

INVESTMENTS

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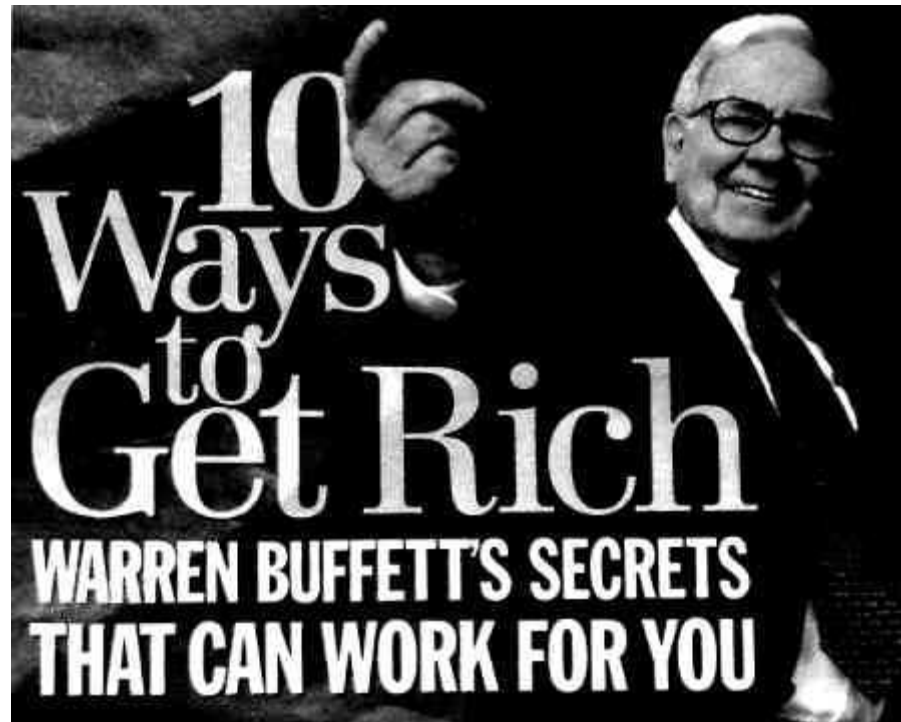
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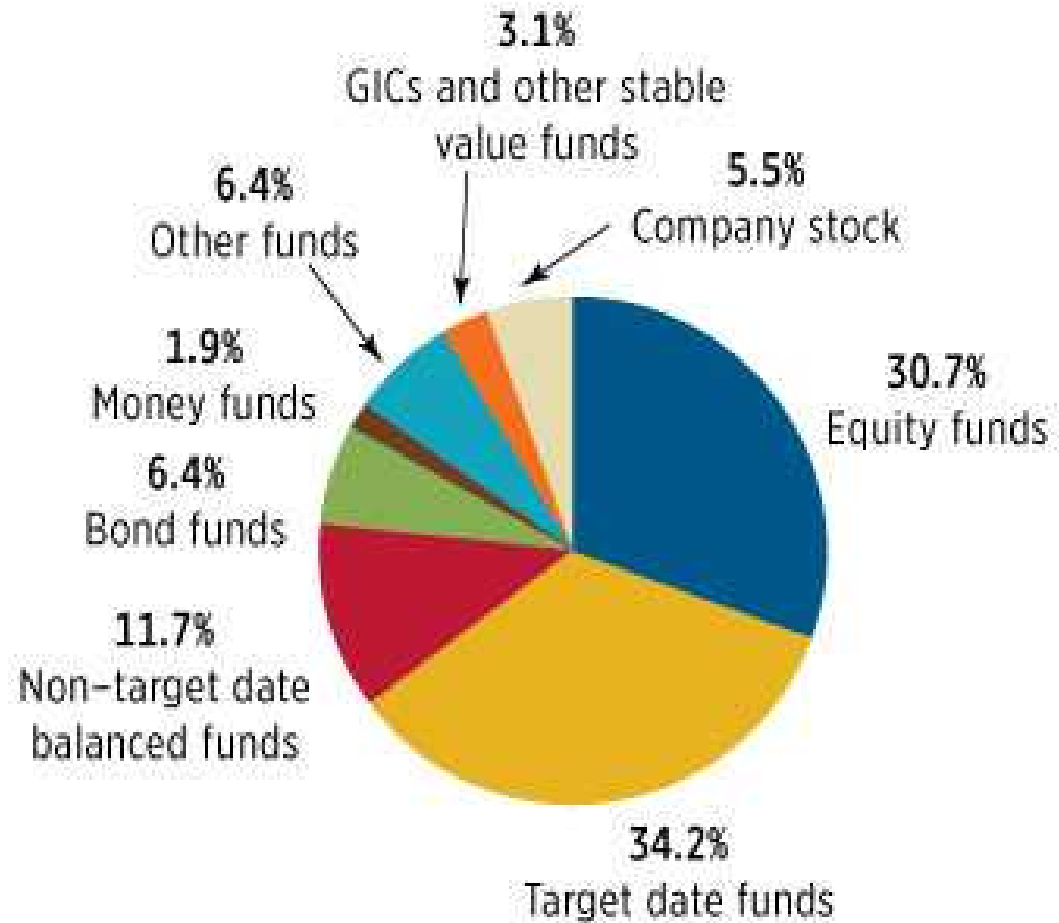
June 21, 2014

- Buffett says it best: "The first rule of investing is don't lose money; the second rule is don't forget Rule No. 1."



What people do!

