American Financial Advisors, Inc.

Quarterly Portfolio Review

September 30 2013

Quarter in Review

As we enter the final quarter of the year, let's take a look back at the volatile, yet intriguing, 3rd quarter.

- As irresponsibly as U.S. leaders have behaved in managing the U.S. economy in recent years, there's still little chance that they will allow the nation to default on its debts. An actual default would be unthinkable, not simply because the United States is fully capable of paying its debts, but because of the damage it could inflict on the financial system.
- This month marks the five-year anniversary of the financial market collapse, and we have certainly come a long way since September 2008 (140% off March 2009 lows at the time of this writing, to be precise). With the S&P 500 and the Dow once again eclipsing all-time highs and interest rates staying low for the longest stretch in 50 years, most investors have already seen quite a lot of benefit from the fount of cheap money.
- U.S. stocks added to their strong one-year gains during the quarter—evidence that investors' aversion to equities may be softening—but most other assets suffered negative returns. Rising interest rates and widening credit spreads led to losses across bond categories, while commodities and emerging markets suffered from China's slower outlook.

I went for a walk this autumn day
The leaves came drifting down
As I walked along the garden path
My feet made a crunchy sound.

The birds chirped from in the trees
As I filled their feeders full
The air was fresh and sweet
And I felt happiness in my soul.

It is a delicious time of year to me
I hope you enjoy it too
Happy autumn time, my friend
I hope it is a good time for you!

Marilyn Lott

BENCHMARK CENTRAL 2013

Barclay's Aggregate Bond Index	-1.89%
MSCI EAFE (International Stock index)	13.36%
Russell 1000 Value (US Large Cap Value index)	18.37%
Russell 2000 (US Small Cap index)	26.43%
S&P 500 (US Large Cap index)	17.91%
Wilshire 5000 (US Total Market index)	19.92%

To Our Valued Clients...

As we have all learned, it's not TIMING the markets that count, but TIME IN the markets that matters. What better time to emphasize this integral lesson than looking back at the last 3 months.

Coming out of the second quarter, interest rates had just risen roughly 35%, causing a sharp decline in bond values. This caused many investors to wish to avoid bonds or even go so far as to liquidate their bonds holdings altogether. At the same time, but on the other end of the psychological spectrum, U.S. stocks were on a fantastic run...up over 12% in the first six months. This came on the heels of an above-average year for stocks in 2012. By the end of June, both the S&P 500 and the DOW were achieving all-time highs on an almost daily basis. This lead some investors to feel that a correction was coming and the thinking that liquidating their equity investments might be the prudent move.

We would like to draw your attention to the divergent causes of the real fear that plagued many investors coming in to the 3rd quarter. On one side of the coin, the stress was caused by a drop in value while on the other side, it was caused by a prolonged increase in value. It would appear that with so much uncertainty surrounding the investing landscape, we were due for a terrible quarter.

If you had acted on these fears, you would have missed out on a very positive quarter. Bonds were up roughly 1% to 1.2% for the quarter while stocks were up anywhere from 5.87% (US Large Cap Value) to 15% (International Small Cap). The sole holding of ours that went down in Q3 was real estate, down just over 3%.

It's times like these when we need to realize that emotions have no place in the equation when it comes to investing.

Quarterly Client Webinar

Starting date: Thursday, October 17th, 2013 Starting time: 12:30 pm, Eastern Daylight Time (NEW TIME)

Meeting Number: 192 576 550

Website link: https://meetings.webex.com/collabs/#/meetings/detail?uuid=ME5XTI0GI0K17HJFWPAEC7W9JQ-5MWV

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 192 576 550

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.