

Two Sides to Every Coin

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Every coin, like every historical (or even not so historical) event, has two sides. You can choose which side to focus on – the positive or the negative.

For example, some choose to view the Initial Public Offering (IPO) of Alibaba – a Chinese company described as eBay, Amazon and PayPal, combined, which serves more than a quarter billion customers – as a negative.

Yes, it's a Chinese company, which means that foreigners are not allowed direct ownership. Shareholders in the IPO own a Cayman Islands-based holding company that gets the profits from Alibaba operations, not the company itself. Yes, China has issues with transparency. It's not democratic. Even so, some very sophisticated investors bought the stock.

But that's not what the bears worried about. They argued the large size of the IPO, or its 38% surge on the first day of trading, was a sign of a market top. Others say that investors had to sell other assets to "make room" to buy IPO shares.

But these bearish analysts have it all backward. No new tech company is perfect, they all must compete and will face challenges. But their products and services add to the net worth of society. They make life, business, and all activity more productive and efficient.

It's not a fixed pie, it's a growing pie. New ideas, like Manna from Heaven, create something out of nothing. No one needs to move aside, sell, or "make room" to absorb them. They create "more," they don't just move around the wealth.

Alibaba did not "crowd out" other investment. It created something from nothing. This is what so many investors have missed in the past five years. Rampant pessimism, left-

over from the 2008 crash, and a short-term trader-type mindset have led many investors to look at the "wrong side of the coin." They view positive events as "speculative" and negative events as a "realistic understanding of the market."

Take high oil prices. Yes, they are a "cost" to energy users, but they are clearly "revenue" to others. No one is forced to buy particular energy products; there are many alternatives, including using less energy. But, by motivating producers, gasoline users, who have been willing to pay higher prices in the past decade, help drive the fracking boom. The long-term benefits of abundant energy will swamp any of the costs we are absorbing today. One side of the coin says consumers are hurt by high gasoline costs. The other says the long-term benefits are massive.

As long as markets drive the process, it's the positive side of the coin that wins. But when government drives the process, the negative side often wins. Resources redistributed by government from profitable, productive ventures toward non-productive areas of the economy are a net loss to society.

The good news is that in the past five years, even though government redistribution has grown significantly, new technology has boosted productivity, efficiency and profits. We are not saying Alibaba is a good investment, but the success of the IPO is a sign of the value this new technology is creating.

Initial Public Offerings are a sign of progress, a sign of the ability of markets to create new things, not rampant speculation. The fact that more IPOs are happening is a positive, not a negative. If you view the world as a fixed pie, you miss this side of the coin altogether.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-22 / 9:00 am	Existing Home Sales – Aug	5.200 Mil	5.180 Mil	5.050 Mil	5.150 Mil
9-24 / 9:00 am	New Home Sales – Aug	0.430 Mil	0.435 Mil		0.412 Mil
9-25 / 7:30 am	Initial Claims – Sep 20	297K	300K		280K
7:30 am	Durable Goods – Aug	-18.0%	-20.5%		+22.6%
7:30 am	Durable Goods (Ex-Trans) – Aug	+0.6%	+0.8%		-0.7%
9-26 / 7:30 am	Q2 GDP Final Report	4.6%	4.7%		4.2%
7:30 am	Q2 GDP Chain Price Index	2.1%	2.1%		2.1%
8:55 am	U. Mich Consumer Sentiment- Sep	84.8	84.5		84.6