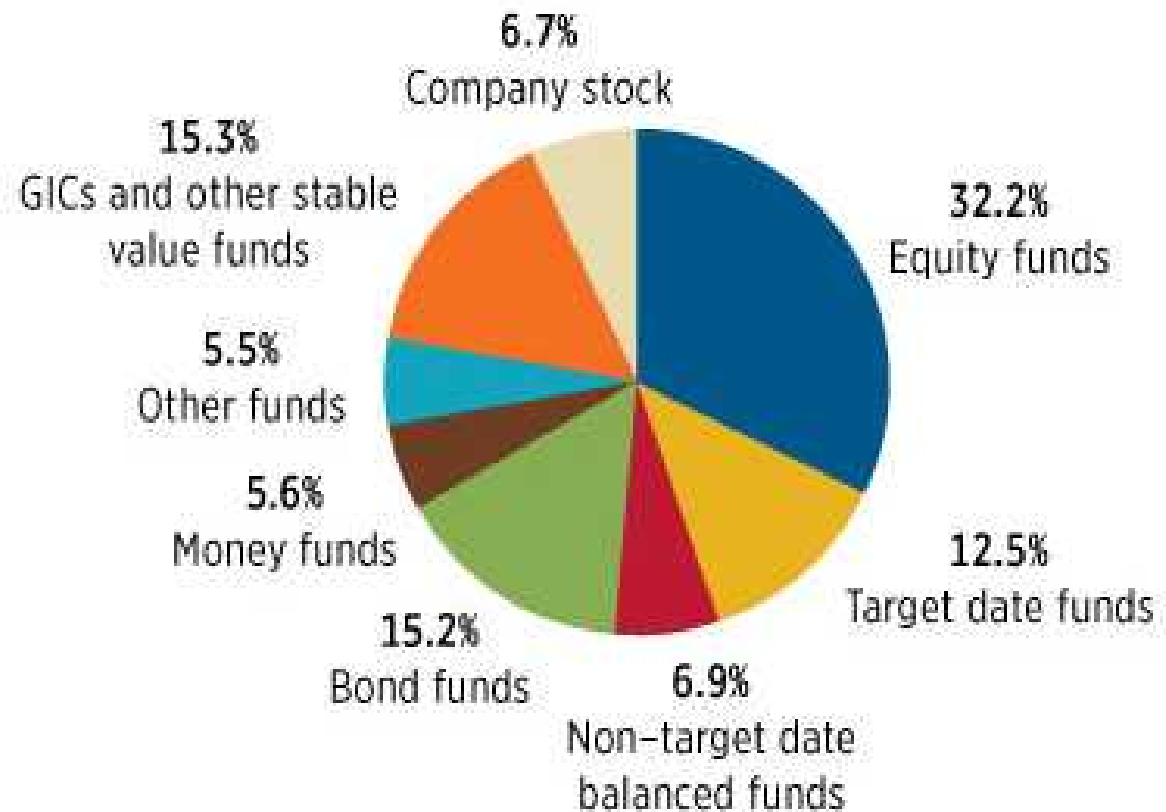
Participants in their twenties



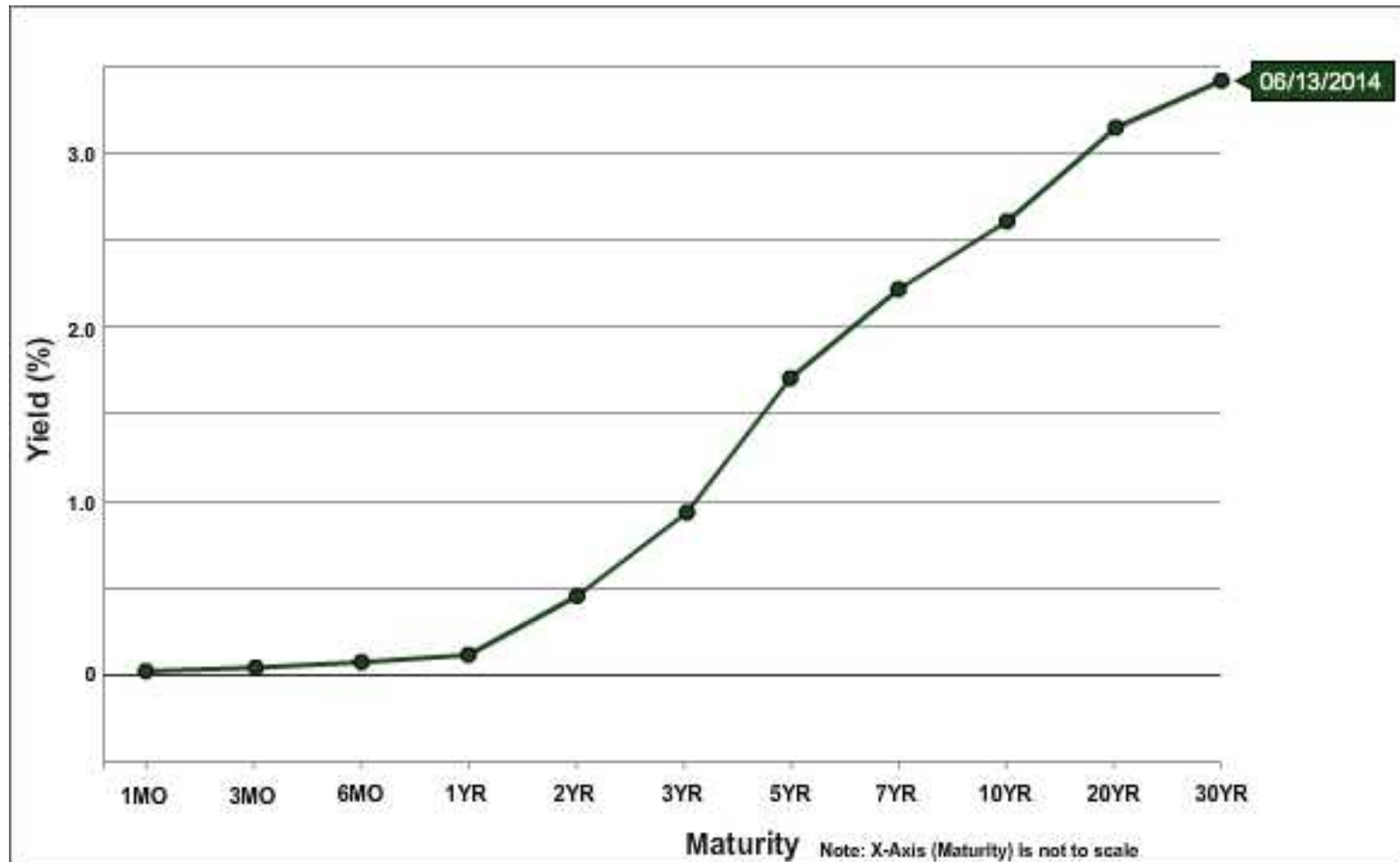
EBRI

What people do!

