSCI Mexico Cap. | **18** |
| **New Zealand** | iShares MSCI NZ Cap. (ENZL) | **18** |
| **Netherlands** | iShares MSCI Netherlands (EWN) | **15** |
| **Norway** | Global X MSCI Norway (NORW) | **11** |
| **Poland** | iShares MSCI Poland Cap. (EPOL) | **19*** |
| **Russia** | Market Vectors Russia (RSX) | **7** |
| **Singapore** | iShares MSCI Singapore (EWS) | **14** |
| **Spain** | iShares MSCI Spain | **14** |
| **South Africa** | iShares MSCI South Africa (EZA) | **16** |
| **South Korea** | iShares MSCI South Korea Cap. EWY) | **9** |
| **Sweden** | iShares MSCI Sweden (EWD) | **16** |
| **Switzerland** | iShares MSCI Switzerland Cap. (EWL) | **17** |
| **Taiwan** | iShares MSCI Taiwan (EWT) | **13** |
| **Thailand** | iShares MSCI Thailand Cap. (THD) | **12** |
| **Turkey** | iShares MSCI Turkey (TUR) | **10** |
| **United Kingdom** | iShares MSCI United Kingdom (EWU) | **14** |
| **United States** | Vanguard S&P 500 (VOO) | **17** |
| **Vietnam** | Market Vectors Vietnam (VNM) | **10** |

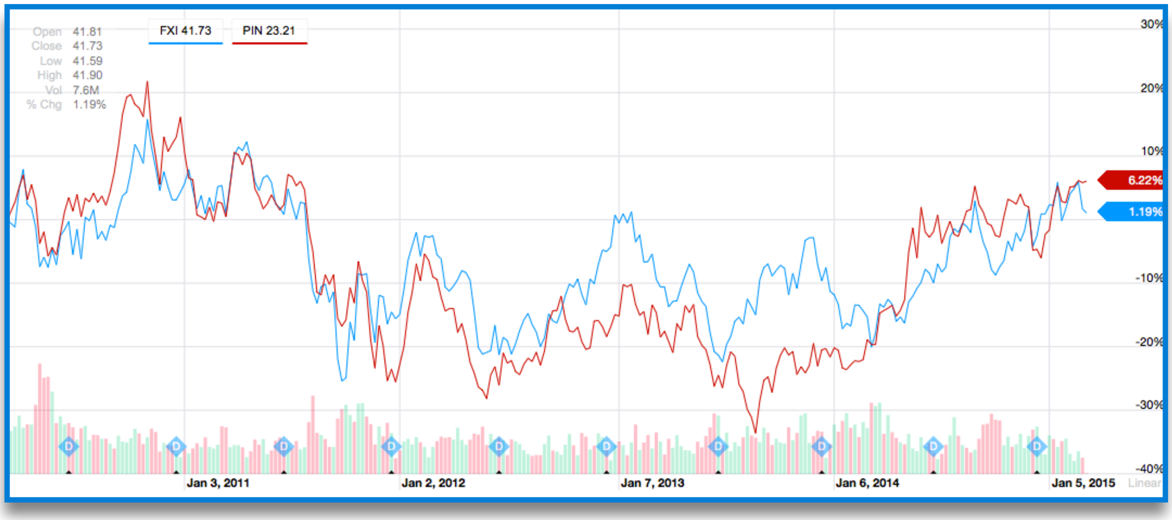



Let's look at some historical values. Chart #12 shows the S&P versus the DAX which is the German index versus emerging markets' ETF and the developed world ETF as well as China Caps and corporate bond aggregate. It gets a little bit crowded. It's a five-year period.

What is shows is the Germans up 93%. That's a smaller index. It's the top 30 stocks. The German is up 93% and the S&P is up 83%. The developed is up 16.3%. The aggregate bond is up 5%. China is almost flat at 1.2%. Emerging markets are down by 3.5%.

What you see is you see tremendous divergence between the two strong guys. One has got the reserve currency. The other is the powerhouse inside the Euro.






They're drawing way ahead of everybody.

If you look at Chart #13 we take a longer view – 13 years. What you see is the spectacular growth of China coming from no place into a real economic powerhouse. Still, if you take the long view, China is still ahead of the S&P.

Chart #14 – to put China in perspective I thought I'd take a look at China versus India. Both countries have, by far, the most population. India and China together are about 2.7 billion. India is about 1.3 billion and China is about 1.4 billion.

