

## GDP (lagging indicator)



### Q2, 2014 (Third Estimate)

Increased at annual rate of 4.6%. Boosted by increase in household spending and exports.

## EXISTING HOME SALES



### Thru Aug 2014

Down 1.8% from previous month (after 4 months of consecutive gains).

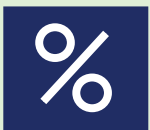
## UNEMPLOYMENT RATE



### Thru September 2014

5.9% down from 6.1% in June 2014.

## CONSUMER PRICE INDEX



### August 2014

Down 0.2% for August 2014 (seasonally adjusted). First decline in the adjusted all items index since April 2013.



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## Economic News

Amidst breaking news both at home and abroad, equity markets maintained their position, posting modest gains across the third quarter. The S&P 500 rose 0.61% while the Dow Jones Industrial Average added 1.29% and NASDAQ gained 1.93%. However, even with the quarterly winning streak the “September Slump” proved true, pushing the S&P to its worst monthly performance since January. Mixed fundamentals underlying the market have created a divided opinion as to where the markets will finish out the year. News of the Ebola outbreak in West Africa, unrest in Hong Kong, ISIS in the Middle East, and the vote for Scottish independence all contributed to a shaky footing for equities. Alibaba Group’s IPO, the Federal Reserve’s vague assertion that interest rates are set to rise next year and Bill Gross’ resignation from PIMCO’s helm made for an action-packed Q3. A fixture in the world of fixed income for the last 25 years, the firm’s flagship PIMCO Total Return has seen roughly \$10 billion in outflows since Mr. Gross’ departure.

Job growth accelerated in September with the unemployment rate dipping to 5.9%, the lowest rate since July 2008. The percentage of people in the labor force dropped to a 36-year low however, clouding the significance of this encouraging news. In her September 17 address, Fed Chair Janet Yellen intimated that the unemployment rate is forecast to drop below 5.5% in 2016. The remainder of her address was fairly neutral as Yellen avoided making any significant waves. In light of Ben Bernanke’s more direct style, Yellen navigated the September Federal Open Market Committee meeting in a positive way for markets.

The following table highlights the average annual returns for various indices:

Index	3rd Qtr	1 Year	5 Year	10 Year
S&P 500 (Composite Price Index)	0.61%	17.29%	13.29%	5.87%
Russell 2000	-7.36%	3.93%	14.29%	8.19%
MSCI EAFE (Price)	-6.39%	1.53%	3.52%	3.43%
Barclays Aggregate Price Index	-0.73%	-1.24%	0.32%	0.26%

*The S&P 500 is a commonly used measure of common stock performance, the Russell 2000 is a commonly used measure of small capitalization stocks, the MSCI EAFE is a commonly used measure of common stock total return performance of international markets, and the Barclays Aggregate Price Index is a commonly used measure of the bond market. All referenced indices are unmanaged and not available for direct investment. Past performance is not a guarantee of future results.*

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# “Buy not on optimism, but on arithmetic.”

Benjamin Graham

## IPOs, Acquisitions and Mergers

The New York Stock Exchange welcomed one of its most highly anticipated newcomers in the third quarter of 2014—Alibaba Group began trading on September 19, and raised nearly \$22 billion in its IPO. Interest in the Chinese e-commerce giant stems as much from its past successes as from forward projections. It is widely reported that transactions on Alibaba’s various online sites in 2013 surpassed the combined total of eBay and Amazon.com, reaching a staggering \$248 billion. Earlier this year, two of Alibaba’s larger sites—Taobao and Tmall—closed transactions on more than \$80 billion of gross merchandise compared to eBay’s \$20 billion over the same period.

Forward projections suggest an even rosier outlook for the company. As Chinese consumers gain more access to the internet, the Chinese e-commerce market—as well as markets for other online services—is expected to expand. Analysts currently value the Chinese e-commerce market at approximately \$295 billion, and many expect it to grow to more than \$700 billion by 2017.

In addition to the projected e-commerce growth, analysts and investors alike are excited about the new markets Alibaba Group is entering, including the smartphone and financial services industries. While Alibaba’s market cap is currently less than the more commonly known American tech names such as Apple, Google, and Oracle, investors were bullish at the prospect of things to come. Some are skeptical however at the prospect of an internet and

technology company subject to Chinese regulations. Nevertheless, it appears investors are willing to take that gamble for the time being.

The Alibaba Group IPO wasn’t the only NYSE shakeup in the third quarter. In what is understood to be a corporate tax play, Burger King Worldwide spent \$12.5 billion to acquire Canadian donut chain Tim Hortons in the last week of August. Burger King will use the acquisition to relocate its headquarters from Florida to north of the border in order to benefit from Canada’s lower marginal corporate taxes. Burger King’s market cap is currently \$11.2 billion with annual revenues of more than \$1 billion, and investors seemed to respond to the acquisition with an understanding that the move may be good for business. Following the news, Burger King’s stock rose to as high as \$33.82 in early September before excitement simmered, closing the quarter at \$29.66 (still up from pre-acquisition levels).

The dollar-store market also produced a noteworthy acquisition, as Dollar Tree agreed to purchase its competitor Family Dollar for \$8.5 billion in late July. Some analysts worried that the deal was at risk when Dollar General subsequently offered roughly \$9 billion to acquire Family Dollar; however these worries were settled when Family Dollar rejected the Dollar General tender offer due to antitrust concerns.

Regardless of what IPOs, acquisitions, and mergers lie ahead, the markets already had a different look as the third quarter came to a close.

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