DANDA TROUVÉ
INVESTMENT MANAGEMENT
Money Managers You Can Trust

January 2014 Thoughts and Insights

In keeping with our tradition, we like to begin our first letter of the year by wishing you and your families a healthy and prosperous 2014! We would also like to share the exciting news of Jan's successful radiation treatment for her brain tumor, and welcome our newest staff member, Erin Jeffrey, to our back office operations.

Looking back, 2013 brought us to the edge of a fiscal cliff, increased taxes, sequestering and even a government shutdown. Economists estimate that the cumulative impact these policies cost the US economy over 175 basis points. In addition, we suffered a bomb attack in Boston and political unrest in Egypt and Syria among other geopolitical events that induced market volatility. Ben Bernanke spooked the fixed income markets by his "taper talk" in May, changed his mind in September, and then took another 180 degree turn in December and put "taper" back on the table.

During this challenging time, we remained dedicated to asset allocations and our long-term investment strategy of focusing on income, maintaining our equity overweight's in technology, financials and healthcare, and holding on to our positions in precious metals for protection from inflation. During the year we also repositioned our fixed income portfolios to protect from rising rates, reduced our exposure to commodities/metals and emerging markets, took profits in equities and re-invested cash to equities in early Q4.

The S&P 500 finished the year with an unexpected gain of +29%; however, the fixed income markets experienced downside losses of (-10%) in long term treasuries and (-7%) in treasury inflation protected securities. Precious metals fell apart losing (-40%) this year. These huge breakdowns in traditional asset class returns and correlations are a direct result of the US government's experiment in financial intervention, and anxiety due to the unknowns of reversing it.

Our equities did quite well this year, our fixed income fared much better than the benchmarks; however, we did experience losses in our metals. We still remain committed to a 5% portfolio position in gold and silver because inflation is inevitable (not *if* but *when* and *how much* due to Fed tapering), worldwide unrest is continuing and growing, and the dollar will weaken due to the Fed printing presses.

You will notice that our reporting format has changed this quarter to include historical portfolio performance. We believe that the long view is really the best way to judge how your investments are supporting your goals. The box in the lower right hand corner depicts a gray line that represents the net amount of your deposits and withdrawals, and a green background that represents the value of your investments over time. This is a powerful visual to illustrate how your investments have served you financially over time.

Looking ahead to 2014, we do think political and Fed uncertainty will fade this year. We do not expect a repeat of last year's debt ceiling fight and government shutdown. We expect the 10-year yield to move up to about 3.5% - 4%. We believe inflation will remain tame below 2%, and unemployment will come down to 6.5%. We will continue to look for income opportunities and will buy short fixed income maturities so we can roll over to higher rate issues as rates rise.

We expect a strengthening US economy, continued strength in housing and increased business capital spending. We believe the equity markets will return 7 - 9% for 2014, but that there remains a risk of a correction in the near-term, especially if valuations become too high or a global incident arises. Given that we are long term investors with only a portion dedicated to stocks, it would likely be a nice buying opportunity.

As always, we remain dedicated to you and your investments. We invite you to call, write, or stop by anytime with any questions or comments you may have.

Michelle