July 2013

Dear Clients and Friends:

It might not seem market related, but I just returned from my 10th annual trip to one of my favorite places in the world Tortola in the British Virgin Islands. We rent a house on the unpaved, less popular West End of Tortola, where the pace is slow and the views are simply phenomenal. The value based investor in me enjoys the offseason summer rates. This trip though was different, since it was the first time that our 3 ½ year old son Finn joined us. His presence required us to look at the trip in a different way. Not quite as relaxing, but it was the best trip we have ever made and to see a place we love so much be enjoyed by our little boy was beyond my wildest imaginations of enjoyment.

The experience of this most recent vacation reminds me of our current market. Like our trip that is much different depending on context, this market is the same way. The market really is like a tale of two markets. Investors are able to see that the S&P 500 is up 13.8% YTD through the end of the 2nd Quarter and even a few percent more since then. CNBC and other media are touting the almost daily new "record highs" in the market. Things must be great right? As Lee Corso would say, "*Not So Fast!*" The US stock market is just about the only investment class in the world having any success this year. Through the 2nd quarter: Developed Foreign Stocks are up 4.5%, Long US Treasury Bonds are down -7.8%, US Core Bonds are down -2.4%, Commodities are down -10.5%, and Emerging Markets Stocks are down almost -10%. If you owned a 30 year US Treasury Bond from April 30th to June 30 you would be down -10.45%. The US stock market has truly been the belle of the ball this year.

Our managers also each view the market with a unique context. The vast majority of the managers that I use with clients are having good years due to exposure to the US equity markets. In order to properly diversify and provide protection to client portfolios I use multiple managers that we often call "alternative" to give us protection in bad markets. Many of those managers, who I really respect, are not comfortable investing heavily in the US stock market at current levels and are using their broad mandates to invest in areas that they feel offer a better risk return profile. These managers prefer larger allocations this year to Emerging Markets stocks and bonds and also sometimes even short US stocks. Obviously those have not done well. Does it mean that they are bad managers? Of course not, it just means that in an effort to not compromise their ideals on investing (their context) they are not "following the herd".

Time for some quotes of wisdom. Winston Churchill said:

> *"The Farther backward you can look, the farther forward you are likely to see"*

Aldous Huxley said:

> *"Facts do not cease to exist because they are ignored."*

My last letter discussed how long this market has been without any serious correction. We still have not had more than about a 5% one this year in US markets. Although like I mentioned, May and June were two of the worst months in recent memory for many market professionals. By many measurements, US stocks may be getting a bit long in the tooth and due for some pullback. We know by looking back in history how things have reacted during similar times. Some managers we use are trying to invest based on our current set of economic data and the market environment. Others are deeply analyzing the markets and looking for companies trading for attractive prices that they can buy and hold for the long term. Both methods have merit and that is why I employ managers of multiple styles in client portfolios.

Jim Barksdale who is the President of one of our managers, Equity Investment Corp., was quoted by *Barron's* recently saying he likens his strategy of when and where to invest to baseball great Ted Williams. In Williams' book The Science of Hitting, he discusses his strike zone where he had a good chance of getting a hit. He would only swing at a pitch when it was in the perfect little zone, for everything else he just stood there. I am comfortable with the managers we use who are just standing there or are only swinging at the pitches in their strike zone.

This is definitely a year where most investors are underperforming the S&P 500, but I ask you to remember your goals. Are you comfortable with taking the full risk of the market? Would you be willing to experience a loss of up to 50% in a year? The answer is probably, no and it is for that reason that we will continue to remain diversified with a focus on striving for stable returns over the long term.

As for this "tale of two markets" I feel that we are in, it is not a bad thing. Like my vacation, there will be times that try your patience, it may not be as easy as it used to be and we might have to work a little harder to pursue and discover the rewards.