Welcome Andrea Mears who has joined the Client 1st family as a Managing Partner and CIO. Andrea brings over 20 years of experience as a Registered Investment Advisor and will be a valuable addition to our management team in terms of both investment solution philosophy and culture. In addition, she is very active in her community of Vero Beach, FL where she will also be managing our newest location.

Congratulations to Dave Stieh, COO, CFP, for successfully completing all of the requirements for the Certified Financial Planner (CFP) designation. The rigorous two-day, 10-hour exam follows two years of extensive study and covers investment, income and estate tax, retirement and insurance planning.

The Natchez Fall Pilgrimage was the location of a “Mystery Event” held October 3rd for our Hattiesburg, MS clients. About 50 of our clients enjoyed a tour of antebellum mansions and lunch at the Carriage House Restaurant at the historic Stanton Hall.

Client 1st continues to invest in the best technology available to serve our clients. We are in the process of building our own “platform” to streamline access and trading with our investment solution partners.

In addition, our Client Portal is undergoing significant changes in both the Client Access area as well as the “back office” that we use to integrate client account aggregation and “real time” Plan updates.

The Next Quarterly Introduction Events! Our next Introduction Events will be held at all three Client 1st locations on Thursday, December 18th. We will be hosting dinner parties for all referrals and their “referees” to welcome new members to the Client 1st family in style!

Be sure to bring a copy of The Navigator on your next vacation!

Each quarter we award a $100 Bonefish Grill/Outback gift certificate or an AMX Gift Card to the client who sends in the best picture of themselves on vacation holding a copy of The Navigator.

This quarter’s winner are Don & Ebe Bower of Fox Island, WA, who sent in this photo of their “well traveled” copy of The Navigator at Angkor Thom, Siem Reap, Cambodia, a 12th-13th Century temple they visited this past January.

We continue to receive quite a few pictures each quarter and if yours was not selected it may be included in a future Navigator.
Last fall it was Twitter. Before that, it was Facebook. Now it’s Alibaba, the huge Chinese e-commerce company that just became the largest tech IPO in history, after raising $21.8 billion in its initial public offering on September 18th.

As it turns out, Facebook and Twitter turned out to be decent investments at their IPO price. Post-IPO buyers purchased Twitter shares at roughly $45 a share, and over the nearly 12 months since, the stock has climbed to around $50 – an 11% return that is below what the market as a whole has delivered, but above the negative returns most investors experience in the first year after a public offering. Facebook has done better, starting life at $38 a share in May of 2012, following a very bumpy path that saw investors deeply underwater for months, and then recovering so that shares are now trading around $75.

Will Alibaba continue the streak? Amid all the hype, one voice to listen to is veteran emerging markets analyst/manager Mark Mobius, of Franklin Templeton Investments. Mobius acknowledges that Alibaba has some interesting fundamentals – including a return on equity of 24%, operating margins of 26% and revenue of $1.02 billion, making it by far the biggest e-commerce engine in China.

But he also notes that the company has an unusual corporate structure that could lead to problems for investors down the road. He warns that the company’s ownership team controls the board of directors, which means that if shareholders are concerned about the direction of the company, or if the owners decide to loot the assets and put the money in their own pockets, well, there isn’t much shareholders could do about it.

What, exactly, did investors buy in this IPO? In most cases, IPO investors are purchasing direct ownership shares of the company. But Alibaba is listed as a variable interest entity, which creates a somewhat more complicated ownership structure. The bottom line is that shareholders, in this public offering, are actually buying a stake in a company registered in the Cayman Islands, which has a contract to share in Alibaba’s profits. If shareholders ever become concerned about Alibaba’s management decisions, they would have to go to a Chinese court to get redress. It is hard to imagine a positive outcome for American investors.

Sources:
http://www.macroaxis.com/invest/market/1688.HK-fundamentals-Alibabacom_Limited

It seems that just about anyone these days can hang out a shingle and call himself an investment planner. But that certainly doesn’t make that person an expert. This lack of credibility and standards can create a false sense of security in today’s consumers. Unfortunately, many unknowingly assume that all financial advisors are held to a certain industry standard and that they are providing them with advice that is in their best interest. Sadly, this couldn’t be farther from the truth.