Participants in their sixties

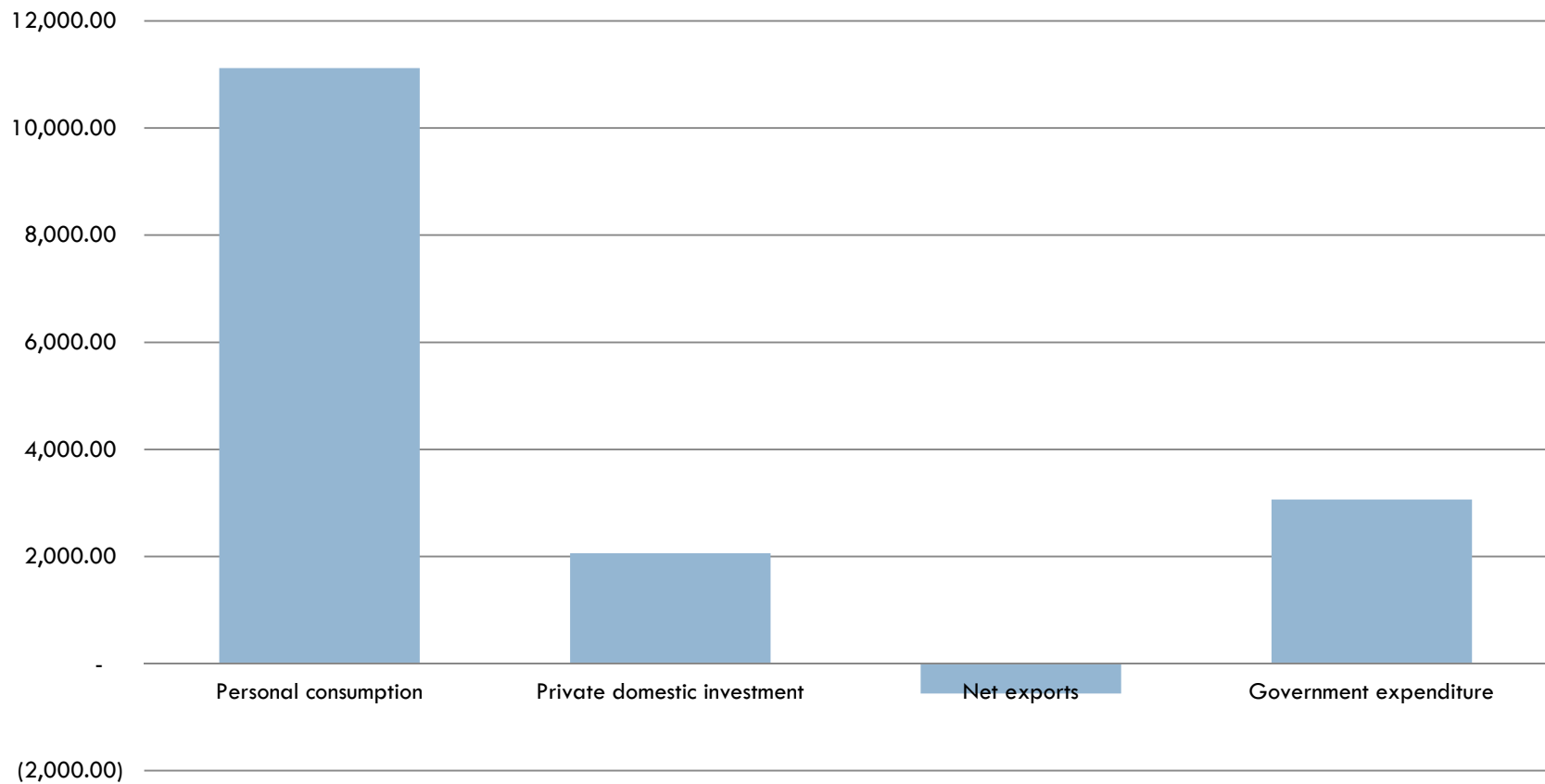


Term structure; Yield curve



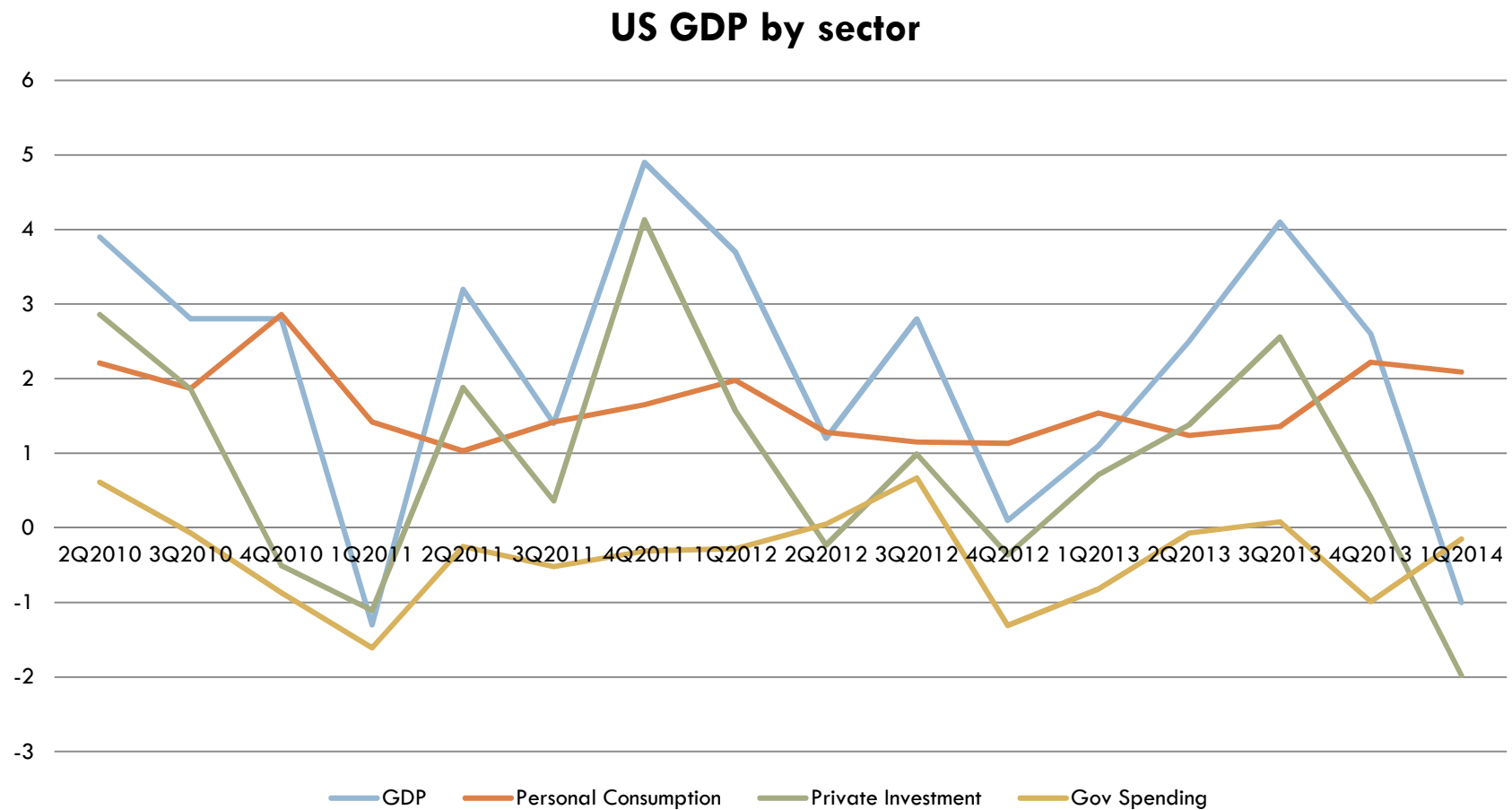
US GDP

US GDP



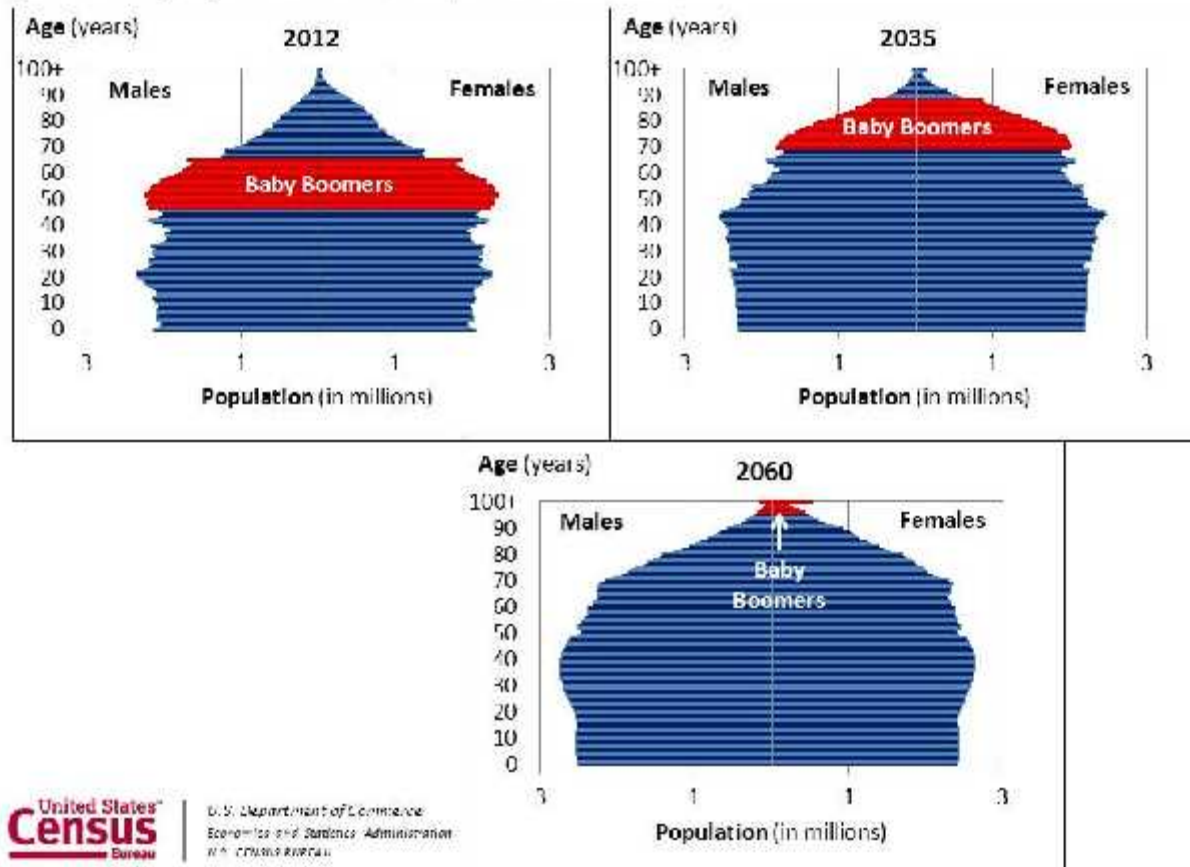
2012 4Q, Bureau of Economic Analysis (Billion dollars)

