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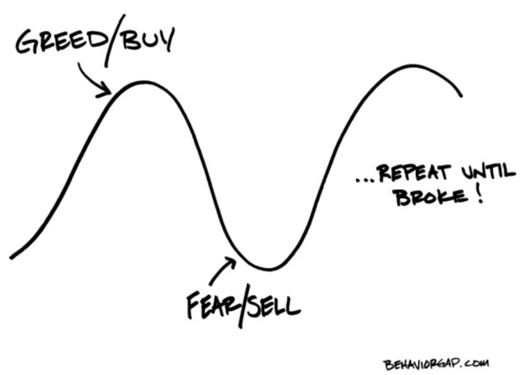
Dear Clients and Friends:

If somebody told me I had to pack a bag right now I think I would go into convulsions. The past few months have involved quite a lot of traveling both for business purposes and some personal fun trips. Don't get me wrong, I love traveling and I love being busy, but I am very much looking forward to some time at home in the coming months. We did have some great experiences. Amanda and I took Finn to Tortola again for his 2nd trip and had a blast. I then tagged along with Amanda on a work trip for her to San Diego and Santa Monica. Just 2 weeks after that trip, I had the annual Sterne Agee conference where I was able to meet our new management as well as see some of my money manager friends like Rowland from WH Reaves Asset Management. Literally 2 days later, I made the trip to DC to Roumell Asset Management's Investor Day to hear from Jim and Ted and the CEOs of their top 3 holdings. Then I am not kidding when I say that 8 hours after I landed from DC I got on a charter boat for a 36 hour fishing trip for my brother in law's bachelor party. So as usual maybe we can parlay this recent "busyness" into a good topic. Are we as investors sometimes too busy? Do we create work just for the sake of doing something?

We are all smart right? I mean we all have watched Wheel of Fortune and known we could do better than those people. Especially this guy! He won by the way. Or what about this Price is Right contestant's crazy bid a few weeks ago on a hammock? Given that we are all borderline genius we should be able to decently invest in the stock market right? Well here are the facts. JP Morgan/Dalbar does a chart that I find fascinating. Over the past 20 years 1994-2013 here are some average annual returns of different asset classes. Oil 10.2%, S&P 500 9.2%, Foreign Stocks 6.1%, Gold 5.8%, Bonds 5.7% and Inflation was 2.4%. Want to know how the average investor faired during that time? How about 2.5%/year. It is a crazy truth. Fact is we are human and humans have brains and brains have emotions and fears and biases. Those all come together to cause



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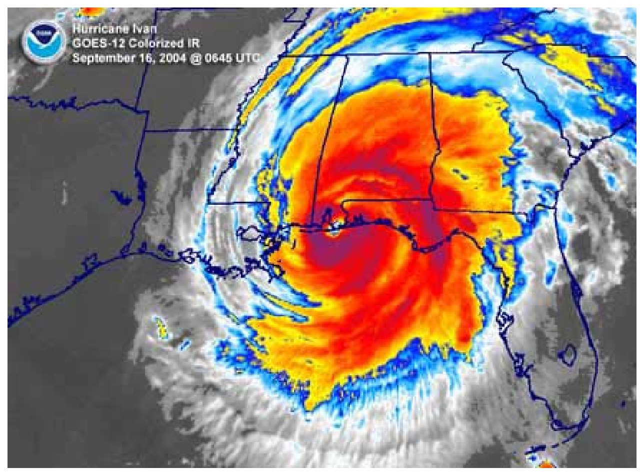
us to make decisions at the wrong time. Instead of staying the course we attempt to change when we "feel" it is right. We buy at peaks, sell at troughs or invest with last year's top performing fund. Sound familiar? We are all guilty and we always will be. Quite possibly we investors are being too "busy" in our decision making. In the case of investing we all know that you should invest for the long term and ignore the short term noise, but it can be very, very hard to do that.

"Only liars manage to always be out during the bad times and in during the good times"—Bernard Baruch

Hurricane Ivan made a direct hit on Gulf Shores, Alabama 10 years ago this past September 16th. It was a devastating storm that caused massive destruction and flooding. The year after that brought Hurricanes Dennis, Katrina and Rita to the Gulf Coast. Events like that get etched into the phyche of residents along the coast. You can only board up, evacuate and rebuild a certain number of times before you clinically go insane or just move away. Hurricanes are a guaranteed part of life along the northern gulf coast and we will surely have another bad one sooner or later. Fact is though, that we have not really had any significant storms in the past 10 years but all coastal residents still are on guard and nervous during hurricane season. In those few years after Ivan, the anxiety was at high levels and people may have made rash decisions. Some turned their homes to hurricane fortresses and many others simply sold beautiful waterfront property and moved away.



Hurricanes and stock market corrections are a part of life. We know we will have them, but we also know how to prepare for them so the destruction is not as bad. What is known for certain though, is that the sky is always blue after the storm is over.

"Far more money has been lost by investors preparing for corrections or trying to anticipate corrections than has been lost in corrections themselves"—Peter Lynch

We all suffer from **Recency Bias** in many aspects of our life from hurricanes to investing. Recency Bias is the tendency to think that trends and patterns we observe in the recent past will continue on in the future. In those subsequent few years after a major hurricane or stock market correction we often think that that same event will occur again and do so very soon. Remember the data from the study showing the average investor's underperformance vs. virtually any asset class over the past 20 years. For years after the 2008 financial crisis, investors were hesitant to put money back into the market and many missed out on some truly amazing returns. Take the flip side of the story; last year, in 2013, the S&P 500 was up over 30% which is a phenomenal year, but other asset classes like Bonds, REITS, Gold and Emerging Markets were down. This year we have seen investors adding to US stocks because they "recently" did well. I can't say how this story will play out, but I doubt it will be any different than in years past. Was the little market volatility from late September and early October enough to jar investors?

We probably can't change our nature to make decisions based on emotions and we will always fall victim to letting recency bias cloud our judgement. But at least maybe this newsletter will help me and help you to know these potential pitfalls and think before we react. GI Joe did teach us that "Knowing is Half the Battle". Warren Buffett says his favorite holding period for a stock is forever. I may not fully agree with that view but there is probably a happy medium and if we can avoid being busy and making too many changes, we have a chance of making that study look a bit different over the next 20 years. In the meantime, maybe we can all make some money building hammocks and selling them to that guy for $7,000.