AMM

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THE BIG PICTURE ~ OBAMA OR ROMNEY

We often remind ourselves and our clients of the fact that we cannot predict the future. The reasoning behind this admission of the obvious is that investing, in the most basic definition, ***is to forego consumption today for the opportunity to have more in the future***. Since the *future* is such an important part of the investing equation, many investors focus on making predictions about what the future may look like. The upcoming election season has many market observers trying to predict not only the election outcome, but its effect on various asset classes, sectors and industries. In our opinion, this kind of short-term prognosticating is ***not*** one of the key ingredients for long-term investment success. In most cases, these predictions are loaded with a myriad of biases held by the investor, most notably, in our opinion, their most recent investment experience. Our approach is different.

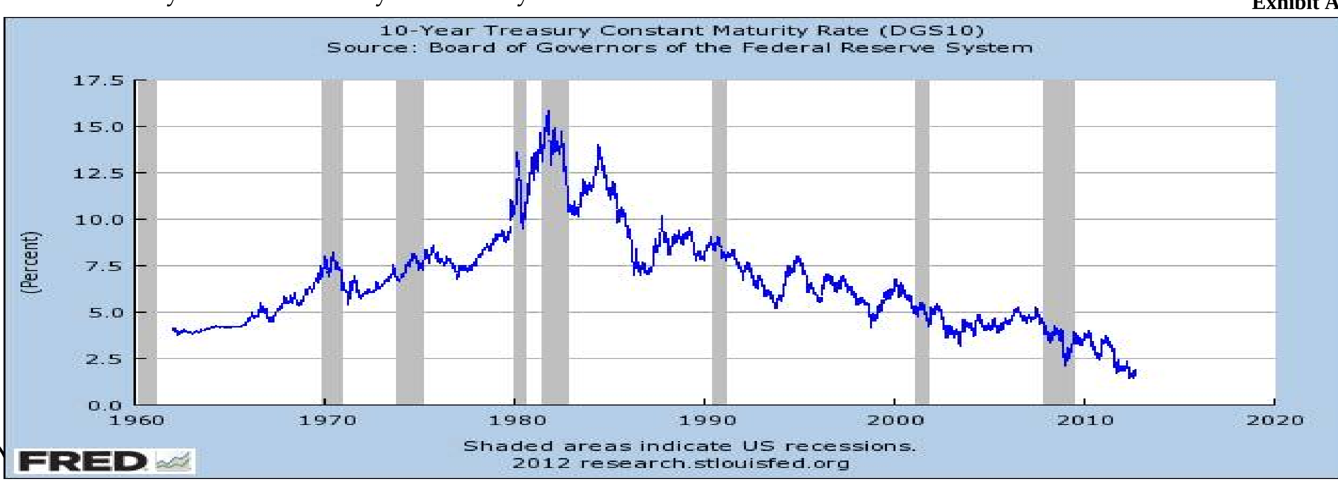
Instead of making predictions about the future, ***we seek to understand the present and then invest accordingly***. First and foremost, we search for opportunities in assets that are 1) relatively inexpensive relative to their history as well as other assets competing for investment dollars; 2) of sufficient quality that when the inevitable market shock occurs (see 9/11), the odds of survivability are high; and 3) consistent with the clients specific investment mandate (i.e. income, growth, etc). While this approach does not require a crystal ball, it does require a grounded understanding of the current investment landscape and an understanding of how historical market dynamics have played out over time.

THE NEXT BUBBLE? HISTORY IN THE MAKING

The nature of financial bubbles has been the subject of various academic studies. Our basic belief on the matter is that if investors give great weight to recent investment performance (which we believe many do) , then over time bubbles are inevitable. For example, the more an asset appreciates in price, the more investors want to own said asset, until the price of the asset becomes so unglued from economic reality (i.e. bubble) that it eventually bursts. Of course, bubbles are always obvious in retrospect. Paying 25 times earnings for stocks near the peak of the technology bubble in 2000 (more than 50% higher than the historical average) seems ridiculous now; yet, the strong stock market of the 90's lulled investors into believing that the future would look like the recent past. For perspective, if the S&P 500 immediately traded at this multiple today the stock market would have to rise by 91%!

Stocks are relatively inexpensive at current levels. Trading at around 13 times forward 12 month earnings, this is below the average of 16.8 over the last 15 years. A much bigger concern, in our view, is bonds. Exhibit A shows the long term chart of the yield on "safe" 10 year treasury notes.

