Paul R. Ried Financial Group, LLC
Security for your future

A MESSAGE FROM YOUR FINANCIAL TEAM
First Quarter 2013
April 12, 2013

Dear Clients,

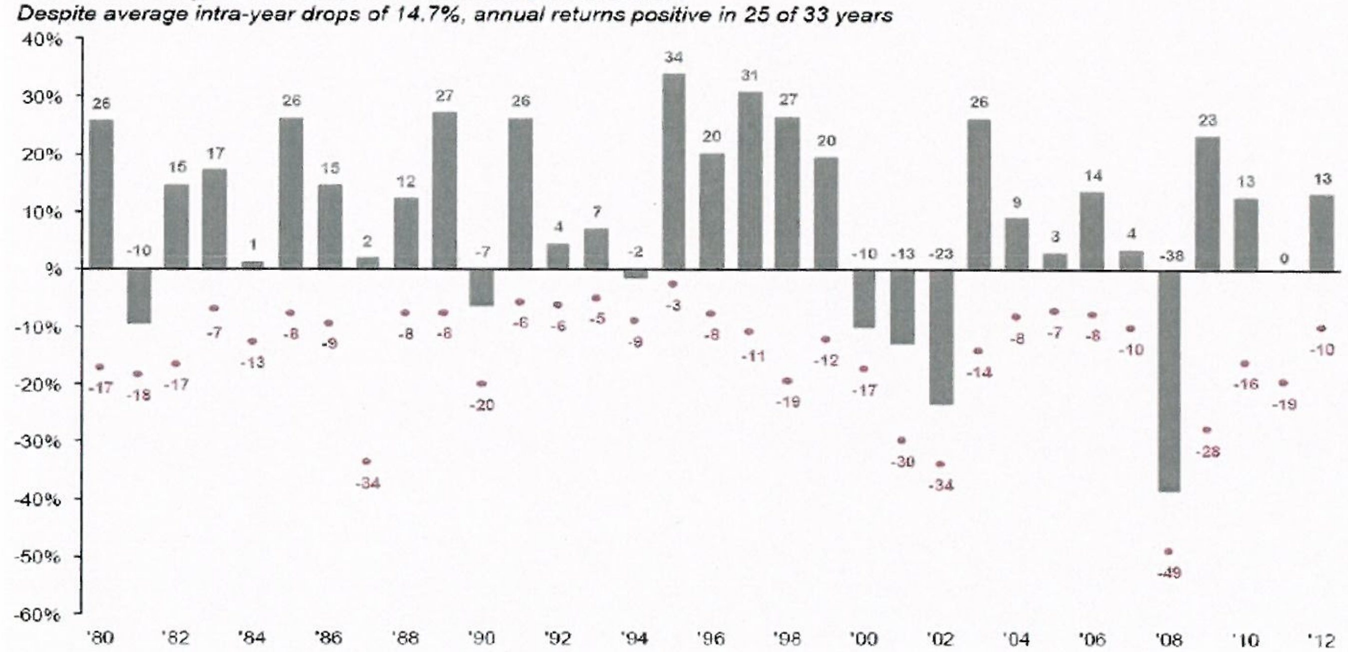
Stocks have started the year strong once again. In fact, US Stocks (as measured by the S&P 500) ended the quarter up just over 10% and international stocks (as measured by the MSCI EAFE index) managed to end up approximately 5%. However, performance by country was all over the board with many also finishing the quarter in negative territory -- A much wider range of returns than we have seen the last couple of years.

The Inevitability of Declines

Just as night follows day, market declines follow market rallies. Unfortunately, while we have watches and calendars to guide us regarding the timing of night and day, no such foolproof timing method exists for the markets! Although, we must admit there has been an uncanny pattern the last three years.

In fact, in each of the last three years the S&P 500 reached a temporary peak sometime in April before experiencing double digit declines ranging from 10% to 19%. However, these declines not only varied in magnitude but also in length. Even if someone were to correctly time a market top, it does little good unless they also correctly time when to get back in. As the chart below illustrates, many very good years included significant temporary pullbacks. (The gray bar represents the annual return for the year while the red dot represents the largest market pullback experienced that year)

S&P 500 Intra-year Declines vs. Calendar Year Returns
Despite average intra-year drops of 14.7%, annual returns positive in 25 of 33 years



Source: Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2012.
Data are as of 3/31/13.

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Regret

The market has an uncanny ability of playing with investor's emotions, and often one of the most damaging emotions it stirs up is regret. In a rapidly rising market, it is regret that you are not more aggressively invested or more heavily invested in that which appears to be performing the best. In a market which seems to only keep declining, it is regret that you are invested at all!

Some investors respond more strongly to the feeling of regret and some only respond to certain types of regret. However, it is not the feeling itself which can be damaging, it is responding to that feeling by making changes to your long-term plan which can be damaging. Since regret is a response to something that already happened, changes are inevitably influenced in a backward looking fashion and usually result in buying high and selling low; and therefore, ultimately more regret.

Never Lose Sight of the Big Picture

While it is easy to get wrapped up in the daily, weekly or monthly trends of the market, it is important not to lose sight of the big picture -- Your goals. While the market may swing wildly from month-to-month or year-to-year, your goals and objectives are much more concrete (if not, that might be a discussion for our next meeting!). We have met with each of you to discuss your goals and developed a plan and asset allocation strategy to help accomplish those objectives with a priority of minimizing the effects of market volatility on your portfolio.

We continue to monitor the multitude of newsworthy events worldwide and their implications in the world of investments. However, as we do from time-to-time, we thought it was important to focus on some emotional aspects of investing in this letter. As always, we appreciate your trust and are here to serve you. Don't hesitate to e-mail or call with any questions.

Sincerely, your Financial Team

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