

# Market Recap

## Corporate Inversions

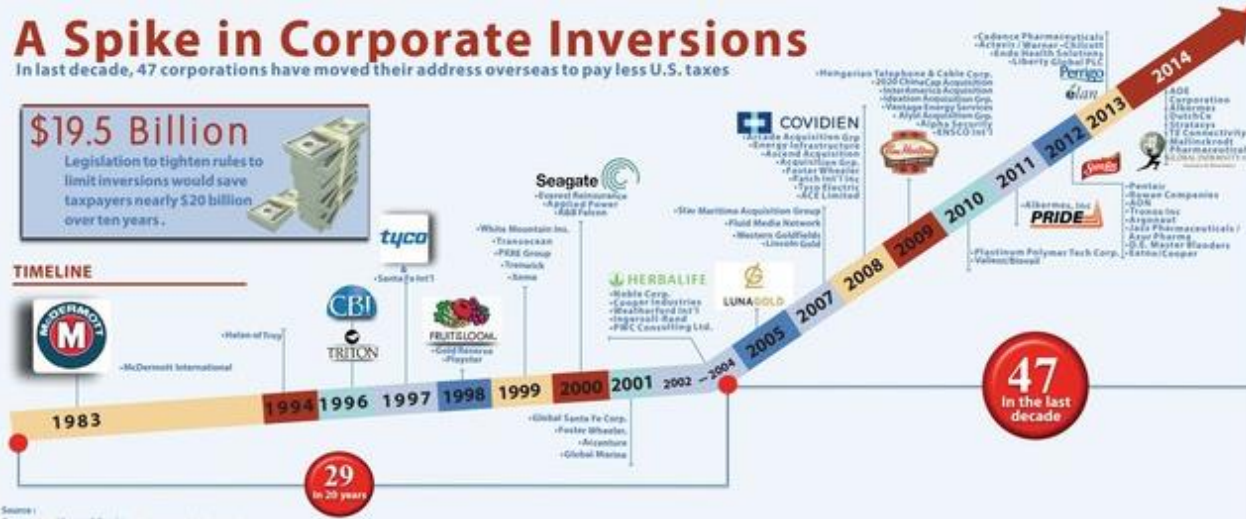
### A Spike in Corporate Inversions

In last decade, 47 corporations have moved their address overseas to pay less U.S. taxes

**\$19.5 Billion**

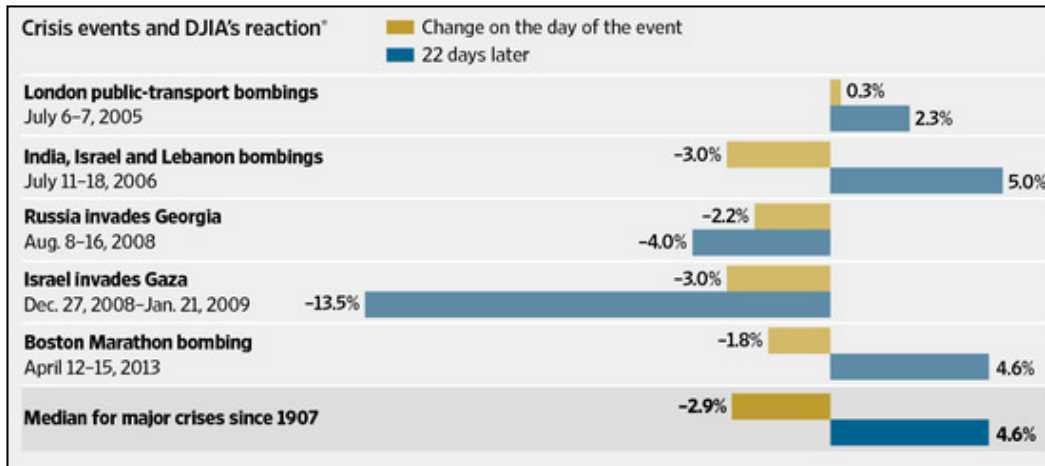
Legislation to tighten rules to limit inversions would save taxpayers nearly \$20 billion over ten years.

