AMERICAN FINANCIAL ADVISORS
WEALTH ADVISORY SERVICES

Quarterly Portfolio Review

December 31, 2013

Year in Review

As we close the books on 2013, let's take a look back at some important events.

- In a year where the federal government shut down for 16 days and a major U.S. city filed for bankruptcy, the nation's economic growth was slow, but stable. However, as 2013 drew to a close, the shutdown and looming default threatened to derail an economy that was still in recovery.
- Investors put $348.63 billion into stock based mutual funds and exchange traded funds in 2013, according to data from TrimTabs. That's the largest ever annual inflow and comes after several years of investors pulling money out of these funds.
- Gold prices fell nearly 30%, their biggest drop since 1981 and the first annual decline for the precious metal since 2000.
- Investors pulled out $72 billion from bond mutual funds this year through the first week of December, according to TrimTabs. That's the first time in nearly a decade that investors have taken more money out of bond funds than they've put in -- and it tops the previous record from 1994, when investors withdrew almost $63 billion.

American Financial Advisors, Inc. is proud to announce we are celebrating our 25th anniversary of helping clients attain piece of mind through intelligent planning!

BENCHMARK CENTRAL 2013

Barclay's Aggregate Bond Index	-2.03%
MSCI EAFE (International Stock index)	19.30%
Russell 1000 Value (US Large Cap Value index)	29.44%
Russell 2000 (US Small Cap index)	37.00%
S&P 500 (US Large Cap index)	29.60%
Wilshire 5000 (US Total Market index)	31.42%

To Our Valued Clients...

2013...The Year Diversification Died (In the investor's mind anyway...)

Whenever the U.S. stock market has an amazing year, as it did in 2013, the average investor feels a little cheated. Why diversify into areas like international stocks or bonds when I could have just invested in U.S. stocks and made a killing? It is times like these when we find it most difficult to keep clients on a disciplined path and stay focused on the big picture, instead of trying to chase the latest trend or movements in the market.

The Recency Bias can explain why so many investors make mistakes during stock market runs like we are experiencing now. Recency is the psychological tendency to overweight the recent past when reviewing historical information. The investment effect can be devastating. Apple or Google have been hot in recent months, so investors pile in. Sure, everyone remembers the collapse of the tech bubble in 2002, but this time is different, or so the deluded investor thinks.

We only need to go back two years to 2011 when the U.S. stock market gained exactly 0%. Or what about 2007-2008 when U.S. stocks lost 37%? During these times bonds were viewed as saviors...keeping portfolios afloat or limiting the portfolio's loss to a much more acceptable figure. But now that bonds had a negative year while U.S. stocks simultaneously had a phenomenal year, everyone hates bonds and wants to eliminate them from their portfolio.

Diversification does not guarantee there will not be losses. Diversification does not guarantee the "safe" portion of the allocation will not experience hard times. All diversification does is spread the risk to multiple asset classes with the intent of having dissimilar price movements...nothing more, nothing less. The ultimate purpose of diversification is to reduce risk and produce more consistent returns. That is the rationale behind our investment philosophy; it works.

Quarterly Client Webinar

Starting date: Wednesday, January 22, 2013 Starting time: 12:30 pm, Eastern Daylight Time (new day)

Meeting Number: 192 784 461

Website link: https://meetings.webex.com/collabs/#/meetings/detail?uuid=M740RJ0S5MIX04SU8G7N4PSUVJ-5MWV

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 192 784 461

If you cannot join us for this important webinar, we will post a recording of the entire presentation on our website at www.afadvisors.com.