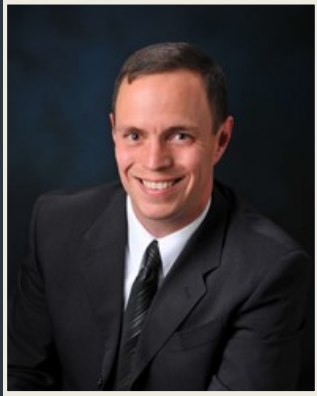


# Financial Wanderings

August 2015

A masterful examination of the previous month's financial events, written by Brad Blackburn, CFP®  
(and made even awesomer by Andrea Dickerson)



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## August Market Numbers:

**S&P 500:** -6.3% to -1,972

**NASDAQ:** -6.9% to 4,777

**DJIA:** -6.6% to 16,528

**10-Year Treasury Yield:**

+0.45% to 2.21%

**Gold:** +3.4% to \$1,132/oz

Although the commentary in this newsletter has been thoroughly researched, well-reasoned and contains many impressive multi-syllabled words, please enjoy it responsibly. There are many economic minds that are far smarter than mine—and even they can't agree on even the simplest economic questions. In other words, please enjoy this newsletter with the full understanding that it may be entirely wrong.

## It's China's Fault

From the warm and cozy confines of the recent smooth markets, a volatile market almost seemed like an exciting, exotic thing. That was especially true from the standpoint of a guy who was tired of writing about the same old stuff. However, after the markets punched me in the gut, I'd like to officially request a boring market again.

On August 24<sup>th</sup>, in a matter of minutes, the Dow Jones fell more than 1,000 points. That was the biggest 1-day drop in history. It's true that 1,000 points on the Dow doesn't mean nearly as much as it used to (because the Dow has grown so much bigger over time), but we're still talking about a stunningly quick 6% drop. We haven't seen anything like it since the financial crisis. Although I'm a wise, experienced financial guru of the highest order, I was a little bit dumbfounded. For a brief moment it got bad enough that I considered voting for Donald Trump.

As dramatic as the downturn was, it might turn out to be nothing. Remember last fall, when the S&P 500 lost nearly 10% in just a few weeks? The reasons for that drop were almost exactly the same: Concern over China and global growth. Back then, the markets fell sharply, but snapped right back and continued growing. So far, the markets are following a similar pattern this time around. If that continues, this will be a picture-perfect "correction," which is a perfectly healthy thing for the markets.

However, I'm not sure this will pass quickly. Much like the European crisis, concerns about China are likely to drag on for years. But the markets powered right through the European crisis. Does that mean we have nothing to worry about? There are two key differences: The first is that China matters more to

the world economy than Europe does. But more importantly, the markets are in a very different place than they were in 2011 when the European crisis broke out. This bull market is four years older and four years more expensive.

Even worse, the problems in China are real. For years, economists openly questioned China's "official" numbers. Although China's official GDP is still near 7%, that number looks more questionable every day. But this mini-crisis didn't start because of any terrible economic report from China; it came from the seemingly incompetent, desperate actions of their government.

First, they not only allowed, but encouraged a stock market bubble that was so plainly obvious that even I was able to see it. Then, in response to the predictable crash, they quickly resorted to "panic-level" actions to stop it (making a mockery of the word "market" in the process). After that, they devalued their currency more in two days than they'd done in twenty years. To me, and much of the world, it looked like the Chinese leaders were panicking. Either they were panicking for no reason, or they had a very good reason. Neither of those options is good.

China is arguably the most important economy in the world, so the shockwaves from China will be felt around the world. With the exception of America, the world economy is weak. We don't need any more shockwaves. I want to be clear that I'm not predicting a major crisis in China or a market crash in America. But I think the mood of the markets has finally changed; there's more fear in the markets than there's been in recent years. That's not necessarily bad news. For investors, fear often brings opportunities.

# Should we root for China to fail or succeed?

It's sad to see China's economy weaken, because it will impact the lives of millions of people. It's also no fun watching my clients' portfolios drop. However, if you look at it from a different perspective, a major crisis in China might just be a good thing.



If you think basic human rights are vital to a thriving society, China is trying to prove you wrong. Do you think freedom of the press is a good thing? China recently threw hundreds of journalists/bloggers in jail for questioning their handling of the stock market crash (that strikes a little close to home for me). They also routinely make a mockery of the idea of a free market. China is a country built on very un-American principles – should we be rooting for them?

If China can successfully manage their economy in the coming years without any major crisis, what kind of message does that send the world? Are freedom and democracy truly necessary for a thriving economy? That's a scary question for the future of the world.

Over the last few years, as I've watched our government's inability to make any progress, I've found myself daydreaming of a government that is capable of thinking critically and making tough decisions. In that way, China almost seemed like a breath of fresh air. However, unless China changes significantly, its success doesn't bode well for freedom in the 21<sup>st</sup> century. This is why we must get our act together here in America. We need to show the world that free people and free markets are the best way to create prosperity. Over the last 20 years, China has made a pretty good case for itself. Sadly, we aren't currently offering the

world much of a counter-example. Oh well, at least Donald Trump is still leading the polls.



I'm actually serious this time. While he clearly isn't presidential material, Donald Trump is part of something that gives me hope. With Trump, Ben Carson, Carly Fiorina and Bernie Sanders, you have four strong presidential candidates who are outsiders to the political world. Only Sanders has held a legitimate political office (if Vermont counts). For a political system that needs to be shook up, I think that's pretty exciting. Someone like Donald Trump might be exactly what we need (except NOT Trump – that part is very important).

For the record, I really don't want China to fail. It goes against my nature. I want China to succeed – I just want America to succeed better.

## Probably a Mountain or a Lake



A few weeks ago, I took a backpacking trip over to the west side of the Mountains near Skykomish to escape the smoke. This is an early morning view of Lower Tank Lake, with Summit Chief, Chimney Rock and Overcoat Peak in the background.

This photo is especially amazing. It was a gorgeous morning among some of the most beautiful mountains in the world. But more importantly, it's not my photo. Photo credit belongs to my friend David Newkirk, who is a world-class wedding photographer (see here for proof). Although I didn't actually take the picture, I was in the general vicinity at the time. That totally counts.



David chillin with Martha Stewart



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