Chatham Wealth Management

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Dear Clients and Friends,

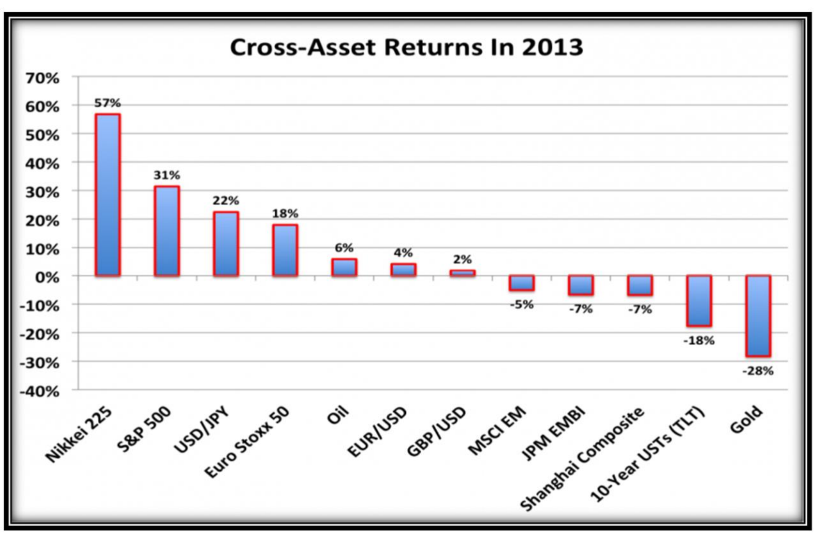
Welcome to Chatham Wealth Management's Year End Newsletter. Each January, we like to review the big-picture events and scenarios of the past 12 months that influenced our investment strategies and ultimately impacted the value of your portfolios.

As we focus on achieving your short-term and long-term financial goals in an ever-changing environment, we continue to view our relationship with you as a partnership. Many of you have been with us for over 30 years! We sincerely thank you for the trust you have placed in us.

Read on to learn about key happenings in 2013, and how we are positioned to make 2014 another successful year.

2013 Year in review - A look back at some of the market influencing events:

January - The White House and Congress agree to Fiscal-Cliff bill; February – Pope Benedict becomes first Pope to step down in nearly 600 years; March – Cyprus secures bail out deal; April – Two bombs explode near finish line of Boston marathon killing 3 and wounding more than 250; May – 10 year Treasury yield hits low of 1.63%; June – Chairman Bernanke rattles markets by setting potential timetable for exiting the bond-buying program; July – Edward Snowden spends much of the month holed up in Moscow's airport; August – Carl Icahn takes his activism to twitter when he says he bought shares in Apple; September – Markets confused again as Federal Reserve changes mind on timetable for winding down asset purchases; October – Partisan fight forces partial government shutdown; November – The Nasdaq closes above 4,000 for the first time in 13 years; December – Federal Reserve says it will start to reduce asset purchases next month.



The chart on last page shows 2013 was a good year for US, Japanese, and European stocks (Developed Markets). In contrast, if you held stocks in emerging markets you didn't perform as well. We think Developed Market stocks did well for two reasons. 1. Corporate earnings set another record and 2. Investors started to flee the bond market and move money into stocks.

The slow but steady economic recovery in The US continued in 2013. The housing market, jobs picture and GDP all continued to grow in a substantial positive way. This recovery has enabled the Federal Reserve to start to plan and implement the ending of the most controversial component of their economic stimulus plan. In early 2014 they will start reducing the multi-billion dollar monthly asset purchases. This action has been interpreted to mean that growth is now expected to be strong enough to allow the economy to stand on its own.

We told you interest rates were going to rise and rise they did. The US Ten Year Treasury yield moved from a low of 1.67% to 3%. This resulted in a loss of -18% if you held that long dated US Government debt. You didn't fare much better if you owned longer dated Puerto Rican tax free bonds. As the year went on prices of Puerto Rican municipal debt continued to fall because of the rise in interest rates and a deepening crisis in the fiscal situation in Puerto Rico. How did we steer our clients through 2013? We owned fewer bonds than usual, held much shorter duration debt, and added floating rate bank loans. All of these moves helped our clients weather through a tough period for bond holders.