The reality is that there is a “double standard” for today’s investment professionals – the fiduciary standard and the suitability standard.

Fiduciary advisors are registered as investment advisors with the Federal Securities and Exchange Commission (SEC) or comparable state regulators who operate as fiduciaries and are legally obligated to put their clients’ interests first. A fiduciary would be prohibited from making recommendations that produce higher compensation for themselves or for their firm.

Conversely, the suitability standard is a lesser standard which requires only that the investment products a broker suggests and sells “suit” an investor’s financial needs and risk profile. Salespeople who work for brokerage firms place their loyalty with their employers, not with their clients. This ambiguous standard leaves portfolios wide open to more expensive, less effective products by inviting conflict of interest as brokers are encouraged to recommend their company’s products which provides for them a higher compensation.

Brokers who operate by the suitability standard claim they
do business on an “open platform” and do not push their firm’s proprietary products with high commissions. However, a recent New York Times article, “Selling the Home Brand: A Look Inside an Elite JP Morgan Unit,” reported that although JP Morgan does not restrict investments to their firm’s products, former brokers say that more than half the time, the firm’s proprietary products are coincidentally found to be the “best choice for clients.”

They further describe how, in a three-inch-thick training manual, the nation’s largest bank details how to recruit clients, pitch product, and, ultimately, close the deal – or as JP Morgan Chase puts it “get to Yes.” These types of details certainly sound as thought they are recommending products based on personal profit, rather than client benefit.

Some financial firms don’t want change because they believe it would impact their products. And realistically, those who benefit from the status quo are rarely happy to embrace change. With powerful banks, brokerage houses and insurance companies continuing to profit, there has been little initiative to improve this unethical standard.

While the Dodd-Frank Reform Act passed three years ago gave the SEC the authority to “require that anyone providing financial advice act in their clients’ best interests,” the SEC has yet to act and is unlikely to any time soon considering the powerful forces behind the brokerage and banking industries.

Registered Investment Advisors, who already uphold the fiduciary standard that obliges them, by law, to always act in their clients’ best interests advocate for change and are concerned that the SEC will seek to “harmonize” industry rules and dilute the Fiduciary Standard.

Client 1st Advisory Group is an SEC RIA firm and is held to the fiduciary standard.

### MARKET REVIEW

The following table shows market index returns for the 3rd Quarter 2014 (including reinvested dividends):

<table>
<thead>
<tr>
<th>Index</th>
<th>Q3</th>
<th>YTD</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P 500 Index</td>
<td>0.6%</td>
<td>8.0%</td>
<td>Large cap stocks</td>
</tr>
<tr>
<td>Nasdaq Comp.</td>
<td>2.4%</td>
<td>7.9%</td>
<td>Tech stocks</td>
</tr>
<tr>
<td>EAFE</td>
<td>-6.4%</td>
<td>-8.6%</td>
<td>Int’l. stocks</td>
</tr>
<tr>
<td>Barclays U.S. Agg.</td>
<td>1.2%</td>
<td>5.3%</td>
<td>U.S. govt. bonds</td>
</tr>
<tr>
<td>HFRX Global</td>
<td>1.1%</td>
<td>2.0%</td>
<td>Hedge funds</td>
</tr>
<tr>
<td>3 month Treasury</td>
<td>0.0%</td>
<td>0.0%</td>
<td></td>
</tr>
</tbody>
</table>

### LOOKING BACK... LOOKING AHEAD

by Craig Phillips, CFP, AIF

Moving Into Choppy Waters. You could say that the markets took a breather in the third quarter of 2014, but you would come to that conclusion only if you looked at the overall returns and ignored the drama of September. The markets experienced a difficult third month of the quarter, giving up some of the gains from the prior eight months and causing investors to worry that we’re about to experience more of the same. The end of the month was especially difficult, with a general market slide starting September 22, and some indices dropping more than 1% on the final day.