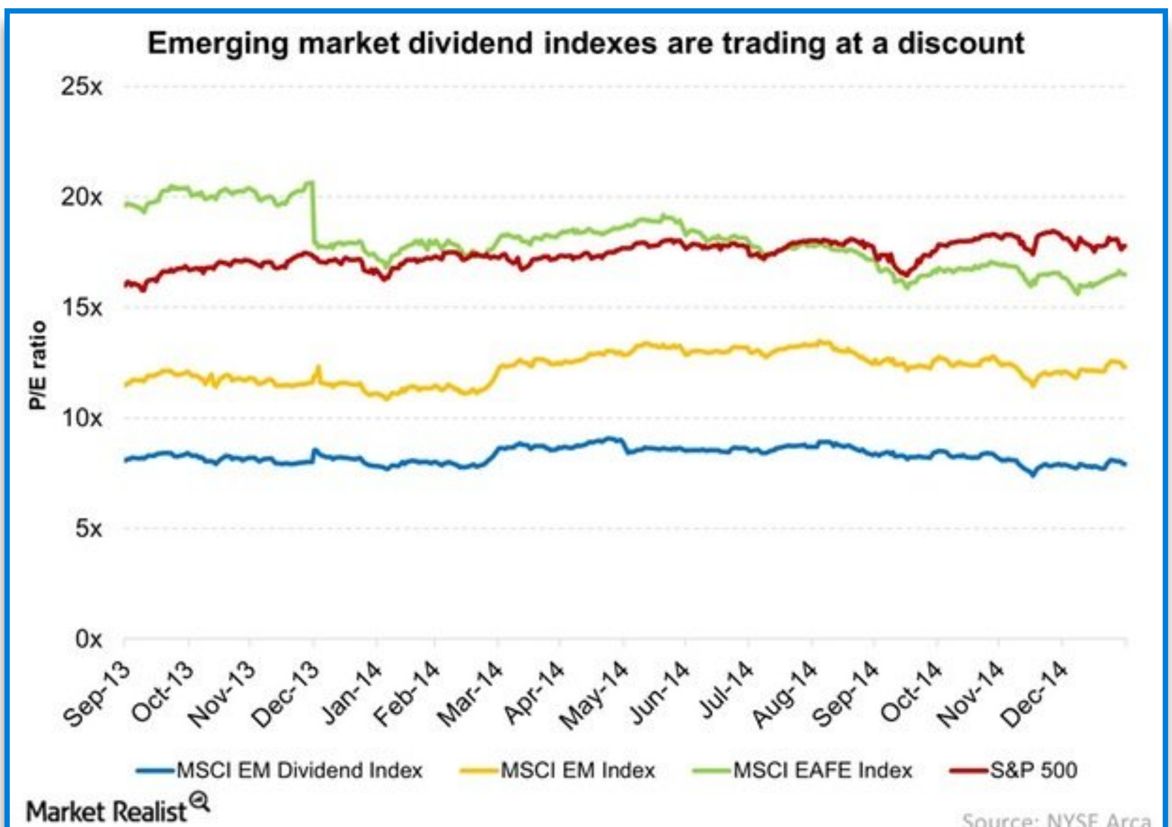
As you can see, in recent period they've traded in tandem. I think this is five years, and there is lots of hope today in the global economy that growth in India is going to help pull the global economy out of the doldrums. We'll see if that's true. So far they've really been trading in tandem, and of course India had a really good year last year.

The Chart #15 I just wanted to dig in a little and show you some of the strength in the US market. It's quite extraordinary. This is a ten-year chart. I show four things. One is the S&P versus IBB which is the biotechnology ETF which has been the strongest sector in healthcare versus the bond aggregate versus Apple.

What you can see is Apple has basically gone to the moon. If you dig into the US performance, an extraordinary amount of it, as I said, is dependent on


technology, but a lot of that is dependent on Apple. There's nothing like taking a look at Apple versus everybody else to give some perspective to the thing.

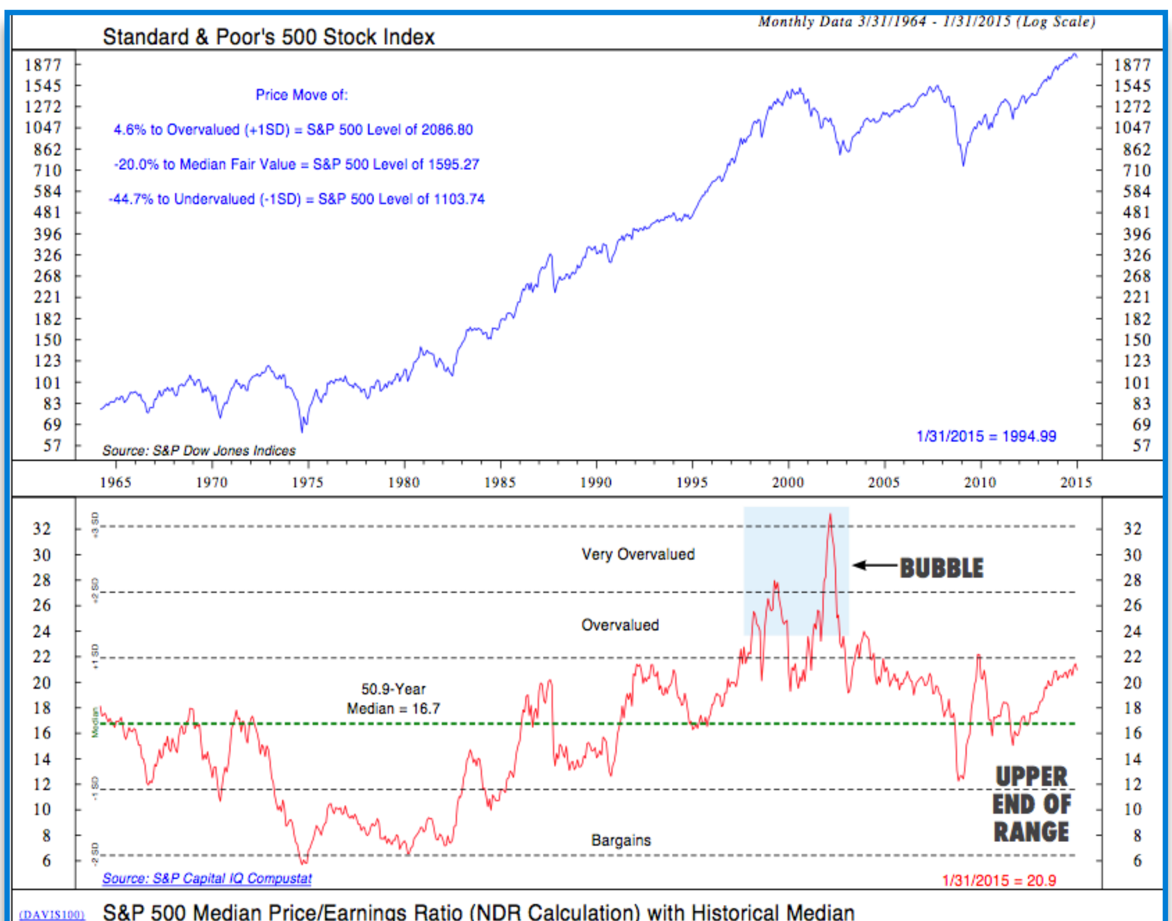
Chart #16. I want to talk a little bit about the emerging market opportunity. As the US market has been strong and has really come up, emerging markets have really stayed flat or down, depending on where you are. There have been some



