<u>Fourth Quarter 2013 Commentary</u>

Happy new year! We hope that your 2014 is off to a healthy and prosperous start.

A Banner Year for Equities

Stocks closed the year with a strong performance in the fourth quarter, with the market rising in each of the last three months. For the quarter, the S&P rose 10.5%, while the Dow Jones Industrial Average gained 10.2%.

The past year was one marked by apparent problems and risks, including a federal government shutdown, the prospects of reduced Federal Reserve stimulus, and a stalled economic environment. Against that negative backdrop, equities galloped ahead, with bulls pointing to continued profit growth and with investment alternatives—such as cash and bonds—providing meager returns.

For the year, the S&P 500 jumped 32.4%, marking its best performance since 1997. The Dow Jones climbed 29.7% for its best year since 1995. The Dow's annual gain was its fifth-straight, the longest stretch since a nine-year rally in the late 1990s.

Too Much of A Good Thing Can Be Wonderful

The current investment environment has seen broad-based gains leading to record highs for the market indexes. In prior years of seemingly elevated market levels, there have been pockets of cheap stocks here and there, allowing bargain hunters like us the opportunity to continue to put capital to work, even as the overall market may have appeared a bit overheated.

Today's market is presenting very few bargains to cheapskates like us, though, so we find ourselves neither trembling with greed nor salivating at potential investing opportunities, which are two physiological states we have experienced in the past when we find a particularly cheap investment.

We are therefore holding a more cautious stance, but are nevertheless happy to keep owning shares in large-cap companies that hold sustainable, competitive advantages in their industries. If their valuations rapidly become significantly higher than they currently are, then we may be tempted to sell them in order to mitigate their downside risk. But we do not believe, at this point, that their market price has advanced significantly beyond their intrinsic business value. Below is a sample of such companies which we are happy to hold in client portfolios.

Berkshire Hathaway

Run by legendary investor Warren Buffett, Berkshire Hathaway is a conglomerate whose major businesses are in insurance, a freight rail transportation business, and a group of utility and energy generation and distribution businesses. The company also owns and operates a large number of other businesses engaged in a variety of activities, such as retailing, manufacturing, fractional jet ownership, manufactured housing, and newspapers, to name a few. As part of its insurance operations, Berkshire owns big stakes in a number of publicly traded companies (e.g., 14% of American Express, 9% of Coca-Cola, 6% of IBM, 2% of Wal-Mart). Generating more than $1 billion of cash flow per month, we sleep well at night holding Berkshire, as we can rest assured that Mr. Buffett is out hunting for the next elephant to add to the Berkshire family.

Wells Fargo

Wells Fargo is the third largest bank in the U.S. by deposits and the fourth largest by assets. Through its more than 9,000 stores, the bank serves one in three U.S. households, providing just about any financial service an individual or business requires. The key to a successful banking operation is its ability to obtain stable, low-cost funding. And this is what sets Wells Fargo apart; the bank is the low-cost producer in the industry, having the lowest cost of funding among large banks. Shares in the company have a dividend yield of 2.6%, and we expect the dividend to continue to increase.

Nestlé S.A.

With a history that dates back more than 150 years, Nestlé, headquartered in Switzerland, is the largest food and beverage company in the world. The company has more than 25 brands with annual sales of over 1 billion Swiss francs, including Nespresso, Nescafé, Kit Kat, Stouffer's, Vittel, Smarties, and Nesquik. Nestlé also owns 30% of French cosmetics firm L'Oreal. With a dividend yield of about 3% and growth of 6 to 7%, this multinational behemoth is a solid holding, which performs consistently in both good and challenging economic conditions.

Tesco PLC

Founded in 1924, Tesco operates the largest grocery retailer in the United Kingdom (with about 30% market share) and also operates stores in China, the Czech Republic, Hungary, Ireland, India, Malaysia, Poland, Slovakia, South Korea, Thailand and Turkey. With sales of more than £72 billion, Tesco is the 3rd largest retailer in the world. The company owns about 70% of its real estate and, that, along with the current dividend yield of more than 4%, provides a good margin of safety for the shares.

Conclusion

While our client accounts will at any time hold several more stocks than just these listed here, this is a representative group of the type of companies that we gravitate toward in constructing an investment portfolio, provided of course that we can purchase them at a sensible price. With their stability and strong competitive business position, we believe that our clients' money is being well looked after by these corporate stewards.

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