US GDP contribution by Sector



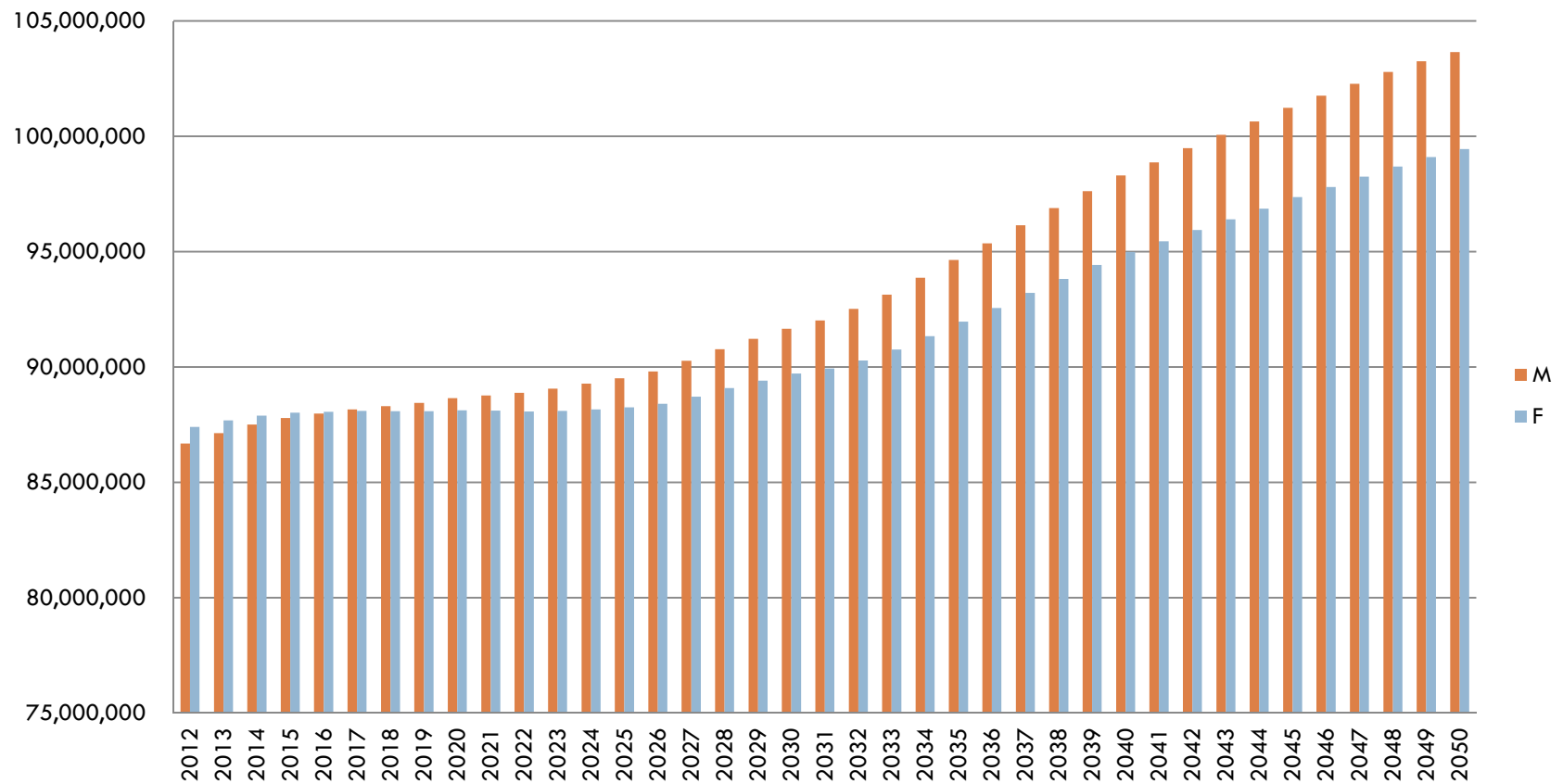
Population growth (US)

Population by Age and Sex: 2012, 2035 and 2060



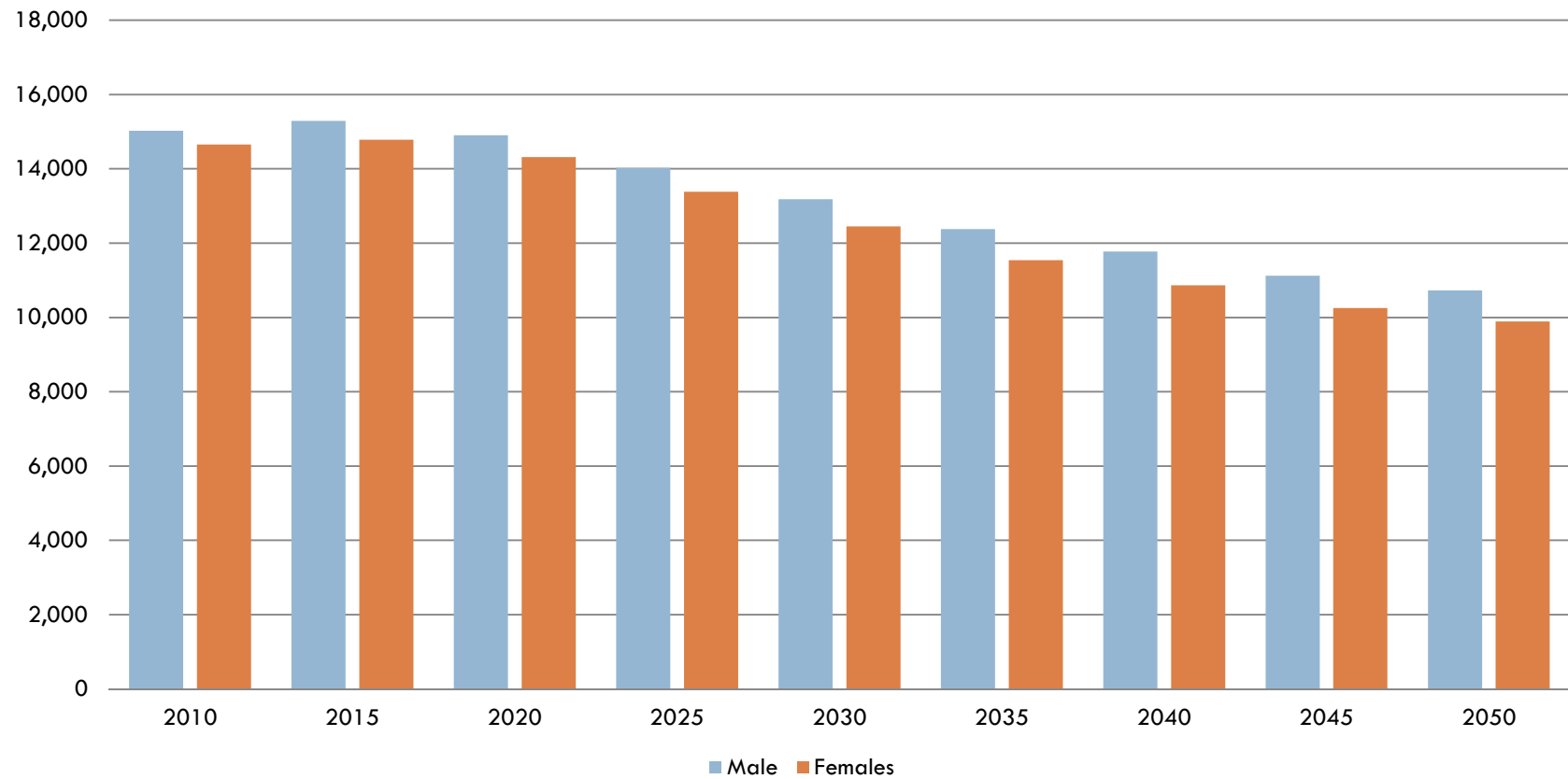
Population growth (US)