very poor performances. What that means is that you pay much, much more for both income and dividends in the developed world and in the US than you do in the emerging markets. You don't want to take advantage of that opportunity if it's still going down and the US is going up. The question is: When will that happen because the divergence is so extraordinary.

Now there are reasons why in the emerging markets income and dividends may not be worth as much as they are in the developed world. I won't bore you with all the possible reasons why, but I think if you can buy China at nine and you're paying more than double that in the US, the question is: When is the arbitrage worth taking?

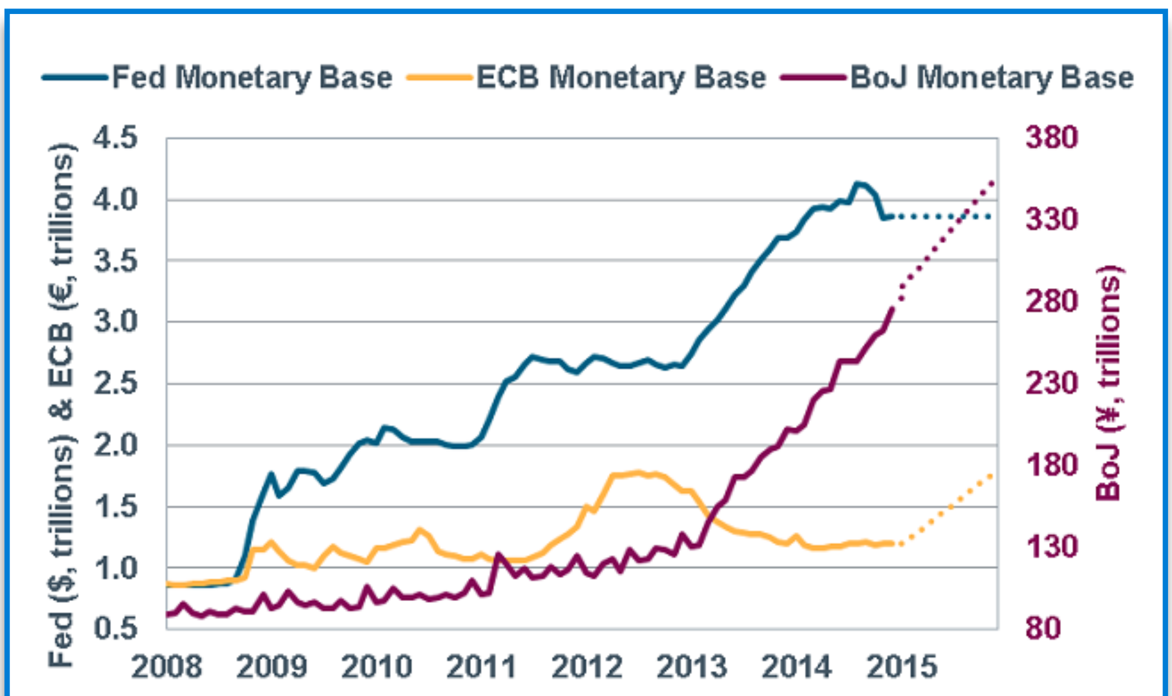
There is a link to a Guru Focus article in your subscriber links on the global valuations that talks about future expected returns versus where you buy. I think it's one that is really worth looking at. I don't necessarily always agree with everything they say, but I think it really flushes out the issue very nicely and is very much worth taking a look at.



If you turn to Chart #17 it's a review of the Price Earnings Ratio on the S&P through history, and if you go back through history what you see is there are two times when we've gotten quite a rise in the S&P and PE and that is times of new technology. One was the Roaring 20's and then the other was the Tech Bubble. You can see the PE is quite high by any relative mean. We're definitely ahead of the median or the mean. There's an old saying in investment that everything returns to the mean. I think that's what has been of concern. What's supporting the rising values?

Let me talk about a couple of things that are supporting the rising value. One you can see in Chart #18 is a look at the monetary base, first in the United States and then in the ECB and then Japan. That is, we are having extraordinary expansion of money supply and debt all around the world. With this decision by the ECB to essentially engage in quantitative easing we've now passed the baton which has gone from the Fed to the Japanese Central Bank and now to Europe. I think the G7 remain committed to expanding money supply in this way.

Then, of course, there is globalization and increased communication. I note the latest cover of *The Economist* is a picture of the planet covered in smartphones. The subtitle of the headline basically says, "80% of the population globally will



have a supercomputer in their pocket by 2020." That is obviously having a big impact. Technology can be very deflationary, certainly particularly to the value of labor in this case.

