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Stewardship *focus*

ADDRESSING THE NEEDS OF INDIVIDUAL INVESTORS AND PLANTING THE SEEDS FOR A SECURE FUTURE.

Volatility: Friend or Foe

Not many things are certain in the investment world, change is constant and volatility will always be a part of investing. Bear markets and corrections are normal occurrences, happening once every two years since 1942. By definition, a bear market is when the stock market falls for a prolonged period of time, usually by twenty percent or more, causing the securities you already own to drop in price. The decline in their value may be sudden, or it may be prolonged over time, but the end result is the same; the value of your holdings is lower. Investors without a strategy often panic in a bear market, selling stocks when they are the least expensive and near their lows.

Volatility is like a strong current in the water. Those of us who enjoy playing in the waves of Lake Michigan realize it is a whole lot easier swimming with the current than trying to swim against it. Volatility is a current you can employ as your aid, or you can fight it and possibly drown. The far smarter thing to do is let the current work for you. Having a strategy to deal with volatility is one of the most important factors to achieving investment success. Here are a few strategies to consider:

1) Diversify into asset classes (buckets) that are non-correlated or have low correlation.

2) Watch the trends of the market. This is economics 101; are more people buying or selling causing the medium and long term trends to be positive or negative? If the trend is negative, reduce risk or hedge appropriately.

3) Learn to separate the stock price from the underlying business. They have very little to do with each other over the short-term.

4) Sell or trim holdings when areas of the market get expensive based on fundamental analysis and historical valuations. This is taking advantage of upward volatility and selling when prices are high.

5) Look for areas of the market that have recently been hit hard by selling and are down as a result. Look for a change in trends to identify areas of the market that are attractive fundamentally, inexpensive and are just beginning to gain relative strength. There are several variations of this strategy. One is called, "Buy the unloved," which is a contrarian strategy driven by fund flows.

When you understand volatility, you will see falling stock markets like a clearance sale at your favorite furniture store; load up on it while you can and buy attractive investments at a low price. History has borne out that prices will eventually return to more reasonable levels, and the time to sell is then.

Family Legacy Tips

Solomon gives us two important components to successfully passing an inheritance on to your heirs. In Ecclesiastes 7:11-12 he says, "Wisdom along with an inheritance is good and an advantage to those who see the sun. For wisdom is protection just as money is protection." He tells us if we are going to leave our heirs an inheritance, leave them the wisdom to know what to do with it. It is fine to leave a child wisdom without financial inheritance. In fact, if you leave them wisdom, they may not even need financial inheritance. But do not leave them an inheritance without the wisdom to know what to do with it or you may end up harming the very people you love the most.

Market Watch: 2013

2013 was a banner year for U.S. stocks and for the stock markets of most developed countries. The S&P 500 (GSPC) ended the year up 32.4%, while the Dow Jones Industrial Average finished positive 29.6%, and the MSCI EAFE (EEM) was also up by 22.78%. Developing market stocks were down for the year, losing 2.3%. The Dow Jones Equity REIT index (^DJR) was up 4.6% for the year. Most other asset classes had a difficult time. The US Bond Market ETF (AGG), which tend to do poorly when rates are low and begin to rise, had their worst year in 19 years finishing with a negative 2.0% return. The Dow Jones Commodity Index (^DJC) did even worse, declining 9.8 on the year.

So far, 2014 has been the opposite of 2013 in many ways. As of February 10th, the Dow Jones Industrial Average was negative 4.45% with the MSCI EAFE down 3.29% and MSCI Emerging Markets down 6.36%. Bonds were up 1.61% and Commodities were also up 1.98% for the year.

As we look forward into 2014, we recommend staying diversified, managing risk and hedging in most portfolios. Dan Fuss, Vice Chairman of Loomis Sayles & Co., who oversees $66 billion in fixed income assets, said that bonds are more overbought than at any time in his 55-year career. Even with a poor showing in 2013, we would still underweight bonds in all portfolios. In regards to the stock market, fundamental conditions, macroeconomic backdrop and cycle analysis suggests that we should be prepared for a pullback. All but very long term investors will want to make adjustments. We have had one of the longest stretches in history without a correction, and although it is impossible to know what may trigger the next one, conditions suggest it is a high probability one will occur over the 12 to 18 months. We think this pullback is unlikely to turn into a bear market this year, as the economy is likely to show steady improvement. The best long term strategy is to diversify assets among various asset classes that have strong growth potential and have low correlation.

"This is the most overbought [bond] market I have ever seen in my life in the business"

DANIEL FUSS

We recommend increasing exposure when assets are fundamentally inexpensive and when the asset class is just beginning to gain relative strength. One area that shows some of these characteristics is the Natural Gas E&P companies.

SMARTER INVESTING: Tips

The true financial advisor's job is to try and anticipate what is going to happen, then seek to prepare you and your portfolio accordingly. No one does this perfectly, but it is far better to be approximately right than absolutely wrong.

Tips & Quotes

"Even the Intelligent investor is likely to need considerable willpower to keep from following the crowd" -Benjamin Graham

"I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them" -Thomas Jefferson

IRA and Retirement Plan Limits for 2014

2013 contributions can be made until April 15, 2014. The maximum amount you and your spouse can contribute to an IRA is:

Type of Account	
Roth IRA (single)	$5,500
Roth IRA (married filing jointly)	$11,000
Traditional IRA (single)	$5,500
Traditional IRA (married filing jointly)	$11,000
Catch-up contributions (single)	$1,000
Catch-up contributions (married filing jointly)	$2,000

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