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<u>FUN FACTS TO KNOW AND TELL</u>

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Five years after 2008, what have we learned? Is this a "teachable moment"?

We pointed out during 2013 that 5 year returns jumped dramatically in October as the worst months of 2008 dropped off the 5 year timetable and became diluted in the 10 year returns. Using 10 years as a suitable timeframe for a stock portfolio, how do 10 year returns look at the end of 2013? (Before we go any further, note that the 10 year returns ending 2013 start in 2004, therefore dropping 2003, which was a very strong year rebounding from 2000-2002 tech bubble. So we aren't cherry-picking an optimum time period). The answer is, "Pretty good!" Broadly diversified stock market returns were in the 7% to 8.5% range. Slightly less than longer term averages, but still high enough to achieve most long-term personal financial planning goals.

So what is the lesson? Long term investors survived the worst global financial crises of our lifetimes reasonably well. The world did not come to end. We did have to endure a very long and slow recovery. We still face significant challenges. One thing is guaranteed. The stock market always has been and always will be volatile in the short run. Don't expect that to change.

Calendar year 2013 also provided the first calendar year loss for bonds in 20 years. Losses were modest, in the 2% to 3% range, but in contrast to 2012 they were a drag in diversified portfolios. Commodities were the weakest link, with corn down 40%, gold down 28% and wheat down 22%. Do you remember wondering a few years ago why we didn't own more gold?

The closing of the January 2013 "Fun Facts…" bears repeating:

Calendar year 2013 is an excellent example of **key investment principles**:

- Risk and return are related (the 3 R's).

- Successful investing is a contrarian process. Gloom and doom dominated the landscape at the beginning of the year (and remain prevalent now).

- Successful investing requires a tolerance for volality, patience and a long-term focus.

- Forecasting is a futile exercise. Our crystal ball is no clearer than yours. Therefore, we offer no forecast of 2014 and beyond.

- A strategic asset allocation in a broadly diversified, multi-asset portfolio emphasizing passively managed funds is a successful investment.