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July 17, 2013

Dear Client,

This letter contains news and views that I feel will be of interest to you. As always, please call me at your convenience to set up your quarterly meeting.

Contents:

Going, Sebastien, Fisher & Le Bouef, LLP (GSF&L) News:

- Craig taught income tax planning to adult professionals who want to become Certified Financial Planners. The class was taught in Chicago, IL through Northwestern University June 21-22, 2013.

Investment Views:

- ***Morningstar Data - Through June 30, 2013 - Year-to-date returns--*** S&P 500 13.82%, NASDAQ Composite (dollars) 12.71%, MSCI EAFE (dollars) 4.10%, and the Barclays U.S. Aggregate Bond Index -2.44%.

- ***The Northern Trust Company – Economic Update – June 20, 2013 –*** The upgrade in the outlook for the economy triggered a bond market sell-off, taking the 10-year Treasury note yield to above 2.40% as of this writing from 2.20% just prior to the chairman's remarks. Investors apparently focused more on the forecast upgrades than Bernanke's careful message that an easing of the accelerator is not equivalent to a tapping of the brake.

- ***Bureau of Economic Analysis - June 27, 2013–*** Real Gross Domestic Product (GDP) grew 1.8% in Quarter 1 2013 compared to 0.4% in Quarter 4 2012; Personal Income increased 0.5% in May compared to 0.1% in April.

- ***Insight –A. Gary Shilling – July 2013 –*** Currency devaluations in Japan and elsewhere will no doubt be matched by competitive devaluations worldwide. No country wins in competitive devaluations and all lose as foreign trade is disrupted. But in the end, most will probably end up devaluing against the U.S. dollar.

***C*raig's Thoughts and Views:**

Asset Classes and Randomness of Returns

Prudent investing requires discipline. An investor's portfolio allocation generally should be altered only when an investor's circumstances change or when empirical research points to a newly identified asset class that is worthy of inclusion in a balanced portfolio. To define an asset class, the securities within the group should demonstrate: positive expected returns, low or negative correlation with other asset classes, uniform liquidity characteristics, and accessibility to most investors.

The accompanying table demonstrates how an investor can use asset classes to reduce a portfolio's volatility without sacrificing returns. Asset Class A provides highly variable returns from year-to-year, as does Asset Class B though the patterns of returns do vary. Over the entire six year period, however, A and B have identical total annual returns (12 percent) and identical volatility (as measured by standard deviation of 21.5 percent).

Therefore it is not that obvious that A is "better" than B or vice versa. However, Portfolio C, which is comprised of 50 percent A and 50 percent B provides a better alternative to holding either portfolio (A or B) exclusively. Portfolio C has a 12 percent annual return over the time period; however, it has a standard deviation (risk measure) of 18.9 percent which is much lower than that of either A or B. In years when Asset Class A provided very high returns, Asset Class B provided lower, or even negative returns, and vice versa.

The key to increasing a portfolio's risk-adjusted returns is identifying asset classes that provide positive returns over the long-term but short-term returns that are not strongly correlated with one another. The data presented in the table below are hypothetical; however, examination of monthly returns of actual financial assets reveals that several classes have displayed these desirable properties over sustained periods.

Asset Classes and Return/Risk Measures

	Asset A		Asset B		Asset C	
Year	Total Return (Annual %)	Value ($)	Total Return (Annual %)	Value ($)	Total Return (Annual %)	Value ($)
1	36%	1,360	25%	1,250	30.5%	1,305
2	-12%	1,197	13%	1,143	0.5%	1,312
3	-10%	1,077	19%	1,681	4.5%	1,371
4	34%	1,443	28%	2,152	31.0%	1,795
5	-6%	1,357	-35%	1,398	-20.5%	1,427
6	30%	1,764	22%	1,706	26.0%	1,798
Average	12.0%		12.0%		12.0%	
Risk	21.5%		21.5%		18.9%	

Recently, there has been pain in two such asset classes. The first, bonds (municipal and investment grade) sold off in May. Muni bonds lost on average -5.88% and Investment Grade Corporate bonds lost -3.56% in June. Year to date long-term corporates are down -6.40% and the Barclays Municipal Index is down -2.69%. While unwelcome, these losses should be seen in the context of the positive returns they have generated in recent years and keeping in mind that asset class returns are random.

Gold has been decimated in recent weeks, with the spot price closing the quarter at $1,234.57/oz. Gold is down -27% over the first half of the year (-23% in the second quarter), about twice the inverse of the rise in the equity markets. Therefore, even as a hedge, gold did not work. The plunge in gold seems to be due to several factors: gold was held by leveraged speculators who were forced out of the markets as the price dropped, investors who view gold as an inflation hedge abandoned the trade based on low levels of reported consumer price inflation, investors who view gold as a hedge against the demise of currencies are coming to believe the central banks are going to change their ways.

There appears to be too much debt in the world today, and the question to ask is how will it be repaid. There are three ways: partially, which means defaults and restructurings (Greece and Cyprus are examples); through inflation; and through currency devaluation. If paper money continues to be devalued then gold should be the beneficiary of that phenomenon. Again, asset classes tend to move randomly.

The table (Randomness of Returns) on page 4 displays the randomness of annualized returns for various asset classes over the past 24 years prepared by the American Institute of Economic Research. The table shows that relative returns among these asset classes from year-to-year are random and attempting to discern a pattern can be very difficult. Rather than trying to guess which asset class will perform best, investors are better off holding a diversified portfolio that includes various asset classes weighted in a manner consistent with their ability to withstand risk.

