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AND THAT'S THE WEEK THAT WAS…
For the Quarter Ended September 30, 2014

Market Matters…

Market/Index	Year Close (2013)	Qtr Close (03/31/14)	Qtr Close (06/30/14)	Qtr Close (09/30/14)	Qtr Change	YTD Change
Dow Jones Industrial	16,576.66	16,457.66	16,826.60	17,042.90	1.29%	2.81%
NASDAQ	4,176.59	4,198.99	4,408.18	4,493.39	1.93%	7.59%
S&P 500	1,848.36	1,872.34	1,960.23	1,972.29	0.62%	6.70%
Russell 2000	1,163.64	1,173.04	1,192.96	1,101.68	-7.65%	-5.32%
Global Dow	2,483.62	2,504.05	2607.35	2,534.53	-2.79%	2.05%
Fed Funds	0.25%	0.25%	0.25%	0.25%	0 bps	0 bps
10 yr Treasury Yield	3.04%	2.72%	2.52%	2.51%	-1 bps	-53 bps

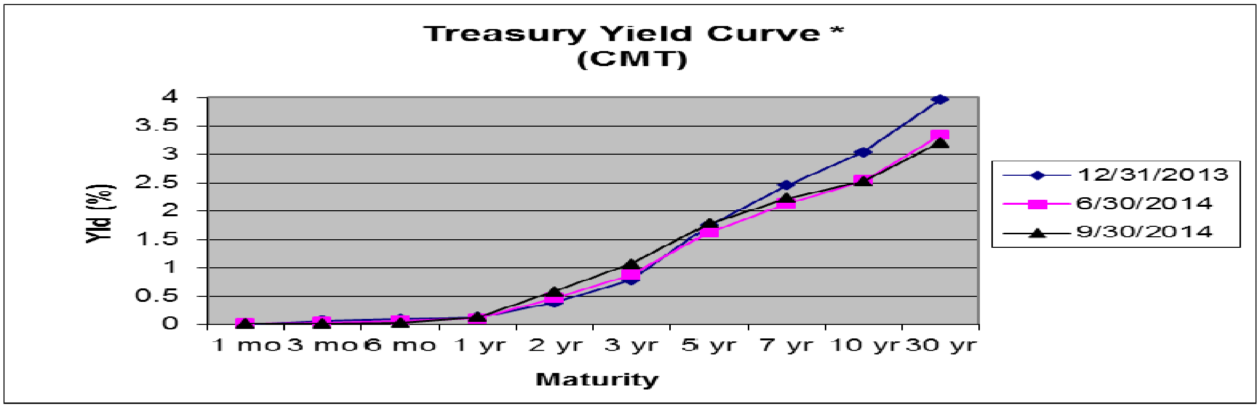
So much for the summer doldrums. The global developments came fast and furious during the quarter and the news fluctuated between "concerning" to "alarming." Boardrooms remained busy as investors welcomed the largest domestic IPO ever (thanks **Alibaba**) and some companies like **Twitter** turned to debt markets for funding while rates still remain low (any thoughts on future moves, Chair Yellen?). International mergers were announced though others fell apart as the Obama administration cracked down on "inversion" deals where domestic companies buy foreign counterparts, move headquarters abroad, and take advantage of certain tax benefits. Earnings season proved better than most negative nellies predicted and the "too big to fail" financials even produced their second best period of combined profits in 23 years. Stocks overcome the international concerns as investors focused on the decent economic news, though small-caps and global equities struggled during the period of growing uncertainty.

The standoff between Ukraine and Russia heated up as a Malaysian aircraft was shot down over Ukrainian airspace and stiffer sanctions were imposed by Europe and the US on Moscow, some of which could have negative implications on energy biggees like **Exxon-Mobil**. The Israeli-Hamas war lingered through multiple broken ceasefires and flights were banned to Tel Aviv's Ben Gurion Airport temporarily, a move that impacted Israel's tourism. Prez O turned "hawkish" as he initiated military engagement against Islamic State (ISIS), while attempting to put together a coalition (including Arab states) to fight the terror organization. On the "lighter" side, Argentina defaulted on a $539 million interest payment (again), raising new questions about the economies in Latin America, while Portuguese lender **Banco Espirito Santo** missed a payment, renewing fears of bank failures in Europe and across the globe.