It is clear that inflation as measured by the Federal Reserve remains benign. While this worked in favor of most asset classes and sectors, there were a few places where the opposite was true. Low inflation seems to have broken the gold bubble (-28%), which was detrimental to emerging market economies (-5.0%) that rely on mining precious metals.

2013 was a year marked by some of the largest mergers and acquisition deals in recent memory. Early in the year Warren Buffett's Berkshire Hathaway purchased Heinz and Verizon purchased the remaining stake of Verizon wireless from Vodafone.

What to expect in 2014

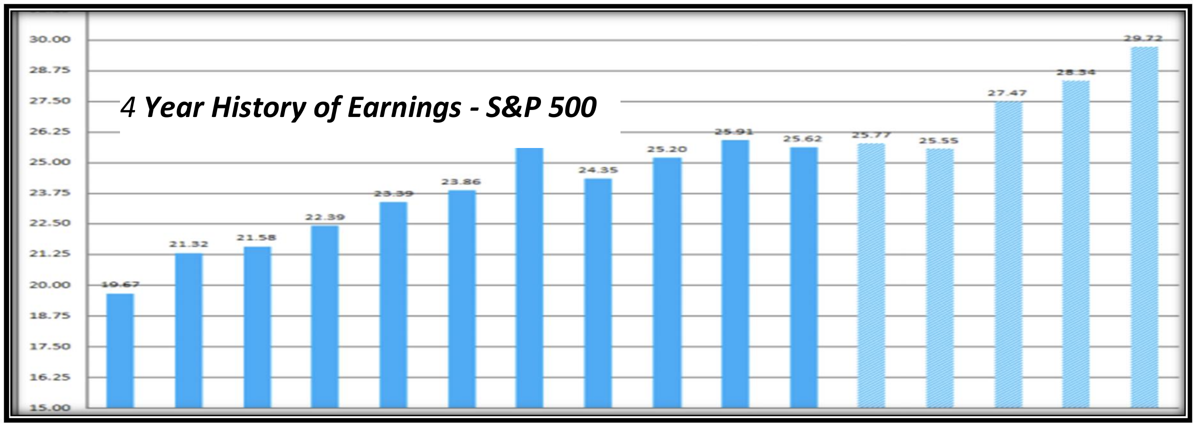
The big question for 2014 in our minds is whether or not the Federal Reserve now headed by Janet Yellen can exit the asset purchase program without severely affecting interest rates and or the general economy. In January the Federal Reserve plans to purchase ten billion dollars less than previous monthly purchases of US Government bonds and mortgage backed securities. Even though they are removing some of the excess cash from the system, we do not expect they will actually start raising the fed funds rate until late next year or early 2016.

Excerpts from last year's newsletter.

We believe that the low growth slow recovery story is intact. While we believe in balanced portfolios, if this story continues to play out stocks should have another good year, credit (corporations) bonds should outperform fixed rate government bonds as the yield curve steepens, and commodities should perform well. Real estate in general should do well but many of the REIT's and Homebuilding stocks have already priced this in and do not look very attractive.

We do not know when interest rates will start to move significantly higher but given some of the recent signs (multiple Fed Governors talking about less easy money, a bounce in real estate, and the jobless rate continuing to trend lower) it sure looks like we are getting closer. It may be 6 months or 2 years, but when it happens, money that has continued to flow into bonds for more than 30 years will be taken out quickly. For this reason when it comes to buying longer duration fixed rate bonds we feel the downside far outweighs the upside.

We believe that much of what we wrote last year will continue to play out in both the stock and bond markets in 2014. We continue to believe that stocks in general will outperform longer dated high quality bonds.



