



**SACAJAWEA & COMPANY, LLP**  
Economic & Financial Research

William H. Wrean Jr., M.A.  
William H. Wrean, Ph.D.  
148 Linden Street, Suite 204  
Wellesley, Massachusetts 02482-7904  
Telephone 781-237-9290

January 31, 2014

Dear ,

Time flies as we get older, a year passes quickly, yet it is hard to remember what was happening in the world one year ago. Last winter we were worried that Greece, Spain and Italy would not survive their financial meltdowns, the Euro would crumble, the Chinese economy's slowdown would doom the world economy, and that our federal government's dysfunction and the sequester would cause deflation and a recession in the US. A year later none of these scenarios have come to pass and our economy has continued to muddle through.

Indeed, the U.S. stock market had a fantastic year, far exceeding the experts' average prediction of approximately a 10% gain ("experts" almost always predict close to 10% which is slightly above the historical average). The S&P 500 index finished with a 32% total return for 2013.

However, not all investments performed as well. Cash, or cash equivalents such as money market funds, earned 0% last year due to the Federal Reserve holding short term interest rates near zero. With quantitative easing they also held down long-term interest rates, a strategy many feel is meant to inflate stock prices because investors have nowhere else to earn positive returns (it worked). Gold, often mistakenly thought of as a safe investment, lost 28%. Corporate bonds, also often thought of as a safe investment, on average lost 2%. Hedge fund managers, who are lightly regulated so getting accurate data is difficult, are thought to have returned 8-10% on average. They also have diverse investment styles resulting in a wide range of returns so this average estimate should not be viewed as a proxy for any particular manager. What many do have in common is exorbitant fees.

Our clients earned between XX and XX% in 2013. The range is perhaps our largest ever, depending almost entirely on whether we were hired before or during the recent bull market. The returns are good absolute returns, better than many alternatives, but still disappointing when compared to the S&P 500 index.

We study the economic fundamentals of individual companies to decide which companies have low risk and good long-term prospects. We then pick buy and sell prices for every security we follow, trying to balance potential returns and the risk of losses. 2013 was the fifth year in a row of positive gains for the S&P 500 index. As a result many of our stocks reached our sell prices where we believed they were much more likely to go down than up. Unfortunately, five years of gains has also left us with no stocks whose prices are low enough and the risks small enough, for us to buy at these levels. The result is your portfolio currently has a lot of cash and few stocks.

This pattern is not unusual for us: we tend to get out of the stock market as it becomes overpriced, and become fully invested during big declines. It was true in the crash of 2000, when our clients were largely out of the market before the crash, and in the "great recession" of 2008-9, when our clients were fully invested at the start of this five year bull market.

Unfortunately, although we have a good sense of whether a stock is overpriced, we cannot (and do not think anyone can) tell when it will correct. The result is we sometimes under-perform the market at the end of bull runs, but our out-performance in bear markets usually makes up the difference. The resulting reduced volatility is one of the ways we help our clients sleep during down markets while still earning high total returns over the long run.

So we are currently waiting for our companies to either grow enough to justify their stock prices or their prices to fall. If there is a crash soon, we are ready to buy. In the meantime, your portfolio is extremely safe and liquid. We leave you with an old Wall Street saw, “bulls make money, bears make money, pigs get slaughtered”.

Sincerely,

William H. Wrean Jr.

William H. Wrean