Another thing going on is we have a switch from assets out of communities out of municipalities out of governments into corporations. It's part of what's fueling it. Clearly government subsidies and regulatory benefits are supporting this. Moreover, we have huge pools of capital – government pension funds, government sovereign wealth funds that have been buying equities and shifting to equities. Finally there is new technology. If you look at the other big rises in the PE, they've come during periods of new technology. If you look at what's ahead in terms of new technology it's quite extraordinary.

Given all of this, it's not surprising Germany is flying. Interestingly enough, if you look at their index it's stronger than the S&P on a one-, two-, five-, or ten-year chart. Germany is quite strong.

## GLOBAL VALUATIONS: VARIABLES TO WATCH THIS YEAR

Let's go through what could have some big impact on valuations. One is the rising dollar. If you look at Chart #19, one of the Schwab strategists had this chart and I thank them for that. The US markets are typically strong in the year following a strong dollar. The dollar was up over 12% last year. If history is a good predictor, that means the US equity market should have a good year this year.

| Periods when dollar rose >10% in one year (1965-2015) | | | | | |
|---|---|---|---|---|---|
| | US dollar index prior year | S&P 500 price return | Maximum peak to trough decline | Maximum trough to peak gain | S&P 500 operating earnings per share growth |
| 1982 | 15.8% | 14.8% | -16.6% | 39.6% | -9.0% |
| 1983 | 12.1% | 17.3% | -6.9% | 24.8% | -3.8% |
| 1984 | 12.3% | 1.4% | -12.7% | 15.3% | 26.7% |
| 1985 | 14.9% | 26.3% | -7.7% | 29.5% | -6.9% |
| 1993 | 10.6% | 7.1% | -5.0% | 9.8% | 28.9% |
| 1998 | 13.1% | 26.7% | -19.3% | 33.9% | 0.4% |
| 2006 | 12.8% | 13.6% | -7.7% | 16.6% | 14.7% |
| 2015 | 12.5% | ? | ? | ? | ? |
| Median | 12.7% | 14.8% | -7.7% | 24.8% | 0.4% |

The challenge – and this is a big one – is corporate earnings have been quite stretched. A lot of corporate earnings have been supported by buybacks. If you look at the early reports on earnings, it's hard to fathom how you can have a strong market when earnings just aren't there to support it.

A strong dollar makes it harder to export for the companies, and it also means companies with earnings from around the world when they consolidate back it can hurt their earnings that way.

A strong dollar is not necessarily good for corporate earnings, so there is a cross-cut here and it will be interesting to see how it turns out.

Just remember – and this is a heads-up warning – 95% of the gains in the US stock market historically have been between November and June. That means June to November is not a strong period. We are so overdue for a 10-25% correction. If you look at the normal patterns of a bull market we should have had a 10-25% correction long ago. If we get one it would be healthy, but between summer performance and 10-25% correction being long overdue, if we do get that this summer please do not start thinking that 2008 is here again. It's very normal and healthy for the market to trade off, and we should get a consolidation. It would be perfectly natural.

Second item: Interest rates. We are in a very unprecedented time. This is something we haven't seen before. During the Great Depression we saw treasuries and some sovereign's trade at negative interest rates. There have been a couple of times in history when it's happened. It certainly happened in 2008, but we've never seen anything like what is happening right now in Europe.

I put up the quote for this blogpost from the Denmark Central Bank Governor just because it's so striking as to what is going on. Let me read it to you:

> There is no limit to how low rates can go and how large foreign currency reserves can grow. The message is that if it's not enough we will do even more. Either we can expand our balance sheet or we can go deeper in negative territory with the interest rates. That is a possibility and no one should try to outguess us here. We can go on forever.

What we're watching is an unprecedented effort by the central banks to push everybody out of the bonds and bank deposits. We've seen corporations borrowing money at no interest rate in the Eurobond market, and we've seen sovereign issuers now with negative interest rates. That's because if the ECB is on an unprecedentedly large buying program, folks think they can make money on the gains buying sovereigns at a negative interest rate.

It's quite extraordinary what's going on. Apparently one commentator said the other day that you have to go out to 20 years to get a positive yield on a Swiss sovereign bond.

Where this goes no one knows, but this has the potential dramatically to crash up first the European equity markets and to contribute to doing the same in all the equity markets. You're certainly going to have trouble getting yields and bonds.

Another thing to keep an eye on is rising interest rates in the US. The Fed has given several indications that it plans to raise interest rates. If it does, we could literally watch the US dollar fly up. Countries and borrowers all around the world needing dollars, and the US being able to print dollars. As I said before, beware of a US dollar bear trap from rising interest rates if that happens. It's really one way to put the bricks over a barrel and the US to flex their muscle and remind everybody who's boss.

Another thing to keep an eye out for is creative destruction. We just did a Solari Report on Breakthrough Energy because I wanted to take a deep look at what was going on with oil and gas prices. You can learn more by listening to that, but there is no doubt the speed at which new technology is coming is very fast and it's going to accelerate. That has the ability to have dramatic impact on both corporate costs or revenues, and to change very much who is a winner and who is a loser.

If you go back and look at the chart of Apple that I showed you when we discussed the global valuations, what you can see is Apple going to the moon, but a lot of companies had their revenues hit hard by Apple's entrance into all sorts of businesses. Think of what it did to the companies that made CDs.

Economic warfare and war – there is an indication that more Russian sanctions may be on the way. Defense stocks just keep rising unfortunately, but they're not going to make their target sales unless we have more war and chaos. Economic warfare and war are always something that can push the market one way or another.

