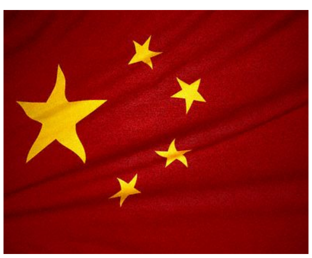
GIM

GREEN INVESTMENT MANAGEMENT, INC.
ACTIVE-DEFENSIVE INVESTING

GIM Market Update

A Late Summer Swoon or Buying Opportunity?

Since market volatility has been so high over the last week, we thought it appropriate to update our clients and followers on our thoughts about the markets. We believe that most of the volatility stems from growth concerns emanating from China, but fears the Fed may raise rates too soon is also a factor. The China growth slowdown is not a new worry but has been compounded recently by Chinese policy missteps. A poorly communicated devaluation and ill-advised attempts to “manage” their markets rather than letting market forces determine values, has taken its toll. It is giving investors concern that China is losing control of the situation and may be resorting to acts of desperation.



No Crisis - Are we reaching a crisis point in China? We don’t think so. The policy goals of China to become a consumption led economy rather than an investment led economy is progressing, albeit at an uneven pace. Consumer demand has not grown fast enough to offset the decline in the manufacturing sector, but that doesn’t mean they are not making progress in the right direction. The service sector of the economy now accounts for more than 48% of China’s economic output. The extreme volatility in the Chinese stock market recently, while disconcerting, represents less than 20% of China’s household wealth. The property market is the more important metric to watch in China and prices have stabilized there for three straight months. Meanwhile, retail sales have held up well – rising 10.5% over the last year (through July). Fortunately, the central bank of China is one of the few major central banks that has ample room to provide additional monetary stimulus. Combined with fiscal stimulus programs already in play and potentially more to come, these measures should help China avoid the kind of substantial decline in economic growth rates the markets seem to be discounting.

Solid US and Europe, Commodities a Plus - While sentiment toward China and the emerging markets is currently poor, both U.S. and European economies are in good cyclical shape. America’s economy is especially well insulated from any Chinese slowdown with just 8% of our exports, worth 0.7% of GDP, going to China. Even if the Fed decides to raise rates in September, monetary policy is still very accommodating and will remain so for months to come. Low oil and commodity prices should provide a significant benefit to consumers in the year ahead.

Temporary Swoon - We expect this late summer swoon to prove temporary in nature. In the meantime, we have taken this opportunity to upgrade some of our holdings into positions we believe offer better prospects in the months ahead. If you have any questions, please do not hesitate to call us.

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