Age 20-60

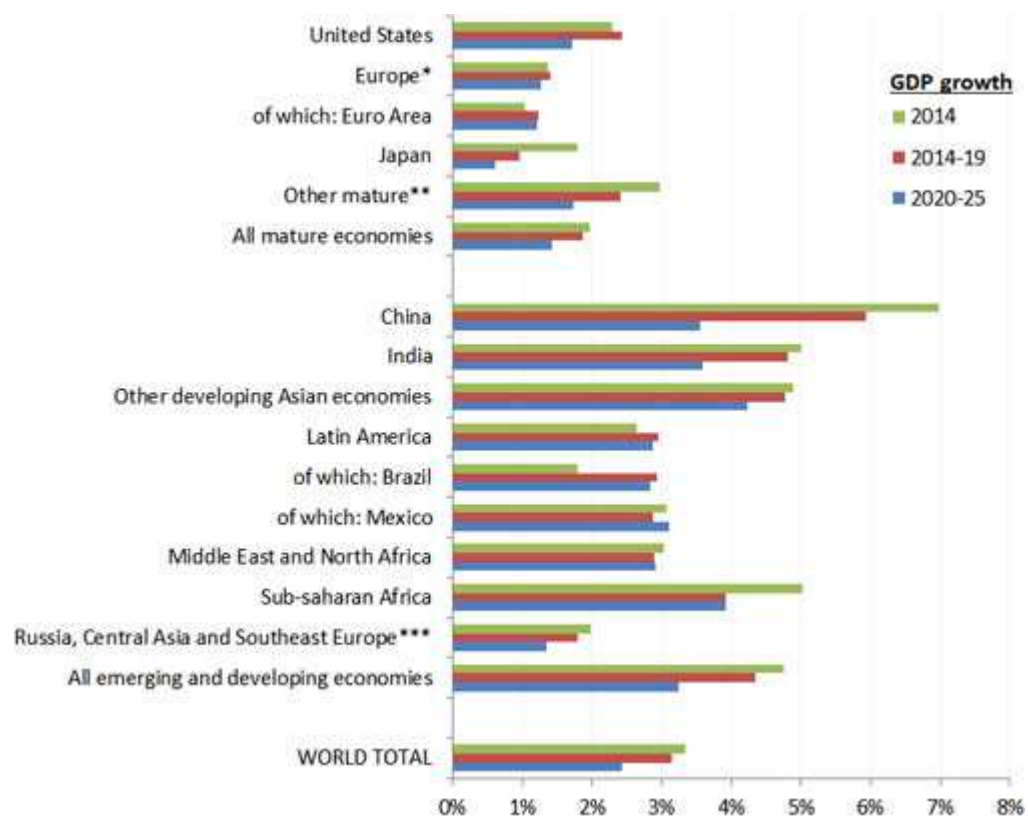


Population growth (Korea)

Population of Korea; age 20-60

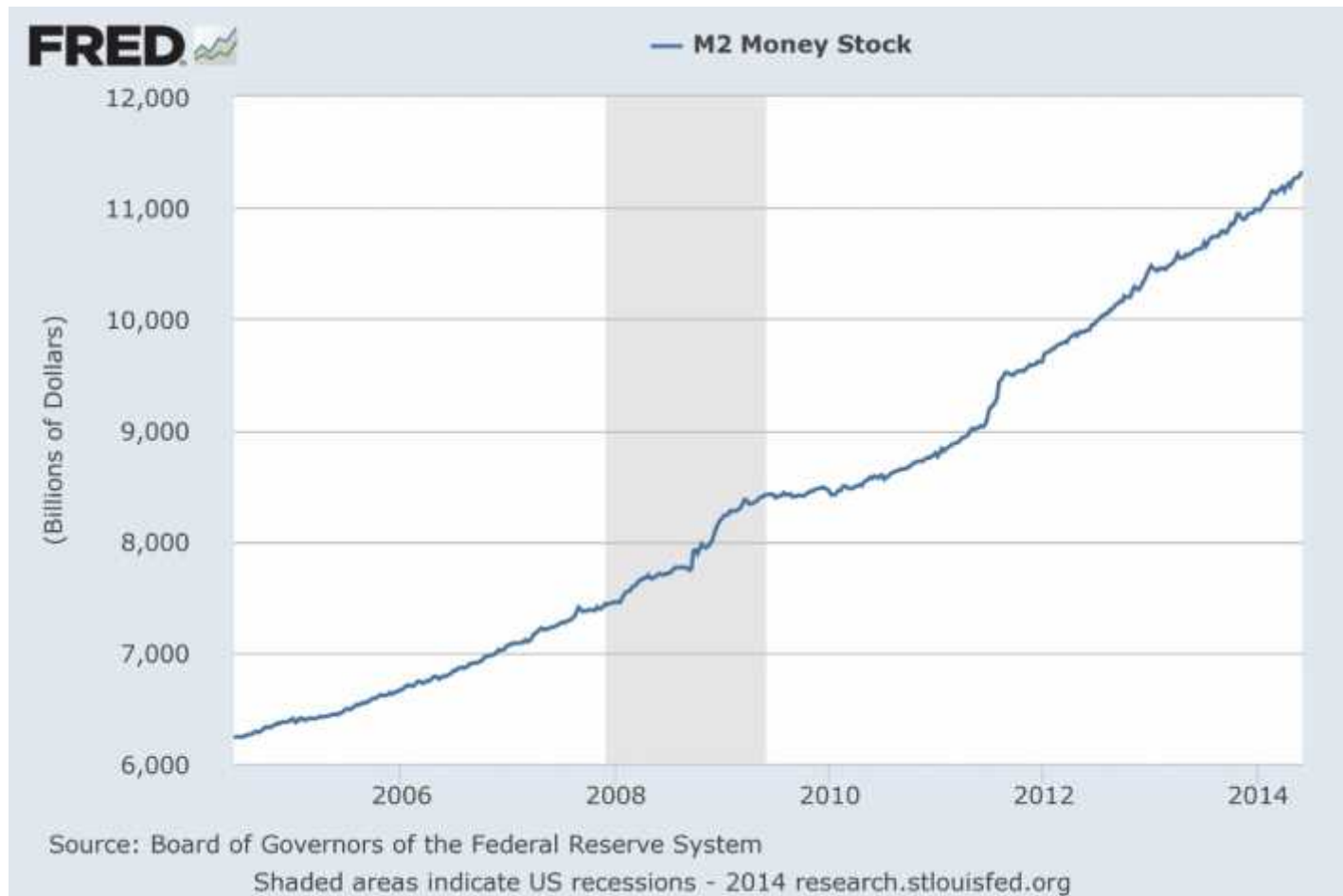


Global Outlook for Growth of GDP 2014-2025 (May 2014)