The weather and the environment are some of the risk issues that are of most concern, and I think some of the companies that are going to do very well are the ones who find solutions to different environmental or living problems caused by weather. We're seeing lots of articles about what the Israelis have accomplished with desalination and water management. Don't be surprised if we see the rise of more and more companies addressing the real solutions.

Finally, one thing to keep an eye out for and to be warned about is extreme scenarios regarding the US. Please don't ask me what's going to happen to the US when it collapses. It's not going to collapse. It's certainly not going to collapse this year. I shouldn't say 'never'. Anything is always possible, but the chances of the US collapsing are extremely small.

If the US was about to collapse the dollar wouldn't be up by 12% last year and much more now. Just be aware of those kinds of extreme scenarios. Just remember I think they are very unlikely.

What is likely is that you are going to be debased in a variety of different ways. I would much rather you focus on the risks of what happens in a slow burn than you worry about collapse because collapse gets people to adapt strategies which are absolutely not in their personal and financial best interest.

There are other scenarios – US triumphs. If you listen to some of Martin Armstrong's predictions of the US dollar going as high as 160, again I'm not saying it couldn't happen, but the only way something like that could happen is if we saw US leadership really restored to something that was not only cohesive but that could command an exercise real, intellectual, and moral respect for us globally, not just through military and covert operations, but really coming from true leadership of the global system.

While anything is possible, what we have is a generation of leaders who – as

Leonard Cohen said – have been blinded by the beauty of their weapons. How you sweep out that group and get in a group of people who have real intellectual and moral force and respect globally for their leadership qualities, I just don't see that happening.

If you're a US citizen or resident, the situation is frustrating and I think sometimes it's emotionally satisfying to embrace the US collapse extreme or the US triumph extreme. The reality is the US is probably going to muddle through. Be prepared and don't fall into the trap of extreme scenarios.

Again, anything is possible. Be prepared for anything, but you want to focus on being successful in the more likely scenarios which right now is the slow burn.

**"Be prepared for anything, but you want to focus on being successful in the more likely scenarios which right now is the slow burn."**

## Global Valuations: Opportunities

There are a lot of opportunities and we're just going to have to see which ones emerge. Let me give you a list. Not all of these are going to emerge or are going to emerge this year, but some might so let's talk about it.

We may have a bottom in oil, both oil and gas. Renewable prices have held at the bottom. They're bouncing around at the bottom. Oil could dip down again almost to 40, but let's watch. If we do get a bottom on oil and it heads back up by spring, there's going to be quite an opportunity in oil and gas stocks and renewable stocks as well.

Europe. The ECB is going to print. It's a major program. The European markets and the strong stocks in the northern economies are off to a great start this year. Europe seems to be headed for a very strong year, so watch Europe and particularly strong stocks – high quality stocks in the northern economies in Europe.

If the fight is ever over in Russia you've got great stocks at two times the earnings. When you're paying 18X and above in the developed markets that is an incredible opportunity, but the fight is far from over.

China has a lot of opportunity. China, yes, the growth is slowing, but their markets have been so down and are at low PE's. China's reforms allowing the linkages between Shanghai and the northern markets in Hong Kong are going to have a big impact to capital flowing into China. Even though China has levered up to keep their economy going in the last three years and is slowing down, I think China is going to have a lot of opportunity - Asia as well.

Emerging markets when the dollar tops. Emerging markets are an attractive place to buy earnings and dividends now, but if the dollar continues to be strong we could see the any of the foreign stocks for Americans hammered. It depends on how strong the dollar is.

New technology. Clearly new technology is part of what is carrying the market. I think part of healthcare, in fact, is the application of technology to the healthcare markets thanks to the federal government decision to command an extraordinary investment by the citizens and doctors in collecting data.

Real estate. If and when the new energy technology ever gets introduced, real estate is going to be an incredible opportunity. I think the great effort is going to be made by the democrats to goose housing before the election. Again, I'll talk about that more in Money & Markets. Take a look at my housing commentary up on the blog this week. It's going to be a fascinating year both in terms of investment opportunity and what the market says about what is happening.

A lot of people will say to me, "I have no money, so why should I can care about the stock markets?"

If you want to understand what's going on in the world, watch the equity markets. You'll learn so much about what's really going on.

Anyway, because it's going to be such a rock-n-roll year, we're going to be following this weekly on The Solari Report. There is too much change not to watch it closely.

## Portfolio Strategy

That's it for Global Valuations. Let me turn to Portfolio Strategy.

First I'm going to have to give you a disclaimer. If you look at any kind of financial websites or advisors you'll always get this long, dry comment that everyone is unique and you shouldn't listen to generic advice because different people have different age, temperament, skills, opportunities, and on and on. I couldn't agree with it more.

One of the things that has happened to me as an investment advisor is I have cleaned up so much mess from people coming to me who've done something as a result of just infuriates me. I don't give generic advice because everyone really is unique. Everyone really is very different.

I can talk about certain patterns, and I can talk about certain issues. Let's just go through this, but really if you're going to fashion a specific investment plan you need to do it because only you can really understand your circumstances. You need to make sure that if you get advice from other people you ensure that they take the time to understand you and your needs and where you're going and what your purpose is in life.

Number one, I want to talk about governance because what I find is when investors make really bad mistakes it's because they haven't put in place a proper governance structure. Essentially there is a chairman of the board of all your resource allocation and you're the chairman. You govern; you're responsible. You can bring in other people to manage. You can take this pot of money and give it to this person to manage or that person to manage, but ultimately you are responsible to oversee. You are responsible to hire and fire your managers. If you get advice, you are responsible to get the right advice.

