

# QUARTERLY PORTFOLIO REVIEW

March 31, 2014

The long winter has finally broken. It's time to break out your golf clubs, baseball glove and gardening tools.

## Quarter in Review

After a "risk-on" year in 2013, the first quarter of 2014 proved to be a more challenging environment for equities.

Concerns about economic growth in emerging markets, geopolitical turmoil in Ukraine, and somewhat softer macro data in the U.S. injected more risk aversion into markets, while profit-taking and tempered expectations for a repeat performance of stellar 2013 returns likely drove down investor risk tolerance in the first quarter.

With investors taking a more cautious approach toward equities, it was not surprising to see equity markets get off to a particularly rough start in January, though most major global indices rebounded in February and March, finishing the quarter in positive territory, led by U.S. equities.

A global backdrop of low inflation persisted in the first quarter despite the continued aggressive easing actions by the world's largest central banks.

On the whole, the resiliency and low volatility of interest rates in the wake of Fed tapering is a positive sign, since it indicates that tapering need not produce the kind of jump in interest rates that many analysts had feared.

## BENCHMARK CENTRAL 2014 Q1

Barclay's Aggregate Bond index	1.84%
MSCI EAFE (International Stock index)	0.11%
Russell 1000 Value (US Large Cap Value index)	2.43%
Russell 2000 (US Small Cap index)	0.81%
S&P 500 (US Large Cap index)	1.30%
Wilshire 5000 (US Total Market index)	1.47%
AFA Model Portfolio* (51% Equities/49% Bonds & Cash)	1.45%

## A WORD FROM THE ORACLE OF OMAHA

When the media raises the subject of beating the market through astute stock picking, the name Warren Buffett is usually cited. But what does this legendary investor actually say about the smart way to invest?

Buffett is considered to have such a track record of picking stock winners and avoiding losers that his annual letter to shareholders in his Berkshire Hathaway conglomerate is treated as a major event by the financial media.

What does he think about the Federal Reserve taper? What could be the implications for emerging markets of a Russian military advance into Ukraine? What does an economic slowdown in China mean for developed markets?

"The goal of the non-professional should not be to pick winners," Buffett wrote in his annual letter. "The 'know-nothing' investor who both diversifies and keeps his costs minimal is virtually certain to get satisfactory results."

As to all the predictions out there about interest rates, emerging markets, or geopolitics, there will always be a range of opinions, he says. But we are under no obligation to listen to the media commentators, however distracting they may be.

The Buffett prescription isn't rocket science, as one might expect from an unassuming, plainspoken octogenarian from Nebraska. He rightly points out that an advanced intellect and success in long-term investment don't necessarily go together.

"You don't need to be a rocket scientist," he has said. "Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ."

## IMPORTANT CLIENT CONFERENCE CALL

Starting date: Thursday, April 17, 2014 Starting time: 12:30 pm, Eastern Daylight Time

Meeting Number: 194 543 987

Website link: <https://meetings.webex.com/collabs/#/meetings/detail?uuid=M2LENT53ORFOP4PCQELT71BVF6-5MWV&rnd=632130.83024>

To join the teleconference only: US TOLL: +1-415-655-0001 Access code: 194 543 987

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](http://www.afadvisors.com).