

Market Commentary Second Quarter 2015

Dear Clients,

With apologies to Charles Dickens and his *Tale of Two Cities*, the second quarter of 2015 was not the best of times for U.S. financial markets, and it was not the worst of times, either. The U.S. stock markets were non-committal, almost if the U.S. was sitting on the sidelines, while Europe, Japan and China provided all the action.

The S&P 500 ended the 2nd Quarter a mere 0.24 percent lower and for the first half of 2015, it was up just 0.20 percent, its smallest gain on record since 1928. It was pretty much the same story for the Dow Jones Industrial Average. It posted a 0.89 percent loss for the second quarter and closed about 1.1 percent lower for the first half of 2015.

The Nasdaq had the best performance of the three indices, with a 1.75 percent gain for the second quarter and 5.3 percent gain for the first half. And U.S. small-cap stocks—companies whose market capitalizations range between \$300 to \$1 billion—actually outpaced large-cap stocks, in part because, unlike large-cap stocks, they have lower exposure to global events and the effects of a strong U.S. dollar.

Within the Nasdaq, a lot of the gain came from a surge, and then a retreat, in biotechnology shares. We watched the action closely we think biotech stocks are overpriced, and consequently increased our negative bet on that sector during the 2nd Quarter.

We also took advantage of bargain prices for two social media stocks, Yelp, Inc. and Twitter, Inc. A bargain is only a bargain if other investors conclude that a stock is undervalued, and we think that will happen with both Yelp and Twitter.

Yelp is a San Francisco-based website that carries reviews of services and businesses, from pizzerias to dentists, and a combination of free and paid advertising. Its stock price is down about 40 percent from its 52-week high of about \$86 a share, but it is increasing its sales force and looking at ways to monetize its content, which is a fancy way of saying it's trying to find a way to sell all the information it gathers.

Twitter lets people send and read short, 140-character long messages called "tweets" across the Internet. The stock is down more than 10 percent in the last 12 months and its CEO recently stepped down. Like Yelp, Twitter needs to find a way to sell its information.

What attracts us to Yelp and Twitter is that their market caps were, at the end of the 2nd Quarter, \$3.2 billion and \$23.3 billion, respectively. Remember that Facebook bought WhatsApp for \$19 billion. So, as pieces of Internet real estate, they are possible acquisition targets at current prices, or if they trade lower.

A 2nd Quarter 2015 commentary cannot end without an observation about Greece. By the time you receive this letter,

the "Grexit" question may have been answered. For Greece's sake, I hope it remains part of the 19-nation eurozone. Regardless of the outcome, however, the effect on U.S. financial markets will be short term.

Again, thank you for the trust you have placed in me and in 7Summit Advisors. We work hard to earn that trust each day.

Sincerely yours,

Li Chang