That means you need to take time. It's a serious job and you need to budget time for monitoring communication and strategic planning.

There are a few good books. In the Annual Wrap-Up we had a section, Best Books for 2015, and I gave you some of my recommendations for great books to help you if you want to understand investment. There's a great book by Jay Hughes called *Family Wealth*, but please take time to set up a governance structure with you as the chairman of the board that really takes responsibility to oversee and direct your allocation of resources, because you're responsible ultimately.

Management. Good governors choose good managers. There are a lot of different ways to do this, but you want to make sure – and you cannot be too careful about the quality of people that you involve yourself with – that you have quality of bank, quality of securities, quality of custodian, and quality of investment advisors.

There's a big sort-of bruha going on in the markets right now about who's better to have active versus index managers. There are arguments on both sides. Particularly when there is a bull market the argument is always for index because index will stay fully invested in a bull market. That's going to produce the best results.

The advantage of an active manager is that if we get into a 2008 kind of situation they can take you out whereas with the index you're going to have to do it yourself.

This is not either/or – you can do some active and some index.

One of you said in a recent post that you couldn't find managers who understand what's really going on. Actually I think you can. They break down into two groups. One is insiders who you may not have access to. The other is people who are quiet about what they know but they are out there. You're just going to have to take the time to find them, but you can find them.

Let's talk about allocations. I'm going to give a very broad definition to investment categories. First of all, there is you and those you love. I have to say your most important asset is yourself and your family and your friends – the people you love. You need to think of your financial assets as things that simply are organized to support you, but you're the asset.

I always find that giving too much weight to financial assets and not remembering that financial assets are simply something that support and hold up human assets gets us in the wrong way of thinking.

There is you and those you love. There is your own business – which may be appropriate for some and may not. Generally I find people who have their own business, it is by far and away their best investment whether they're investing in the skills that they use in their business or the business itself or building the business.

There are real assets – everything from real estate to precious metals to gems. Then, of course, there are securities.

The most important decision you will ever make in a securities account, if you look at investment performance over a long period of time, is how much you allocate to stocks, how much you allocate to bonds, how much to commodities, and how much to cash. Then, of course, you can break the stocks down by place and sector. You can also break the bonds down by various types, including place as well as maturity. Then finally there is insurance.

Allocations are very, very unique to an individual. I find working with different individuals I come up with very different allocations. Again, it's not possible to discuss generically. Anyone who says that they can or you should have this much percent in stocks or this much percent in precious metals has no idea what they're talking about. I would be very, very careful.

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One of the things I always focus people on when they develop a portfolio or investment strategy is diversification of custodian. Please read a blogpost I wrote called *Rethinking Diversification*. We'll put a link in the subscriber links. You don't want to have all your money in one place. There's nothing more tragic than talking to somebody who had all their money in MF Global or all their money in Madoff. You just don't want to have your money all in one place because anything can happen.

If you look back over the centuries, the people who managed to navigate their wealth through changing times always had money in different places.

Let's talk about some of the different custodians. Banks. I'm not concerned about the FDIC system. The FDIC system expresses its obligations in dollars, and the US has the power to simply create dollars out of thin air. So why they would ever default on the FDIC, I can't imagine. The only reason you'd do it is if Mr. Global had dictated that there would be a collapse of the United States and a run on the banks. I don't see any indication that that is coming up, let alone it's coming up this year. I have no concerns about the FDIC system whatsoever.

Securities. You need to go with the establishment. You need a strong well-capitalized brokerage system. If you're going to go on the United States or the equivalent in countries around the world, if you have the wherewithal to get to Switzerland I do think their custodian system is superior to what we have here, but I'm not concerned about some of the big brokerage houses. I just think they're a critical part of the infrastructure and there's no way the establishment would let them go down.

SIPC is the insurance program that covers up to a certain amount – up to $500,000 – of securities. It doesn't cover cash. I'm not saying SIPC won't be there, but I certainly don't count on SIPC. You don't want to have your money in a brokerage firm that you think is going to have to ultimately call on SIPC. I think you just want to stick with very great strength in custodian. That gives you an option to use lots of different investment advisors or money managers, as is usually the case.

With cash I recommend you stick with FDIC or government-only money markets if you can. If you can't get a government-only money market you should be able to get FDIC insured deposits through the brokerage firm.

Money markets, if you look at the changes they've made in the regulation, could in theory have runs. Also for custodian it's wonderful if you can have multiple jurisdictions – multiple counties, multiples countries. It's good not to have all your money custodian in one jurisdiction where something could happen and you then have a problem.

I find that many of us are fighting the last war. So many people are worried about a 2008. Don't worry about the financial coup. The financial coup is over. That's not to say we can't have an incredible volatility.

For example, oil comes down 50%, your oil and gas stocks are going to go way down. But, again, if you take the time to know where your money is and don't have everything in one place, you're not going to have happen to you what happened to the people who were in Madoff and MF Global.

I was always shocked to see who turned up with accounts in MF Global. If Jon Corzine had gone and taken over a troubled firm the last thing I would do is leave my money there. You need to really care about where your money is, and you need to make sure it's in something that is financially very strong and ideally has high quality management.

Your biggest risk is debasement, and that is a major risk. The other risk we have is lawlessness and corruption in the system. Again, that's why you want to be very, very careful. People are always telling me they don't trust the securities system. Well, good Lord! If you tried keeping money at home, do you really trust your neighbors? I have a lot more confidence in a lot of the securities firms.

