

AMM**AMERICAN MONEY MANAGEMENT, LLC**

SEC Registered Investment Advisor

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THE BIG PICTURE

Over the last two years, the U.S. economy has been propelled forward via an extremely accommodative policy of near zero interest rates and unprecedented government stimulus. While there has been significant skepticism and debate over the massive steps taken by the government to support the economy, *the measures undertaken to combat the worst economic recession since the great depression have largely been successful:*

- The banking system, which serves as the lifeblood of our economy by providing access to capital, has been successfully recapitalized and the tight credit environment is slowly thawing.
- Corporate and household balance sheets are improving.
- Corporate profits continue to surprise on the upside.
- The stock market has undergone a dramatic recovery from its cyclical low.
- The weak dollar brought on by massive government borrowing has created a manufacturing boom.

Since this has been the largest economic intervention in modern history, there is little precedent for how the economy might behave once the stimulus is withdrawn. In the coming months, we will witness the end of QE2, the most recent round of monetary stimulus initiated by the fed in 2010. It is very possible that markets may go through a period of consolidation/correction as we adjust to a world with less “juice” from the Fed. Nevertheless, the weight of the evidence suggests that economic growth is now sustainable, and we believe assets should reflect this new reality by the end of the year.

OUT OF THE WOODS BUT RISKS REMAIN

While we believe the current economic expansion is sustainable, we expect some degree of turbulence as we transition away from extremely loose monetary (record low interest rates) and fiscal policy. Key risks to our economic outlook include:

- Inflation – Headline inflation (which includes food and energy) has already perked up, while core inflation (excluding food and energy) remains at very low levels. The Fed views headline inflation as transitory as price movements in food and energy are historically volatile and, therefore, difficult predictors of real monetary inflation (i.e. too much money chasing too few goods). While it does not appear to be an immediate threat, a strong uptick in core inflation could prove to be very harmful to future growth.
- Oil Prices – The ongoing “revolutionary” changes in the middle east mixed with continued global growth have caused oil prices to rise to levels not seen since 2008. If prices remain elevated, they could have a major impact on consumer spending, corporate profits and overall growth. While we expect a pullback from these highs, we are monitoring developments in these markets closely.
- Rising rates – A good degree of the economic rebound has been built upon record low interest rates. As the fed shifts to remove this easy money policy, there is a risk that economic growth stumbles.

WHERE WE ARE INVESTING CAPITAL NOW

Alternative Assets: In the first quarter, we increased our exposure to commodities via a broad based commodity ETF. In addition to oil and gold, this basket includes agricultural commodities like corn and soybean futures. This position remains one our primary inflation hedges. Additionally, we continue to hold exposure in Merger-Arbitrage funds. A true portfolio diversifier, these funds aim to generate long-term returns in at least the mid-single digits with low correlation to the equity and bond markets. Finally, we continue to hold real estate exposure via the *Alpine Global Premier Properties Fund*. This fund trades at a 15% discount to underlying net asset value and yields approximately 5.5% at current levels. The fund invests in global real estate related securities with significant allocations to the U.S., Brazil and Singapore.

Bonds: Given our view that rates will likely head higher in coming years, we have had to be more creative and tactical in our fixed income allocations. Our recent allocations to absolute return oriented bond funds are indicative of this approach. These funds focus on generating returns in any environment so they can adjust their sensitivity to rising interest rates and inflation, invest outside the U.S. dollar with a portion of their portfolio, and short (i.e. bet against) various sectors of the bond market. *The Pimco Unconstrained Bond Fund* is our primary holding in this area. It currently has minimal exposure to rising interest rates and a sizeable position (20%) in Asian currencies that the manager believes will appreciate against the dollar over a period of months and years. Where appropriate, we continue to hold exposure in TIPs (treasury inflation protected securities) as an inflation hedge, high yield bonds as a play on continued economic strength, floating rate funds to help hedge against rising rates, and emerging market bonds for non-dollar fixed income exposure.

Stocks: There is currently significant debate in the investment community about the overall stock market valuation. On the bearish side are those that view the current valuation levels as historically high (and therefore likely to produce muted returns from current levels) while the more bullish camp points to low rates on fixed income securities and improving corporate profits as reasons to own stocks. While both arguments have merit, we continue to see value and opportunity in some sectors of the market and are becoming more cautious on other areas. On the positive side, we continue to favor large, quality, dividend paying stocks and ETFs. If the market undergoes a correction in the short-run, we think these stocks will hold up reasonably well as we believe valuations in this area are still reasonable. While we like the long-term opportunity provided by emerging market and frontier market (Middle East / Africa) stocks, we have become more cautious over the short run due to increased inflation in some of these economies, geopolitical concerns and overall valuation levels.

We manage several different portfolio strategies, and not every client has exposure to the securities listed above. Please contact us if you want to discuss any of your portfolio positions in greater detail.

1ST QUARTER IN REVIEW

For the first quarter, the S&P 500 gained 5.92%, International stocks (EAFE) gained 3.36%, and Bonds (BarCap US Aggregate Index) gained 0.42%. Should you have any questions regarding your investment accounts, or if there have been any recent changes to your investment and/or retirement objectives, please do not hesitate to contact our office.

As always, we thank you for entrusting AMM to help you achieve your investment and retirement objectives.

AMERICAN MONEY MANAGEMENT, LLC

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