Corporate earnings are the most important factor in stock prices. As the chart above shows, 2013 earnings are expected to be quite strong. We expect earnings growth of approximately +6% in 2014 which would equate to approximately $117.75 in earnings for the S&P 500. Those projected earnings would equate to a 15.5 price earnings multiple. If you extrapolate another 5% earnings growth in 2015, the multiple would then be 14.81X. Many on Wall Street are predicting $120 for 2014 and $130 for 2015 (we are using more conservative projections).

Corporate balance sheets and earnings continue to make selective stocks look reasonable on a valuation basis. Why do we say selective? After a 5 year bull market in stocks (+180%), certain individual stocks and whole sectors have become overvalued. Recently even Warren Buffet has tapered his enthusiasm for the whole stock market. He is now saying that "stocks are in a zone of reasonableness". This is very good news for CWM as we feel our style of individual stock selection will reduce risk and produce better returns in this type of environment.

Fundamentals of the housing market are in good shape. While we believe that the housing sector should continue to do well, a severe rise in long term rates (more than 150 basis points) would put a real crimp in demand for both new and existing houses. We don't believe there is a high probability of this happening, but it is worth watching should interest rates rise by more than 100 basis points.

While Congress inked a new two year budget deal in December, don't despair. Politicians will still have ample opportunity to provide us with some entertainment. A new debt ceiling fight is on the horizon which will enable politicians to once again attempt to negotiate, hijack, and threaten us as the February 7th deadline approaches. Our guess is the politicians will kick the can down the road once again (at least until after November's mid-term elections). We expect most politicians to be on their best behavior, this time as they view the upcoming elections as crucial to each party. This is probably good news for the markets.

Long term opportunities

Below are some interesting statistics that have had a meaningful impact on global investments. The famous hockey player Wayne Gretsky once said "I skate to where the puck is going to be, not where it has been" The same thinking applies to investments. The global landscape is changing quickly and it is our job to make sure that the companies we invest in are able to take advantage of these changes. Below are some predictions and statistics.

On The Global Workforce: Oliver Bussmann By 2033, a "born-mobile" workforce will be constantly connected to both work and home life, using devices that are wearable – or even implantable. Collaboration with others around the world will be as natural as speaking, and physical workspaces will be strictly optional.

On **Education: Khan Academy** **"Global Access: In twenty years, almost everyone on the planet will have access to the world's best educational materials. Almost every subject will be available for free online. A child in Mongolia would be able to learn anything from Algebra to String Theory to Greek History".**

Recent Statistics that are clearly showing a trend

- **Babies born per woman globally: 1963= 5 Today = 2.5**
- **India poised to become the world's largest beef exporter**
- **China oil Imports (as a % of consumption) 2000 = 32% 2012 = 57%**
- **Global Fossil Fuel use as a % of Total consumption: 1990 = 81% 2011 = 81.5%**
- **Wine Institute says Americans enjoyed 856 million gallons of wine in 2012, 15 percent more than in 2007**

Administrative Notes

It is with deep sadness that we announce the passing of Suzanne Ughetta. Suzanne was CWM's office manager for almost ten years. As many of you know she was a super person who was a major asset of our firm and will be missed.

We would like to thank all of those clients who have referred new business to us during the past year. If you have a friend or colleague who may be interested in our services, we will gladly send you a marketing package that you can provide to them. Of course, you can always have them call us directly.

Each year the SEC requires us to offer you a copy of its Securities and Exchange Commission Form ADV, Part II. This form documents standard information on our partnership. If you would like a copy, please let us know.

2013 Tax Documents – we will be sending a tax package that you can give your tax preparer in mid-February. It will include realized gain and loss schedules and 1099 tax forms.

We recently hired Kori Willis to help with support. Along with Christine Hoehn they will serve as the backbone to CWM's operations. Both can be reached using our toll free phone number (800) 472-8086

In Closing

We wish all our clients and friends a happy, healthy, and prosperous 2014. We want you to know that we value and appreciate your business, and we thank you for trusting us to manage your investment assets.

Daniel H. Moskowitz **John H. Raab**

Ralph E. Rosamilia **John Lui** **Gregory P. Shaw** **Beth Wahlig**