The Wilshire 5000 – the broadest measure of U.S. stocks and bonds – rose a meager 0.37% for the third quarter even as it lost 1.7% in September. But the index is hanging on to a 7.3% gain for the year.

Large cap stocks were the market leaders for the past quarter, but the gains were modest. The S&P 500 index of large company stocks posted a small gain of 0.6% for the over the past three months and is up 6.7% for the year but has fallen back from its record highs on September 18th.

The news was less happy for smaller cap stocks. The Russell Midcap Index fell 1.55% for the quarter but remains up 6.9% for the year. Russell 2000 Small-Cap index fell 7.6% during the quarter (it’s worst quarter in three years) and ended the quarter -4.4% for the year.

The tech-heavy Nasdaq Composite gained 2.45% for the quarter, up 7.9% year to date.

The rest of the world put a drag on diversified portfolios. The broad based EAFE index of developed countries fell 6.4% in dollar terms during the quarter and finished year to date -3.6%. The Eurozone stocks dropped 7.4% for the quarter leaving only the emerging markets the only bright spot which is still up, but just barely +0.3% this year.

Real estate is up 15.1% year to date and the expected rise in bond rates never materialized leaving the Barclays U.S. Aggregate up 1.2% for the quarter, 5.3% YTD.

Nobody seems to have a convincing explanation for the recent stock market slump. The economy still seems to be pushing along in a slow, steady growth process and corporate earnings are...
well-above historical averages. Oil prices are at their lowest level since November 2012, consumer spending has rebounded, and although the Fed will cease its bond purchases this month, there is no indication that it is going to sell its inventory back on the market, and its policymakers are projecting low interest rates well into 2015. Corporate cash at large corporations is near an all-time high.

But pullbacks don’t always reflect reality. They are also affected by the sentiment of investors – in other words, human emotions and a crowd (or herd) mentality. Investors seem to be worried that stocks are overdue for a correction, and if these things operated on a schedule, they would be right. We are in the fourth-longest bull market since 1928, without having experienced even a small 10% correction since 2011. Consumer Confidence slipped dramatically, and unexpectedly, in September, lending some credibility to the surmise that the investing herd has been startled – and their expectations appear to be creating market reality.

The best (although imperfect) way to chart investor sentiment is via the VIX Index which measures stock market volatility. When the VIX spikes, it means that investors are excited or nervous as they seem to be now.

The interesting thing about the long-term VIX chart shown here starting in the third quarter of 2007, is the heartbeat-like rhythm of the spikes and drops, as if people get nervous in a kind of a pattern. The 2008-2009 market meltdown shows up in the enormous spike toward the left, but if you let your eyes move to the right, you can see that volatility has been pretty moderate since the end of 2012. Maybe it’s just time for the “heart” that represents how investors feel about the markets to give another tick.

Does that mean that we should take action? Unfortunately, nobody knows whether the markets are poised to act on the good economic news and move up, or are ready for another fearful sell-off that would finally deliver that long-delayed correction. History tells us that it’s a fool’s game to try to anticipate market corrections, and that investors usually get rewarded for sailing through choppy waters, rather than jumping off the ship when the waves get higher.

You can’t know in which direction the markets will experience their next 10%, 20% or 30% move. But unless you believe that the world is about to end, you do know, with some degree of certainty, in which direction it will make the next 100% move.

That’s the best prediction of the markets you’re likely to get, even if it doesn’t come with a timetable.

Note: This commentary is a service of Craig Phillips, Michelle Mabry, Dave Stieh, Andrea Mears and Client 1st Advisory Group, LLC, an SEC Registered Investment Advisor.

www.c1ag.com


Your results would vary from the historical returns shown, which do not include the effects of fees, charges or taxes that would apply to a real investment. It is not possible to invest in an index and past performance is no guarantee of future results. Investing involves risk, fluctuating returns and the possibility of loss.