#### TIMELINE



Source: Congressional Research Services

## Dow's Reaction to Recent Crises



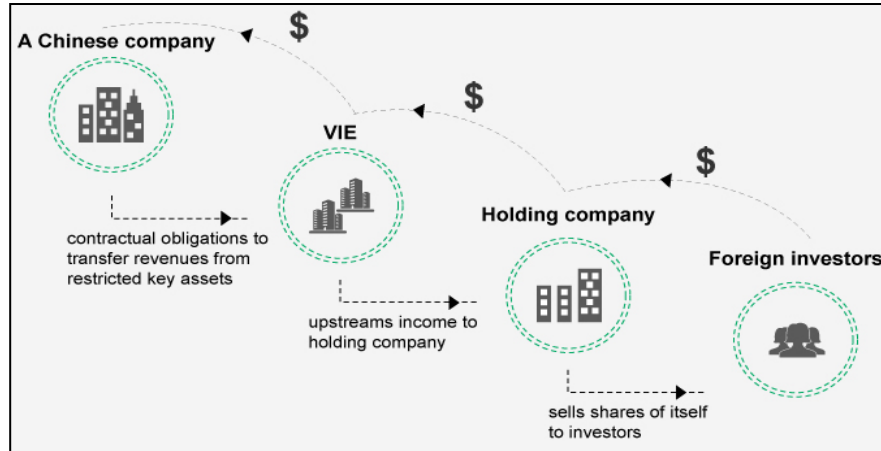
Source: WSJ

In a practice known as “corporate inversion”, U.S. companies are increasingly merging with foreign entities and moving their home base to countries with lower tax regimes. In the past decade, at least 47 U.S. companies have executed inversion strategies. Several more are being proposed currently. U.S. Treasury Secretary Jack Lew and members of Congress have spoken publicly against the (completely legal) practice, suggesting that it is unpatriotic. Most tax experts and politicians recognize that the real culprit is the overly complex and outdated U.S. tax code. Everyone shares the concern that corporate moves will reduce U.S. jobs. Since tax reform is slow and inversions appear to be accelerating, Congress is considering a short-term fix to stem the tide until the code can be properly reformed. Both Lew and U.S. executives would be happy if the corporate tax rate were lowered to make the U.S. more globally competitive.

This year, the markets have been buffeted by several headwinds, ranging from the unwinding of the Federal Reserve's bond purchase program to the decline in GDP during the first quarter and recent military flare-ups in Ukraine and Israel. In the wake of each, investors have demonstrated resilience. Last week, the market recovered almost all that it had lost the prior day when it fell abruptly due to the downing of the Malaysia Airlines jetliner over Ukraine and Israel's incursion into Gaza. As with previous crises, investors responded by “buying the dips.” In the past century, the Dow's median response to previous crises has been to rise 4.6% in the first month following a day-one decline of 2.9%. Many investors say they continue to buy shares, zeroing in on the market pullbacks as an entry point. These investors say positive, if uneven, U.S. economic data, low interest rates that dim bonds' appeal, and restrained inflation all call for greater exposure to stocks.