One such portfolio, for example, comprised of various asset classes (35% bonds, 20% gold, 5% silver, 10% Swiss Franc, 15% REITs and natural resource stocks, and 15% growth stocks) had a risk of 10.24 with an accompanying average annual return of 8.66% (before taxes) for the past 10 years ended June 30. Comparatively, the S&P 500 index had a risk of 14.58 and an average rate of return of 7.30%. Risk and return amounts are provided by Morningstar. As discussed above the portfolio that exhibits less risk and provides the same or greater returns is typically more desirable. However, as evidenced by the randomness of returns, the example portfolio that provided higher returns with less risk over the past 10 years has lost -7.63% through June 30, while the S&P 500 index has returned 13.82%.

The goal of a diversified portfolio is not necessarily to be the “best” or “worst” but provide an investor with returns that are expected and approximately in the middle of all asset class rankings, suggesting a less volatile experience.

Randomness of Returns

Hypothetical Total Return (Highest to Lowest)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	9.69	59.91	29.15	74.84	8.06	38.36	37.05	35.18	38.72	66.41	31.04	22.77	25.57	60.72	33.16	34.54	35.97	39.78	5.13	79.02	31.29	9.37	18.63
	8.14	44.62	23.35	32.95	3.73	37.21	23.12	31.80	20.33	33.16	22.80	14.02	8.12	56.28	25.95	17.76	32.59	31.93	4.31	37.21	29.24	8.93	18.24
	-0.26	41.72	15.13	23.85	3.09	34.48	21.65	30.48	15.65	29.79	8.93	12.35	3.58	46.03	22.25	14.02	26.86	11.81	3.92	32.46	28.07	3.13	18.05
	-3.10	41.15	13.81	20.97	2.66	25.75	21.37	22.78	7.63	27.30	7.02	9.03	1.86	39.17	20.70	13.82	23.48	11.63	-20.38	28.46	24.50	2.64	17.90
	-5.39	24.61	11.40	18.12	2.65	17.85	17.65	19.66	5.73	8.08	6.45	4.82	-3.15	36.18	18.39	7.03	23.30	7.27	-28.93	28.06	19.20	0.39	17.51
	-8.09	23.84	8.28	17.66	-0.39	12.88	12.93	14.12	5.68	7.36	5.71	2.05	-6.00	30.03	16.49	6.53	22.25	5.46	-36.72	25.04	16.71	0.24	17.12
	-10.55	18.56	6.83	15.14	-0.72	12.24	6.36	7.13	-0.49	5.13	-3.60	0.72	-11.42	29.76	11.70	5.69	16.16	3.58	-36.85	23.16	15.51	0.22	15.26
	-21.56	13.14	5.00	14.98	-1.54	11.55	6.03	5.58	-6.44	2.09	-5.44	-2.37	-13.27	22.97	6.30	5.27	15.90	-0.17	-38.44	20.58	13.10	-3.25	9.67
	-21.77	12.50	3.91	7.10	-2.00	6.19	5.42	2.06	-7.32	0.86	-13.96	-5.59	-15.53	19.89	4.65	4.71	9.07	-5.22	-39.20	19.69	8.21	-5.50	8.26
	-23.20	6.43	-5.73	3.18	-2.18	0.90	4.67	-11.59	-17.01	-1.49	-22.43	-20.42	-15.66	3.36	1.85	2.98	5.00	-9.78	-43.06	4.62	4.08	-11.73	2.24
	-23.44	-8.54	-11.85	2.90	-7.32	-5.21	-4.51	-21.69	-25.34	-2.58	-30.61	-21.21	-27.89	1.21	1.21	1.44	4.22	-17.56	-53.18	0.85	0.29	-18.17	0.35

Color Guide
AIS Moderate Portfolio
Cash Equivaents
Short/Int. Term Fixed Income
U.S. REITs
U.S. Large Growth
U.S. Large Value
U.S. Small Value
U.S. Micro Cap
Developed Markets
Emerging Markets
Gold

GSF&L, LLP Registered Investment Advisors:

We can never know what the future holds, but we can make informed decisions regarding investment strategies and portfolio allocations. We (GSF&L) make changes based on our perception of opportunities in the capital markets. We assimilate fundamental, technical, and economic information to make informed decisions. Of course it is important to have long-term focus on portfolio management, but with a critical analysis of intermediate strategies.

Managing risks and opportunities are important to portfolios and reaching one's financial needs and goals. Having a complimentary understanding of investment horizon and attitude toward risk are equally important. Markets and economies do not always behave as we expect them to. That is the problem with investing! There is no luck to professional investing. You can no more have a successful, disciplined approach by luck or accident than you can win a chess tournament by luck or accident.

If you know of someone who may fit our financial and investment planning philosophy, please mention our name. We are a small organization and intend to remain so. A solid organization makes it possible for us to spend our time managing our business rather than each other. Because everyone has so much to do, much gets done. We will forego any growth opportunity that may detract from our ability to serve our clients as they have become accustomed to. We never expect to be among the biggest, but our attention to be among the best is not subject to compromise.

Regards,

Craig

Craig C. Le Bouef, MBA, CPA/PFS, CFP®

NASDAQ composite measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S&P 500 is made up of 500 common stocks representing major U.S. industry sectors. The Dow Jones Industrial Average contains 30 stocks that trade on the New York Stock Exchange (NYSE) which reflect the performance of 30 large American companies. The Morgan Stanley Capital International Europe, Australia, and Far East Index (MSCI EAFE) is a market-weighted aggregate of 20 individual country indexes that collectively represent many of the major markets of the world, excluding Canada and the U.S. The Lehman Brothers U.S. Aggregate Bond Index tracks performance of debt instruments issued by corporations and the U.S. Government and its agencies. The returns for this index are total returns, which includes reinvestment of dividends. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 8% of the total market capitalization of the Russell 3000 index.

All indices are unmanaged. It is not possible to invest in an index.

Past performance is no guarantee of future results.

Diversification does not assure against market loss.

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