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Signature Estate & Investment Advisors LLC Mark E. Copeland, CFP®, AIF®, Senior Partner

What opportunities at home might come from quantitative easing in Europe?

By Mark E. Copeland

There's little doubt that globalization has been a prevalent theme of the last two decades—not just the globalization of economies, but of information and communication as well. We live in a much smaller, interdependent and transparent world than previous generations could have ever imagined. Yet whenever conversations with clients turn to international investing, many continue to be reluctant to venture abroad with their portfolio assets.

It's an understandable concern, as Europe's seemingly fragile recovery continues to lag the rest of the world and appears in desperate need of a jump-start. Taking a page from what worked to help keep recessions in the United States, Japan and the U.K. from tumbling into depressions, the European Central Bank (ECB) president Mario Draghi recently unveiled a major stimulus plan for the European Union. The ECB plans to increase the cash supply and buy government bonds over the next 18 months as part of an asset-purchase program worth about €1.1 trillion (\$1.3 trillion).

The fundamental goal of these new stimulus measures is to help inflate Europe's economies by pumping cash and liquidity into the markets to keep interest rates extremely low. Both the U.S. Federal Reserve and the ECB have inflation targets of 2 percent—just enough to afford slow and steady GDP growth without the economy running too hot or cold, while keeping the very real specter of deflation at bay.

Don't fight the Fed...or the ECB: As an investor, you quickly learn that it is rarely, if ever, a good thing to be on the opposite side of the Fed. The same holds true for the ECB. Given its unequivocal commitment to a stimulus program that will generate extremely low interest rates and a weak euro, several residual outcomes are likely. Clearly, the move bodes well for European equity markets. European equities were already a good value, with PE ratios markedly lower than those of U.S. equities. Assuming that the ECB can turn the economy around, those equities' valuations are appealing. As a result, both institutional and retail investors have begun to increase their exposure to more developed European markets.

With low interest rates being artificially maintained overseas, the likelihood of the Fed beginning to raise rates over the coming months becomes significantly lower. This has proven beneficial to U.S. equities. Until we begin to see signs of economic recovery in the developed European markets, expect the Fed to cooperate by keeping rates low to prevent money from flooding out of low-interest European markets into a U.S. economy offering higher yields.

U.S. equities may also benefit from the ECB's quantitative easing program from a simple standpoint of "Where else can the money go?" With interest rates so low, investors can't really park money in cash instruments. Bond yields are low and getting lower. One of the few places offering potential for solid returns is the U.S. equity market. Until the European markets are healthy, investing in the United States remains attractive, with stronger fundamentals and continued earnings growth. Keep in mind, however, that because of the stronger dollar relative to other currencies, large multinational companies with extensive dollar-denominated assets have struggled and will likely continue to struggle for the foreseeable future.

Finally, if this plan works (which is by no means a certainty), keep a close eye on inflation-sensitive assets that have been beaten up over the past few years. Categories like precious metals and interest-rate-sensitive financials will likely get a strong lift if the ECB and the Fed hit their target of 2 percent inflation. ©

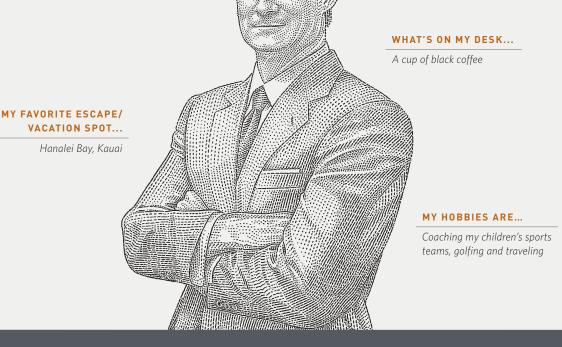
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"Until the European markets are healthy, investing in the United States remains attractive, with stronger fundamentals and continued earnings growth." —Mark E. Copeland

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About Mark E. Copeland

Mark E. Copeland has been in the financial services industry since 1987 and is one of the four founding partners of SEIA. Less than 10 years after the company's inception, SEIA reached the milestone of \$1 billion in assets under management. Mr. Copeland graduated from the University of California-Los Angeles, with a degree in political science and is a certified financial planner professional. His emphasis is in investment planning and wealth management for affluent individuals, athletes and corporations. He is a frequent speaker on the subjects of asset management, retirement plan distribution methods and estate preservation. An Orange County native, he resides in Tustin, Calif., with his wife, Kathy, and their four children.

Assets Under Management \$548 million (Copeland) \$4.5 billion (firm, as of 12/31/14)

Minimum Fee for Initial Meeting None required

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