Exhibit A



(OVER)

(The Next Bubble? cont.)

Since reaching a high of more than 15% in 1981 the yield has dropped to a mere 1.65%. When we subtract recent inflation of around 2%, the real yield to the investor drops to -.27%. Even with the compression in yields, investors have continued to pour money into ***bond*** mutual funds and exchange traded funds allocating 6 times more ($1.2 trillion) to these assets than to stock funds since 2007.

It is important to note that bonds, like stocks, vary widely in terms of quality and price. We are not suggesting that investors should have zero exposure to bonds. For many letters now, we have discussed our approach to fixed income allocations in a low rate environment in the section titled "Where We Are Investing Capital Now"; we do so again below. Our primary concern is that many long-term bonds are now trading at levels that make little or no sense to a rational investor. When this happens, the risk of owning the asset is all but forgotten, as investors believe it will "only go up" (just like housing and tech stocks). While the credit risk of treasuries may be low, there is substantial interest rate risk at current levels. For example a 1% rise in rates would result in a 9% price decline on the ten year Treasury note and a 20% decline on the 30 year Treasury bond. Yields may very well remain low for some time; but, investors ignoring the risk of rising rates today may be taking a much bigger gamble than they realize.

Where We Are Investing Capital Now
Income & Preservation of Purchasing Power

Diversifying Assets

With real returns on many government bonds, CDs and money market funds at negative levels, we continue to stress the importance of investing in real assets (precious metals, commodities, etc) as a way for investors to ***preserve purchasing power*** over time. We refer to these investments as diversifying assets since they generally provide a broader degree of diversification to a traditional stock/bond asset mix. Within this category, we continue to favor Gold/Silver holdings via the Central Fund of Canada (CEF). In addition to Gold and Silver, we continue to provide clients exposure to investments tied to the Dow Jones Commodity Index. This index includes exposure to a variety of agricultural and energy related commodities, among others.

Bonds

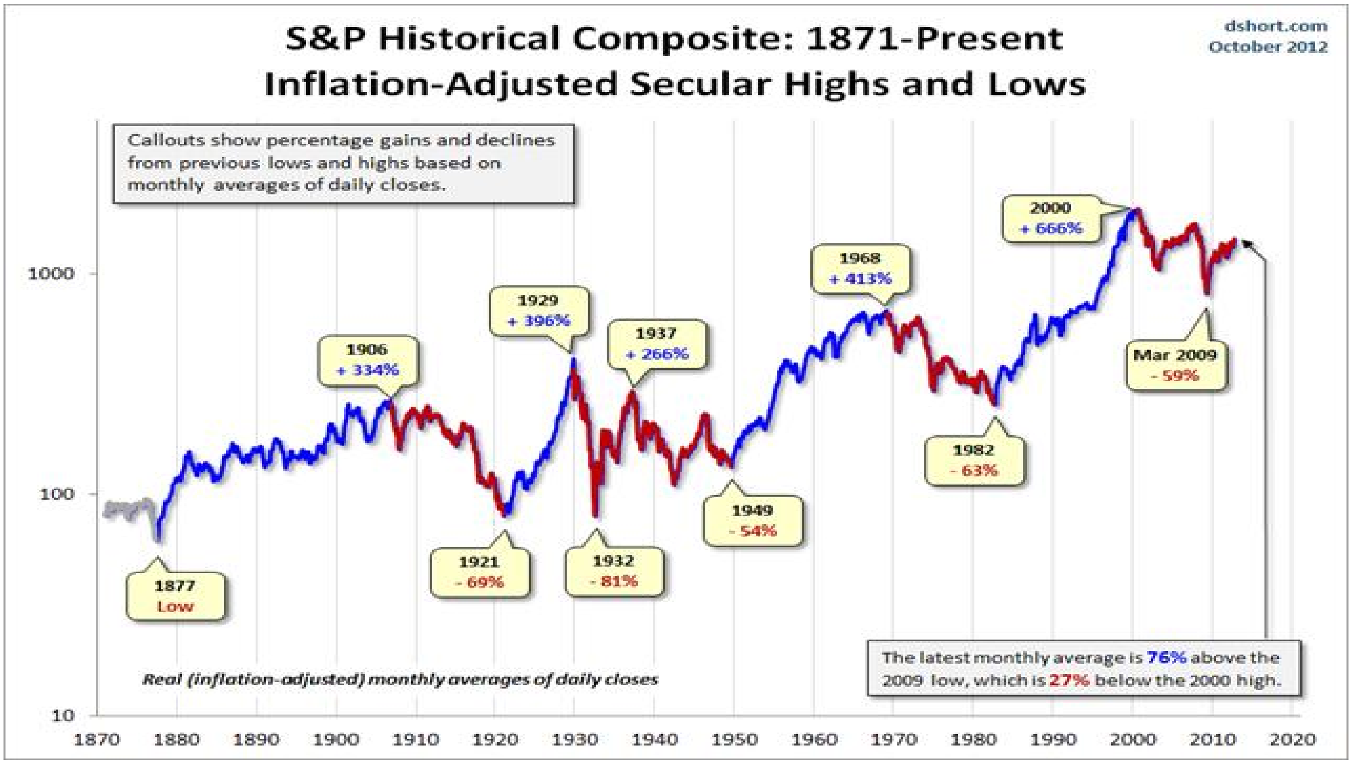
Given our concerns about longer-term bonds expressed above, we continue to invest in a mix of *shorter-term* investment grade bonds and non-traditional bonds where appropriate. The non-traditional portion of the portfolio includes floating rate securities that may actually benefit from a higher rate environment, more flexible absolute return oriented funds that can pursue return and lessen the impact of a potential rate increase, and emerging market/international bonds. In all cases, we are seeking to maintain below average maturity exposure so as to minimize the impact of an eventual rise in rates.