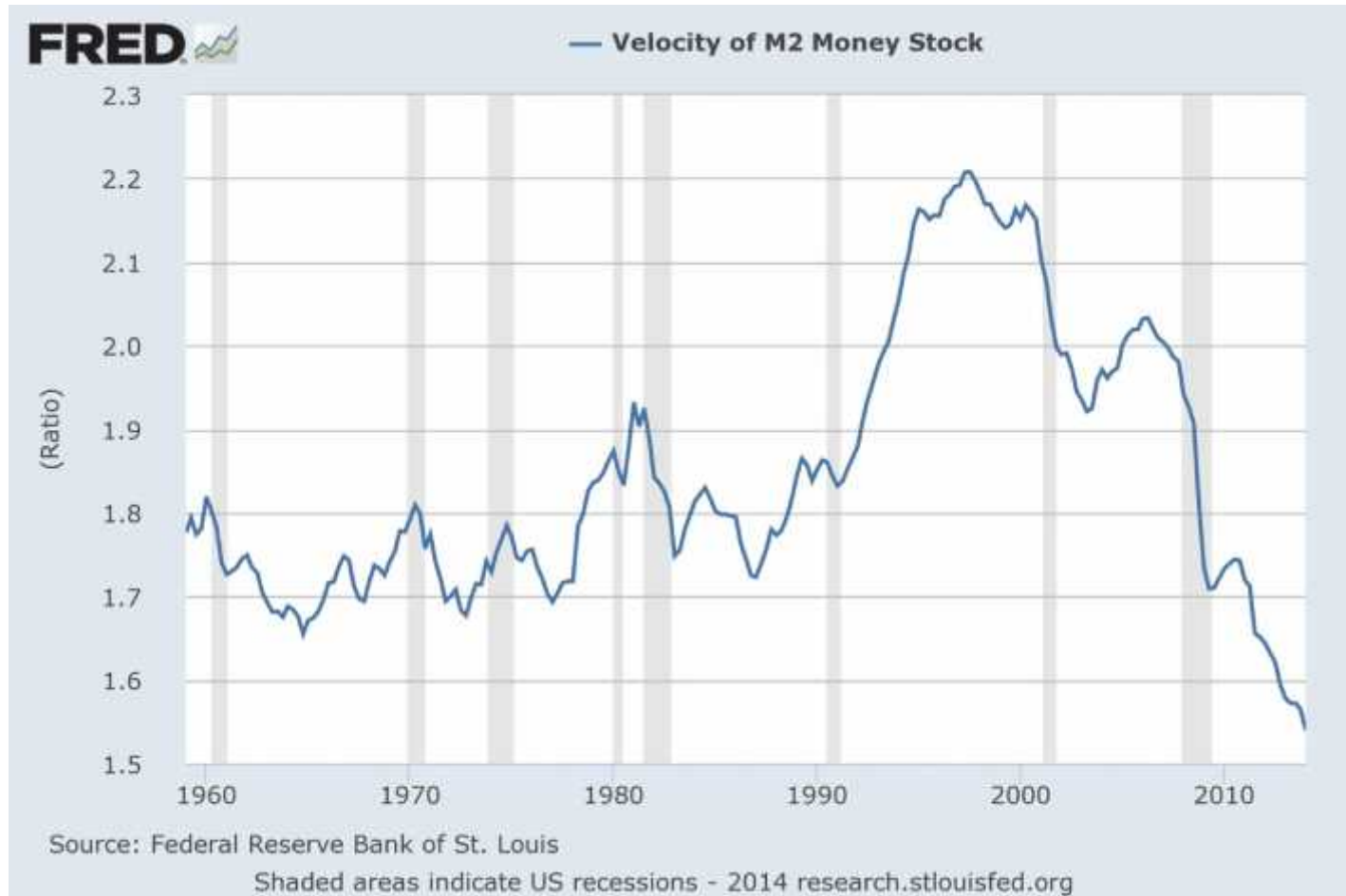


The Conference Board

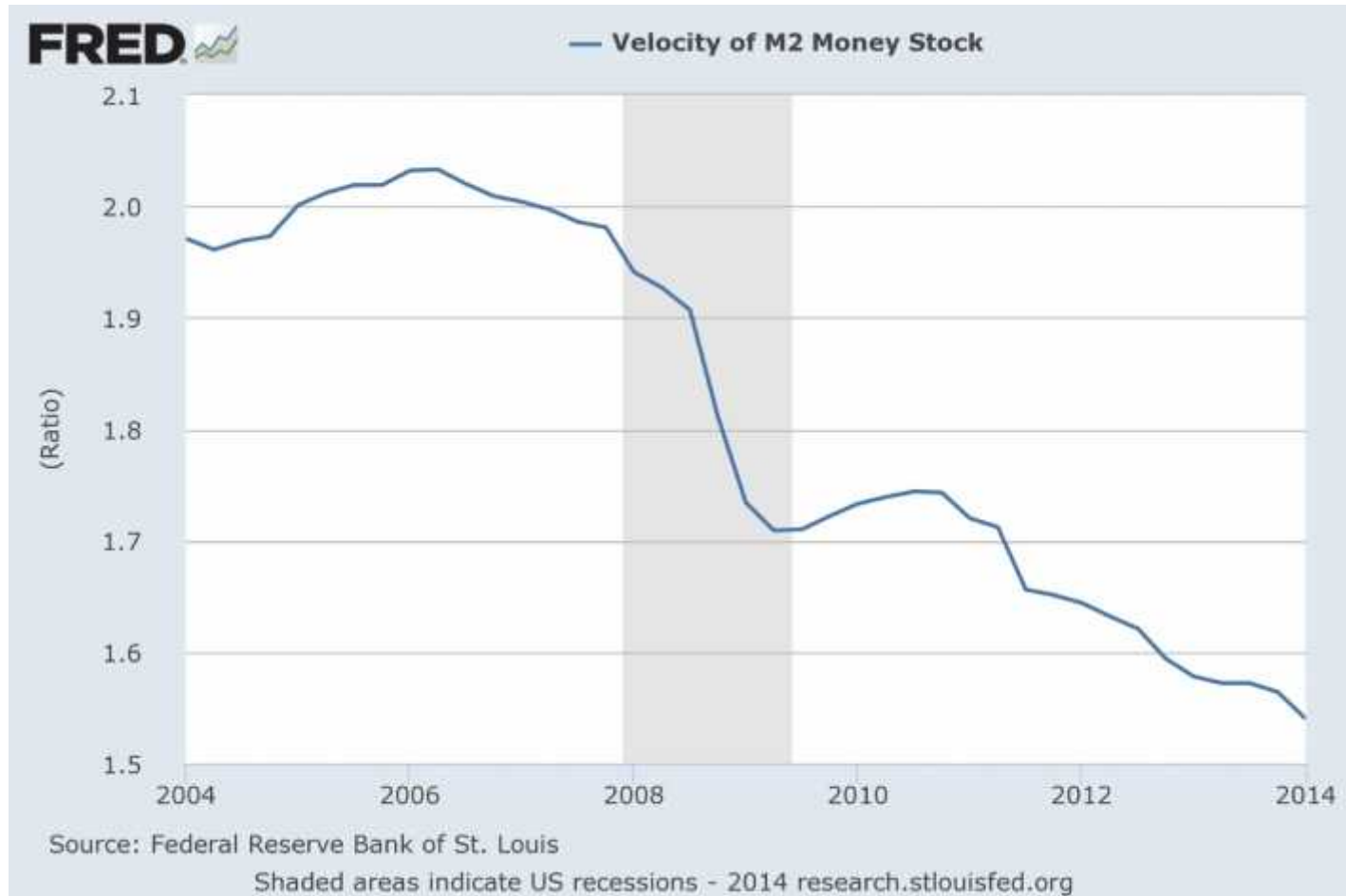
Money Supply



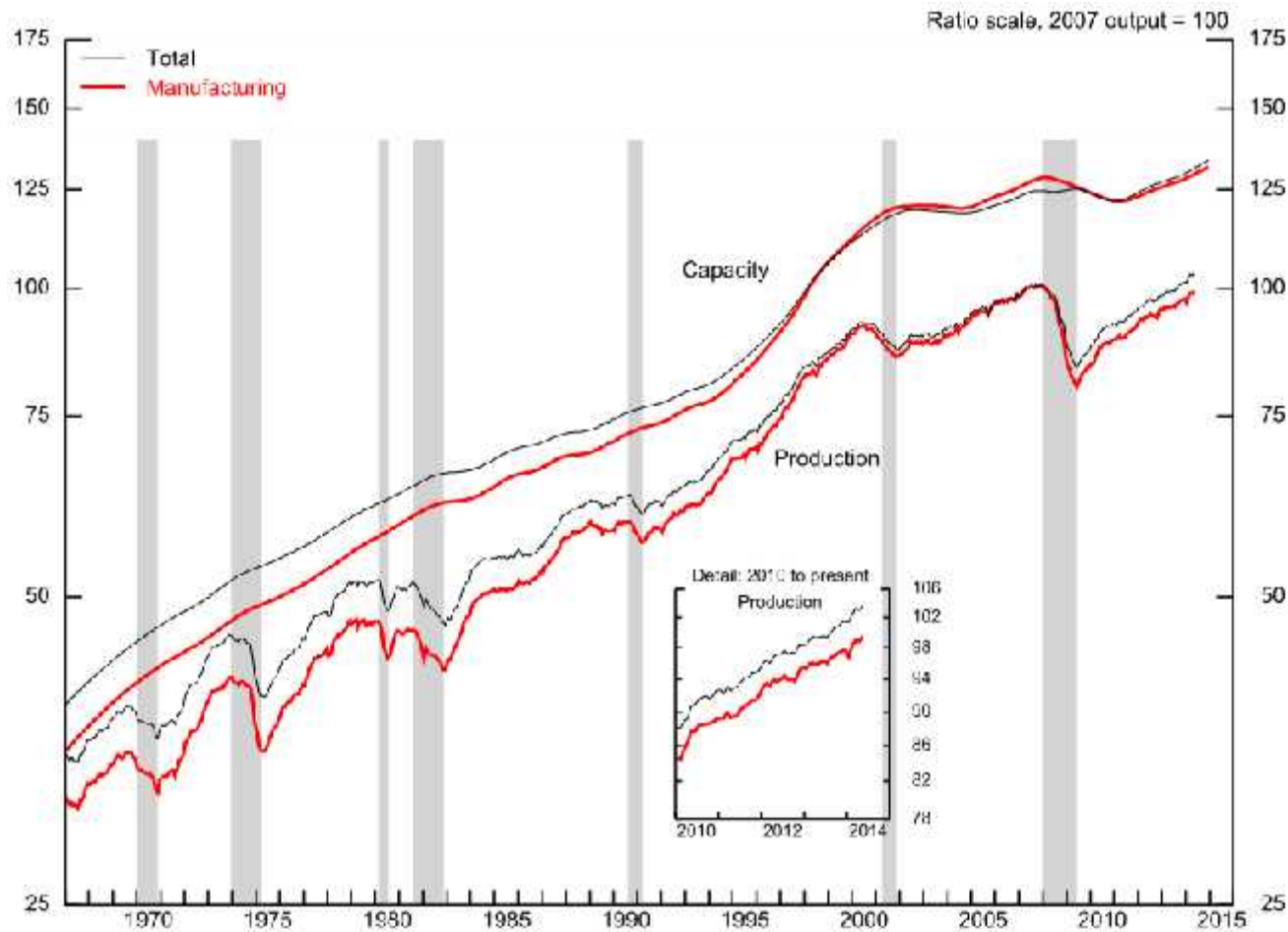
Velocity of M2



Velocity of M2 (Last 10 yrs)

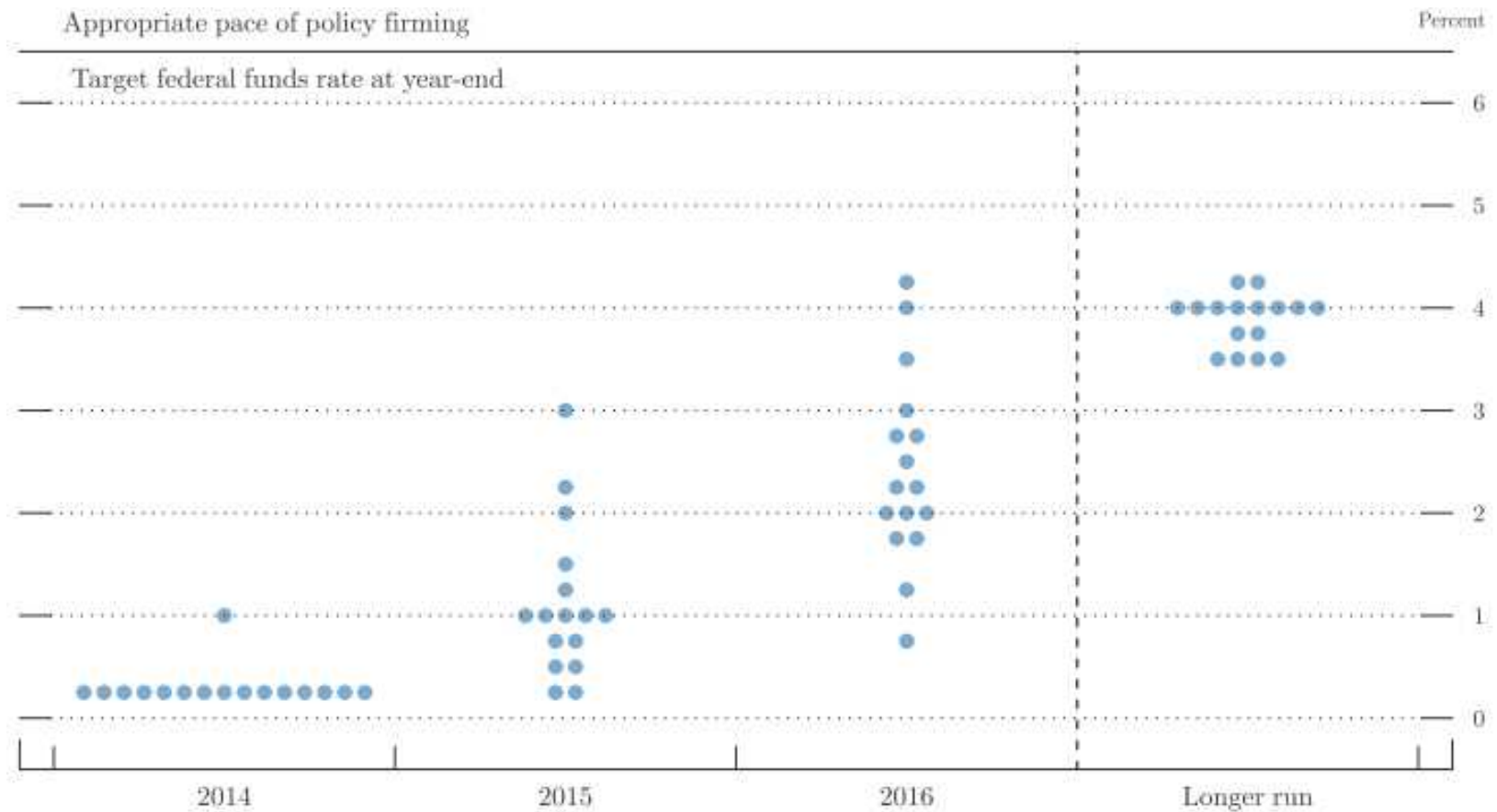


Industrial Production



Federal Reserve statistical release, June 16, 2014

Fed rate expectation



적정가격 (Intrinsic Value)

