Portfolio Shift Commentary: January 21, 2015

Like I stated in our Year End letter, from a regional perspective we still favor US equities but recently added to our developed international allocation. Given the magnitude of underperformance in international equities, along with a commitment for increased stimulus from Japan and the Eurozone, it appears to be an attractive time to add to these two areas of the market.

The European Central Bank, for example, is all but certain to announce that it will engage in a massive bond-buying program tomorrow, similar to what the Federal Reserve had been deploying for the five years ending in late 2014.

Draghi has signaled his willingness to do "What Ever It Takes." He wants to increase the ECB's balance sheet by about 1 trillion euros, a decision that would bring it up to a level of 3 trillion euros. But this goal cannot be reached by buying private-sector debt alone. The ECB will have to purchase sovereign bonds, so-called "public QE," to achieve their goals. In the United States and Japan, the new liquidity created by similar policies flew into financial markets. As a result, QE fueled equity markets and drove the price of real estate and bonds. At the same time, central banks' QE policies have tended to reduce the strength of their individual currencies, a development that has benefited domestic companies by boosting exports.

Since the Japan market reversals in mid-October, the Nikkei has gained some 20%, fueled by good company results and the prospect of sustained expansionary monetary policy. Even though we view the reform measures with a grain of salt, we believe market momentum will persist for some time giving Japan some room to run.

As always, we thank you all for your continued support and look forward to discussing any or all of our thoughts at your convenience.

Best Regards,

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