Stocks

The last twelve years can be characterized as a secular bear market for most developed country stock markets. This kind of market sees significant ups and downs with no real positive long-term return. Exhibit B provides a graphical representation of U.S. (S&P historical composite) secular bull and bear markets throughout history (bull markets in blue, bear markets in read). For a new secular bull market to be in effect, the prior inflation adjusted market high, in our case the level reached in the year 2000, must be exceeded. Currently, markets are approximately 27% below this high on an inflation adjusted basis. While we are not convinced that we have seen the end of this secular bear market, we do believe we are closer to the end then the beginning; and, investors holding higher quality stocks will be most rewarded once a new secular bull market takes hold.

(Where We Are Investing Now cont.)

Exhibit B



Despite our optimistic longer-term view of stocks, the significant uncertainty surrounding the European debt crisis (ongoing), fiscal cliff worries, and generally slow economy has caused us to approach stock oriented allocations from a more cautious perspective over the short-run. In the majority of client portfolios, we continue to favor large-cap blue chip stocks that meet our criteria for both value and high survivability odds, along with a lesser allocation to small and mid-sized growth companies.

On the international front, we recently eliminated our exposure to Japan and increased our weight to faster growing emerging markets. Japan has been weak for more than twenty years. We originally bought the position following the Bank of Japan's targeted inflation announcement earlier this year. We felt this action would provide a pronounced lift to Japanese stocks but have been disappointed in the sub-par performance since the announcement. Emerging markets are still attractive from a valuation standpoint, and we feel they provide stronger longer-term growth potential than a more mature country like Japan.

Finally, we continue to view cash as a strategic asset, as opposed to a non-performing asset, that can be used to take advantage of better prices in the event of a market correction. Currently, most client accounts also hold some modest degree of cash that we would expect to invest in the event of a market pullback or, alternatively, a clearer picture of the global economy.

** Individual accounts will vary based on the client's stated objectives, risk tolerance, and time frame. We manage several different portfolio strategies, so not every client has exposure to the securities listed above. In addition to growth and/or income oriented asset allocation strategies, we also manage more concentrated equity portfolios that generally carry a higher degree of risk and volatility. Please contact us if you want to discuss your portfolio strategy or any of your investments in greater detail.*

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Year To Date Performance Review

Year to date through September 30th, the S&P 500 gained 16.4%, International stocks (EAFE) gained 10.1% and bonds (BarCap US Aggregate) gained 4%.

Should you have any questions regarding your investment accounts, or if you 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.

Your Portfolio Management Team

Gabriel Wisdom
Managing Director

Michael Moore
Chief Investment Officer

Jim Rhodes, CFA
Executive Director

Glenn Busch
Portfolio Manager

Adele Canetti
Portfolio Manager

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