$$P = \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$

CF; 미래 수입

r; 할인률

채권 (Bond)

$$P = \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$

- Quite certain future cash flow
- Uncertain discount rate; term structure
- Prepayment

- Risk
 - ▣ Interest rate risk: 이자율 상승 → 채권가격하락
 - ▣ Reinvestment risk: 이자율 하락 → 재투자수익하락

주식 (Stock)

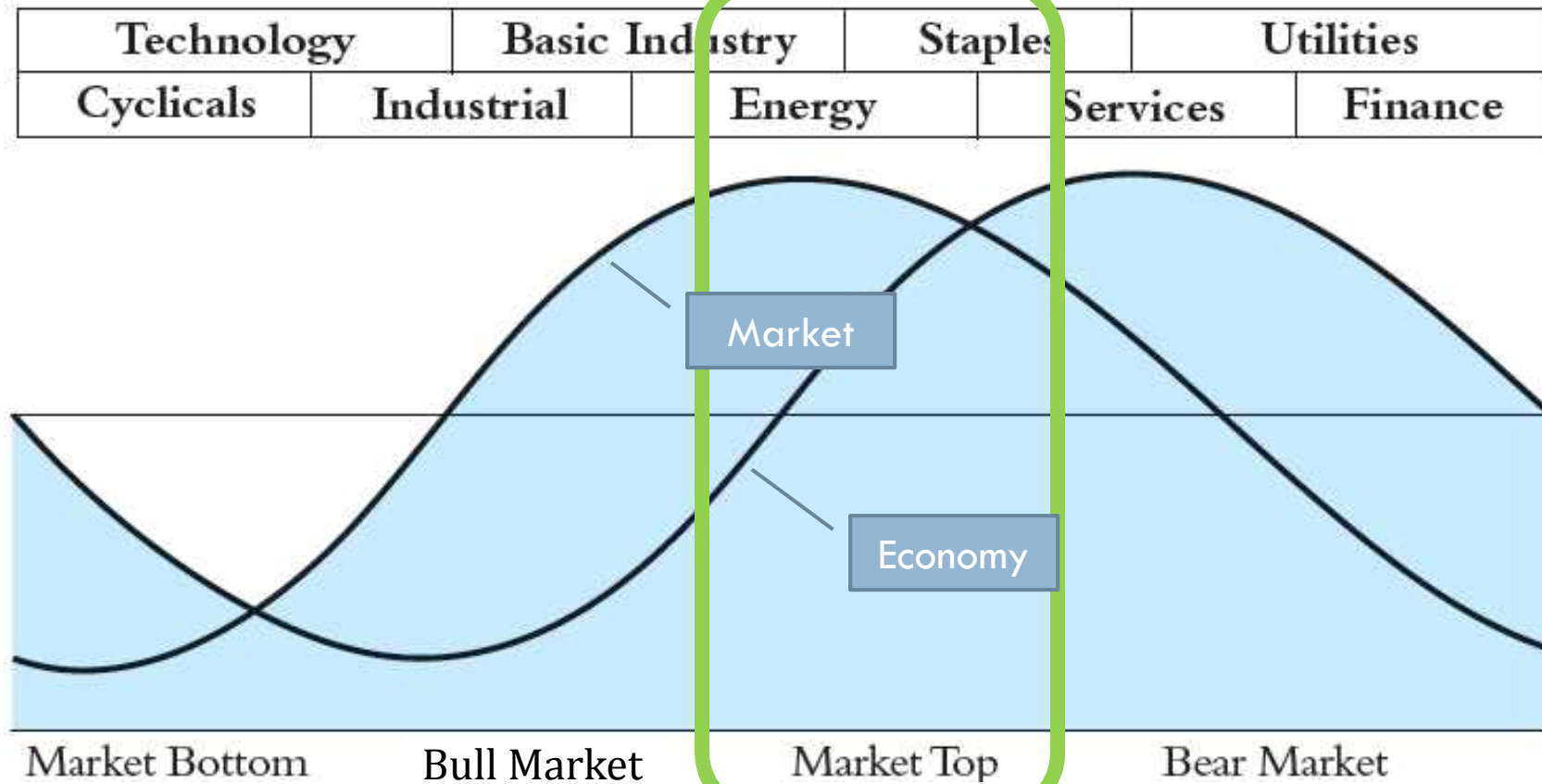
$$P = \sum_{t=1}^T \frac{CF_t}{(1+r)^t}$$