Real assets give you lots of additional options. I don't want to have all my money in the banking and security system. I do want to have real assets outside. As I said, you're the most important asset. One of the things you can always do is reduce overhead. If you look at the typical American family, we have been intermediated over the last 50 years. We're basically working for the company and then buying our clothes at the company store and putting our savings in the company stock. We've just got big corporations throughout our balance sheet.

Disintermediate. That's an opportunity, depending on your situation. For example, I always talk about the friend who was complaining about the yields on their stocks falling and their water bill rising. I said, "Simple. Sell some stocks and build a well."

They could in that neighborhood and they did. They were in a relatively rural area. You know, what can you do – whether paying down your mortgage, paying down your debt, building your own well, putting in your own energy system – to permanently reduce your overhead? Anything you can do to lower overhead is going to protect you from system risks – and from risk of both inflation and deflation. It can protect you from regulation.

If you have your own energy system, you don't have to worry about the utility company coming and putting in a smart grid and jacking up your rates. You build much greater resiliency and you protect yourself, including from higher prices, more regulation, and all sorts of inflation.

The other thing is moving to other places. There are other places around the world that have much lower costs than we do and they have much better healthcare and fresh food, but you want to be careful because moving to a place where you're a stranger as it can entail a lot of risks. If you look at the people who are living abroad in low-cost areas, or I'm in rural Tennessee. One of the reasons I moved here was there were much lower costs.

Another way to reduce overhead is to move to a place that has lower costs, but ideally better healthcare and fresh food. One of the things that is running up everybody's costs is the cost of poor healthcare and not having the benefit of wonderful nutrition. That's why I always say, "Don't cut your overhead by cutting your preventative healthcare. Make sure you have the kind of fresh food you need to be healthy."

Another group of real assets that a lot of people use to diversify is real estate. I find there is, again, that it gets back to everybody is in a very unique situation. Income-generating properties can be a great source of income and a very reliable asset in many ways, but it depends. If you're in an area where there is an experienced firm with a good track record well-known to everyone in terms of buying and managing properties, that's a great way to invest without your money being in the broader system.

Some people are very capable of doing this themselves – buying real estate and overseeing the maintenance, the leasing, and dealing with tenants. Some people are in a position to do that. Many are not and they need a professional manager. Sometimes there are relationships with local brokers or local homebuilders where in fact there are opportunities to go in and do a little bit of local investment, but, again, it depends on whether that opportunity is there or not.

Real estate, if you have the right relationships and the right people to do things, there can be a lot of opportunities. If new energy technology makes it out of the lab – and it sure looks like it might over the next 5-10 years – real estate is going to be a gangbuster opportunity, particularly if you're in areas where Global 3.0 is reinvesting.

Another one that some of my clients use is community development funds which can give a reasonable return and keep you in something that is pretty grounded and real, which I think could do well in situations. If you want some fixed income exposure it's a way to do some fixed income and get a decent yield and have your money in a very different kind of system.

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Consider local bank deposits as well as safe deposit box. We're seeing a lot of growth in peer-to-peer lending. Again, it's outside the system. It's a very different system of loans to family and friends.

You are always hearing me tell the story about when the litigation had started. It turned out I had given or lent $250,000 to family and friends, and that was the money that came back over the ten-year period. I can't tell you what a difference it made. Not only did that money come back, but because I had gifted so much to people in the family, I had people in my family say, "Well, she helped other people so let's turn around and help her."

It turns out that that $250,000 was the best investment I ever made!

And then, finally, of course there is cash and precious metals and depositories in a variety of different jurisdictions. Be careful, though. Some people keep precious metals at home. Some of the greatest losses I've ever seen in precious metals are: 1) people forgetting where they put it – believe it or not, and 2) theft from the house – whether you have people come like plumbers and electricians and you forget that you put it down there in the basement, and you realize months later that it's gone, or even friends and relatives. Then, of course, there are professional thieves who get it in their head that you might have precious metals, and there you go. A lot of precious metals at home can be quite dangerous.

Finally, generating income. Investing in your own business, to me, is one of the great investments, particularly where you have the time and passion to make it work. It takes a lot of work to get it going.

I just read a great article in the latest *International Living* magazine about a woman living in Istanbul. She is an English teacher, and she rented an apartment in Istanbul for $750. She generates $2,000 - $4,000 a month from Airbnb rentals on a room in her apartment. So there she is, living in Istanbul and literally renting an apartment but making enough money as a landlord to cover her rent and all of her overhead and even generate a little bit, she says, for savings.

The other thing is you may not want to commit to doing a business, but it's very important – I find – in this environment for people to feel like they are needed. You may not want to charge people or generate a cash flow, but that doesn't mean you can't volunteer and get the benefit of feeling needed.

One of the things you've heard me say is that I think dividends matter tremendously. I'm one of those people who is remarkably comfortable with stocks that go up and down and up and down. I own an Asian REIT that I like very much. I'm always being criticized because it's down about 30%, but my attitude is that I'm getting 7% on my dividends. What do I care if it's down 30%? If I bought a CD I wouldn't be down 30% but I wouldn't be getting 7% on my money all the way along. I can live with the volatility. I don't ever intend to sell it. I think it's going to do very well over time.

I find insurance is, again, very particular to a person – what they need, how much they need. In certain circumstances, if anything I over-insure.