# Market Recap

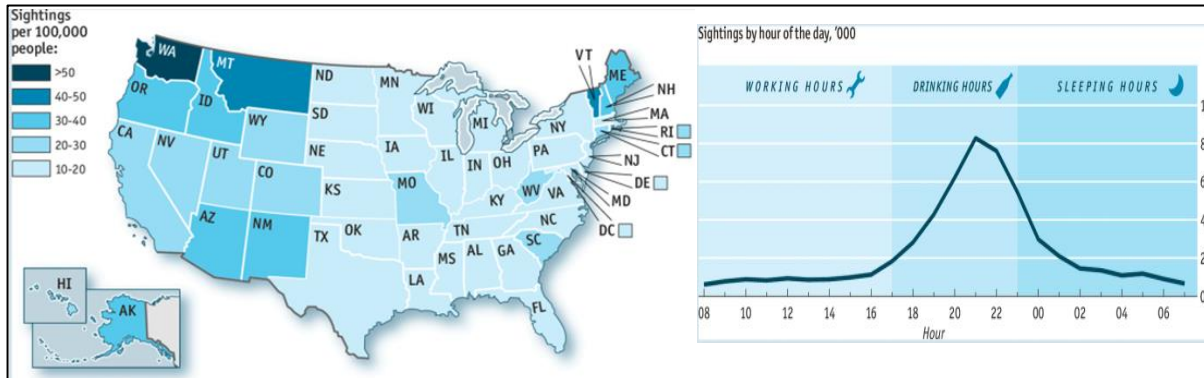
## VIE Structure



Source: Fidelity

On the heels of recent successes of Chinese internet offerings such as Baidu and Weibo, there is a great deal of interest in the upcoming IPOs of Alibaba and other Chinese companies. However, before investing, one should understand that there are structural risks specific to Chinese issues. Many publicly-traded Chinese investments are structured as variable-interest entities (VIEs). This structure has more complexity than a domestic stock or even an American depository receipt (ADR). Because Chinese law restricts foreign ownership of certain businesses that they deem to be in “sensitive industries”, VIEs were created to facilitate investment by foreigners. The subject company transfers revenues from key assets to a VIE via a holding company. The subject company retains ownership and control of the VIE. Unlike a domestic stock, the structure does not give investors ownership in the actual operating company. Moreover, given that the VIE is controlled by the principals who established it, the operating company can void the VIE agreement at any time.

## U.S. UFO Sightings (2000-14)



Source: National UFO Reporting Center

Since 1974, the National UFO Reporting Center has catalogued almost 90,000 reported UFO sightings, largely in America. In what appears to be evidence that aliens are considerate of their hosts, they seldom disturb earthlings during working or sleeping hours. Rather, they tend to arrive in the evening, especially on Fridays, when spectators may appreciate the flashing lights in the heavens even more after imbibing a few cocktails. The state aliens frequent most often is Washington. There are other popular destinations near the Canadian border, where the Northern lights are sometimes visible. UFOs also tend to shun big cities, disturbed by too many lights, and daylight hours, when people might think they were just airplanes.

**Contact:** If you have any questions or comments, please do not hesitate to contact us at 703.992.6164. For more information about Harbour Capital Advisors, please visit our website at [www.harbourcapitaladvisors.com](http://www.harbourcapitaladvisors.com).

**Disclosure:** Harbour Capital Advisors, LLC (“HCA”) is an SEC-registered investment adviser located in McLean, Virginia. HCA and its representatives are in compliance with the current filing requirements imposed upon SEC-registered investment advisers by those states in which HCA maintains clients. HCA may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements. A direct communication by HCA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For information pertaining to the registration status of HCA, please contact the SEC or the state securities regulators for those states in which HCA maintains a notice filing. A copy of HCA’s current written disclosure statement discussing HCA’s business operations, services, and fees is available from HCA upon written request. HCA does not make any representations or warranties as to the accuracy, timeliness, suitability, completeness, or relevance of any information prepared by any unaffiliated third party and takes no responsibility therefor. All such information is provided solely for convenience purposes only and all users thereof should be guided accordingly. Past performance may not be indicative of future results. Therefore, there can be no assurance (and no current or prospective client should assume) that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended or undertaken by HCA) made reference to directly or indirectly by HCA will (i) be suitable or profitable for a client or prospective client’s investment portfolio or (ii) equal the corresponding indicated historical performance level(s). Different types of investments involve varying degrees of risk. Historical performance results for investment indices and/or categories generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. The material contained herein is provided for informational purposes only and does not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any option or any other security or other financial instruments. Certain content provided herein may contain a discussion of, and/or provide access to, HCA’s (and those of other investment and non-investment professionals) positions and/or recommendations as of a specific prior date. Due to various factors, including changing market conditions, such discussion may no longer be reflective of current position(s) and/or recommendation(s). Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from HCA, or from any other investment professional. HCA is neither an attorney nor an accountant, and no portion of the content provided herein should be interpreted as legal, accounting, or tax advice. The tax information contained herein is general in nature and is provided for informational purposes only. HCA does not provide legal, tax, or accounting advice. HCA cannot guarantee that such information is accurate, complete, or timely. Laws of a particular state or laws which may be applicable to a particular situation may have an impact on the applicability, accuracy, or completeness of such information. Federal and state laws and regulations are complex and are subject to change. Changes in such laws and regulations may have a material impact on pre- and/or after-tax investment results. **CIRCULAR 230 DISCLOSURE: To comply with Treasury Department regulations, we inform you that, unless otherwise expressly indicated, any tax information contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties that may be imposed under the Internal Revenue Code or any other applicable tax law, or (ii) promoting, marketing, or recommending to another party any transaction, arrangement, or other matter.** Rankings and/or recognition by unaffiliated rating services and/or publications should not be construed by a client or prospective client as a guarantee that he/she will experience a certain level of results if HCA is engaged, or continues to be engaged, to provide investment advisory services, nor should it be construed as a current or past endorsement of HCA by any of its clients. Rankings published by magazines, and others, generally base their selections exclusively on information prepared and/or submitted by the recognized adviser.