In corporate news, Larry Ellison stepped down as the only CEO **Oracle** has ever known; **PIMCO**'s legendary manager Bill Gross took his bond trading talents to **Janus Capital**; **Apple** launched its newest, new things as iPhone 6 sales soared in the first week on the shelves and consumers clamored for the Apple Watch. Back-to-school sales brought better-than-expected results for retailers like **Costco** and **L Brands** (**Walmart**, not so much) and domestic auto demand remained high at the Big 3 (**Chrysler**, **GM**, **Ford**) on the healthy summer incentives.

Oil prices fell consistently throughout the quarter and ended safely below the critical $100 a barrel level as OPEC and the US Energy Information Administration lowered demand projections for 2015 and some key producers announced plans to cut production. The Blue Chip Dow Jones and benchmark S&P 500 indexes resumed their record-setting ways and NASDAQ posted its seventh straight quarterly gain. News was not as good for the perceived riskier small-caps which fell "into-the-red" for the year as geopolitical uncertainties prompted a flight-to-quality; even domestic bonds held their own despite the fact that the Fed is expected to lift rates over the course of the next 12 months. Say goodbye to the summer doldrums.

Economically Speaking…



Apparently Janet Yellen doesn't get her summers off. The Fed's fearless leader remains quite busy these days debating the state of the economy, predicting the impact of the next rate moves, and responding to comments, speculation, and "unsolicited" advice from politicos, pundits, and new-age social media "experts." Despite decent news on the labor, housing, and manufacturing fronts, Yellen claims that the "recovery is not yet complete" and the Fed will maintain a "pragmatic' approach. While the economy is plugging along at a modest or moderate pace, the low level of inflation allows some leeway before shifting policy. The policymakers plan to end the long-standing bond buying program in October and monitor the economy "for a considerable time" before enacting any additional tightening moves. While most Fed watchers expect a rate hike in 2015, odds-makers (treasury futures) put a move by June 2015 at less than 50-50.

The numbers confirm a modest to moderately growing economy as GDP jumped by 4.6% in the second quarter, its best showing since late 2011. Manufacturing remains strong as the ISM index climbed to its highest level since March 2011 and factory orders jumped by a record amount in July. The labor markets have looked solid, though the recent releases raised some eyebrows. For the initial eight months of the year, nonfarm additions have averaged 215,000 new jobs, the best hiring pace since 1999. However, only 142k jobs were added in August and some fear the second half of the year will not keep up with the pace of the initial six months. Still, the jobless rates stands at 6.1% and weekly claims for insurance benefits are near 14-year lows. The quarter found newfound strength in housing as new home sales in August made its biggest jump since 1992 and residential construction hit a post-recession high in July. Consumers made welcome appearances as low gas prices and labor gains have put a few extra dollars in their wallets.

The news has been less favorable overseas where Europe's purchasing managers' index fell to its lowest level of the year and even mighty Germany struggled through the worse period for its factories since late 2013. Consumer confidence in the 18-country Eurozone dropped for four straight months and the low level of inflation added pressure on the European Central Bank to act. As such, the policymakers did their best Fed imitation by lowering rates and starting a bond buying program of their own. China continued to struggle with weaker manufacturing and sales activity, though it finance minister claims no major policy changes are forthcoming. Pro-Democracy protesters took to the streets of Hong King late in the quarter adding new uncertainties to the region. Japan's economy also moved into contraction mode as higher sales taxes (from an April 1st levy) brought consumer activity to a sudden standstill.

On the Horizon…Welcome to the homestretch of the year. Most key equity indexes are holding on to single-digit gains (sorry small caps) and decent economic numbers and a strong dollar could bring a late charge. Then again, the concerning global developments mean ongoing uncertainty and international trading partners are not faring nearly as well. Let's end the year strong!!!