I'm not a big fan of annuities. That's because if you look at the fees and credit risk involved, it's a way to sell people certainty whereas I think you would do better to live with the volatility and the risk and the swings of fortune and maintain control. I just don't think it's worth it to get the impression of certainty. At the same time, I'm very concerned about what continued low interest rates could do to some of the insurance companies.

There are many insurance companies who have made promises assuming certain interest rates, and interest rates have come down. Negative interest rates could really hurt them. I just think you want to be very careful if you do annuities.

If you do an annuity, you really want to make sure you understand all the fees involved.

Finally, one thing I would say is disability insurance, depending on your situation, is something that can be very expensive but it can makes a lot of sense, again, depending on the particular situation.

Donations. I consider donations to be an important part of any investment strategy or any resource allocation. We all need to be about helping each other. We all need to pay it forward. I'm a great believer in participating in crowdfunding and Kiva. I do it all, and I think it's very important. Not every project makes money. Some just make the world a much better place.

I think what we all need to be safe in this world is to be part of a community and have an ethic of helping each other. That's what is going to make not only the society go, but the community that you have going around you.

As I've said before, when I got in quite a pickle I had lent $250,000 and that was the money that came swinging back. I wouldn't have made it if it hadn't been for that.

Be thinking about how you can reach out and help other people. You never know. What goes around comes around.

A few other comments I want to make that I think just help me remind you of what is going to be important when you sit down to think about, "How am I going to govern my assets over the next 20, 30, 40, or 50 years?"

We're going through a process, and part of what the financial coup was about was moving assets out of government and into corporations. One of the reasons that I think the equity markets will do well is that reflects the growth of corporations as opposed to governments. That is number one.

Number two, one of the divergences we're watching is between quality and non-quality. One of the things you need to think about – whether it's the people that you're associating with when it comes to being custodian or helping you manage money, you want to be very careful about quality, and you want to be very careful about the quality of the assets that you're investing in.

You cannot be too careful. I find one of the things that really hurts people is they think, "Okay, 20 years ago when there was a bull market in bonds, you could be very non-picky about where you kept your money and what you did. Government regulations and the system would take care of it."

Now we're back to old-time ways. You've got to be picky about who you do business with. That means you've got to invest the time to do your due diligence and get to know them, etc.

Real asset valuations are volatile. Again, we're going from a world where we were in a bit of a government bubble or a government bond – a bull market bubble – and we're going back to a world where real assets really are quite volatile and you can have oil come down 50% a year. It's just the way life is, and you need to be prepared to handle that.

It gets back to a very broad diversification and living with the ups and downs. As I said about my Asian REIT, it's down 30% but I'm getting 7%. That's why in an environment like this with dividends really matter.

Finally, creative destruction. We're in for some very significant creative destruction, and you need to be prepared for it. If you're invested in Apple, it works in your favor. If you're invested in a buggy whip factory, it's going to work against you. That's why you've got to stay current on where things are going and pay attention. Creative destruction can come in and dramatically change things overnight.

Finally, this is an environment where it's difficult to do things alone. I always tell the story of after the Indonesian Tsunami when I sat down and said, "I just can't manage money in this environment alone."

That's why I started my first circle, and it was really so I could have a group of people to talk to. I just think many brains are better than one.

**"From my standpoint, in terms of investment performance and intellectual investment and making my life richer, it was very successful."**

The first circle closed after seven years. From my standpoint, in terms of investment performance and intellectual investment and making my life richer, it was very successful.

We started a new little circle just for the Solari employees called Team Awesome Circle, and we meet every two weeks. We're doing a million dollar simulation. We're posting some of the links every two weeks in a blogpost so you can track along.

I think if you're sitting here struggling with, "How am I going to govern my money? How am I going to feel confident that I know where things are going?" get a group of people together. You can do it by phone or you can do it in person. You can have dinner together once a month or every two weeks, and you don't have to put up real money. You don't have to start an investment partnership. That can get very complicated.

Just sign up on one of the websites that have stock and portfolio monitoring software and get a million-dollar simulated portfolio. Manage your simulated portfolio until you get to know each other and you get out of fear.

Finally, I want you to do just one mental exercise. Imagine yourself waking up in 1900 with a portfolio of savings to manage, and think about the wild ride that the 20th Century was. You have World War I, then the Great Depression, then World War II, then you had the rise of the black budget and the American Empire and then globalization and the creation of the WTO and off on the rebalancing of the global economy. In terms of technology we went from buggies and buggy whips to planes and to men on the moon.

It was an incredible wild ride, and there were great losses and great gains. Clearly the people who did the best were the ones who stayed in the game and kept reinvesting and working through the rock-n-roll. It's the same now. It's one of the reasons I wanted to do the Planet Equity section in the Wrap-Up. I want you to see the opportunity of this unprecedented shift, whether it's the rebalancing of the global economy, the introduction of new technology, or the entrance of so many different economies around the world into the securities market.

This is a unique time. Investors have never before had access to this many investment opportunities, and entrepreneurs and corporate managers around the world have never had access to this many potential shareholders and buyers of their securities. It's going to be an unprecedented ride, especially when 80% of the population has the equivalent of a supercomputer in their pocket. Let's see what happens anyway.

So I think it's going to be rock-n-roll, and I hope that we do everything here on the Solari Report to help you navigate through it. Expect the unexpected, and remember there is opportunity in that.

Ladies and gentlemen, I wish you good hunting. That's it for the First Quarter Equity Overview, and I look forward to the Second Quarter Equity Overview in approximately three months.

Have a great evening.