- 보통주
- 우선주

- Uncertain future cash flow
 - ▣ Economy, Industry, Firm specific

- Discount rate
 - ▣ Capital structure & risk level

Sector rotation model



Sector performance

Sector Name	3-Month	1-Year	3-Year	5-Year
Energy	14.3	25.8	8.2	12.1
Utilities	8.6	27.7	7.6	10.5
Consumer Defensive	8.0	14.4	15.1	18.0
Real Estate	7.5	11.2	10.0	19.3
Communication Services	6.8	23.4	12.0	15.9
Financial Services	6.0	21.9	10.7	12.4
Basic Materials	4.4	17.2	1.3	10.4
Industrials	4.4	26.7	14.5	20.1
Healthcare	3.1	30.8	22.1	22.0
Technology	2.6	35.9	17.5	19.9
Consumer Cyclical	1.4	23.7	19.8	24.9

Valuation

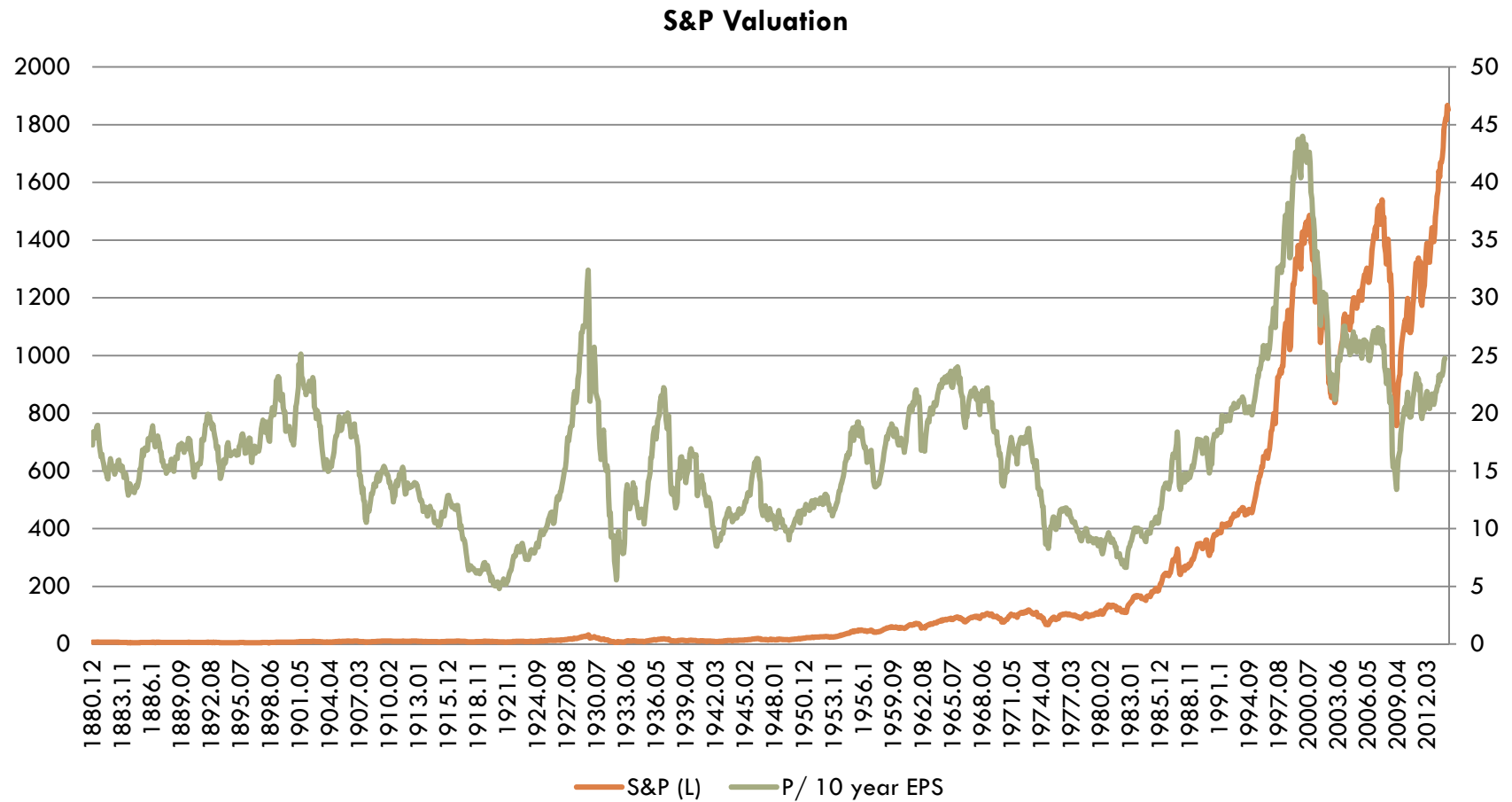


- Price to earnings ratio (PE)
 - ▣ Price/Earnings per share
 - ▣ Growth, flexibility, reputation, etc.

- Price to book ratio (PB)
 - ▣ Price/Book value per share (Net asset value)
 - ▣ Asset credibility

- Debt to equity ratio (DE)
 - ▣ Liquidity

Valuation



Valuation by countries

P/E	SP500	KOSPI200	NIKKEI 225	SHANGHAI	EUROPE
Average	15.6	16.7	21.5	16.5	20.4
Max	24.9	30.8	39.8	41.3	103.4
Current	17.8	21.2	19.6	10.1	19.6

Valuation by Industry

Industry Sector	PB Ratio	PER(T)	PER(F)	Expected EPS growth (%)	EPS Growth over PER (T)
Industrial	4.0	21.7	18.3	11.2	0.52
Basic Materials	3.7	23.4	18.6	15.7	0.67
Technology	5.0	18.9	21.5	5.1	0.27
Consumer, Non-cyclical	9.0	24.7	17.6	9.7	0.39
Financial	2.2	26.6	22.6	9.1	0.34
Utilities	1.8	16.9	16.4	(0.0)	(0.00)
Communications	5.2	29.7	22.3	23.4	0.79
Consumer, Cyclical	4.7	20.0	18.3	10.0	0.50
Energy	3.0	21.2	16.4	20.1	0.95

S&P 500, Bloomberg

Conclusion



- Rising interest rate
 - ▣ Avoid investing in Fixed income until 2016. If you have to, buy short-term high coupon bond.
 - ▣ Equity market is closer to the peak than the bottom. Defensive sectors: food, pharmaceutical, beverage, tobacco stocks.
 - ▣ Energy sector is attractive in terms of valuation.
- Buy interest rate
 - ▣ Inverse Bond ETF or Borrow money
- Buy baby boomers
 - ▣ Healthcare, senior living, etc.