AMERICAN MONEY MANAGEMENT, LLC

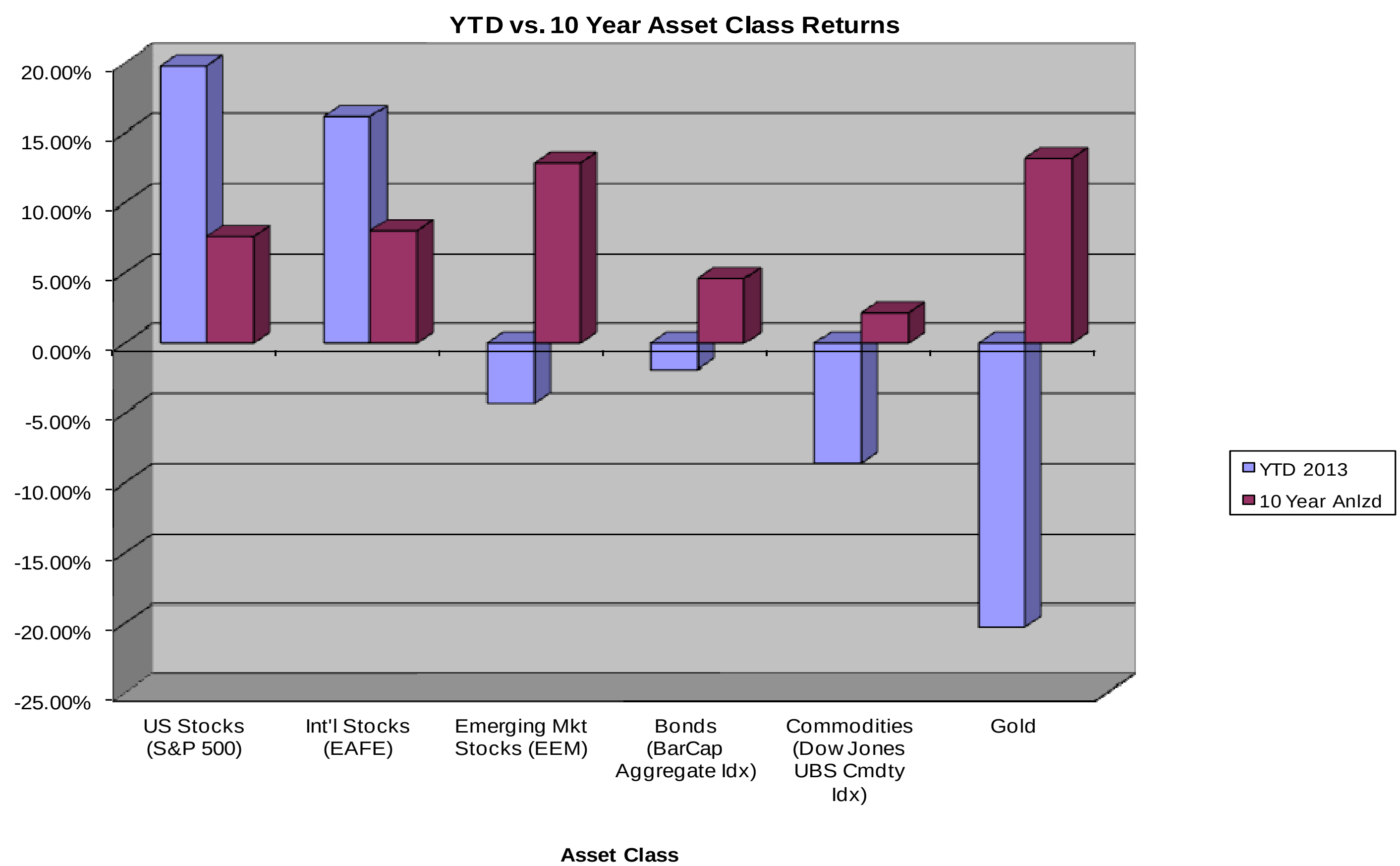
SEC Registered Investment Advisor

PO Box 675203, Rancho Santa Fe, CA 92067 | Tel 888-999-1395 | Fax 866-364-1084 | info@amminvest.com | www.amminvest.com

The Big Picture

Year to date through September 30th, domestic (S&P 500) and international stocks (EAFE) were up 19.8% and 16.1% respectively. Most other major asset classes continued to struggle. Through September 30th, gold declined 20.3%, commodities (DJ-UBS Commodity Index) were down 8.6%, and bonds (Bar Cap Agg Index) lost 1.9%. As would be expected, our pure stock oriented portfolios have performed the best year to date, due in part to the ongoing stock bull market. More diversified asset allocation oriented portfolios, while providing reasonable returns YTD, have underperformed the "stock market" due to their broader exposure to different asset classes (i.e. bonds, gold, etc). We do not feel this is a reason to abandon a balanced investment approach and chase returns.

The chart below details YTD vs. 10 year returns for some of the primary asset classes that we invest in on behalf of our clients. While we still view stocks in general as being able to provide our clients with the best opportunity for generating wealth over the long-run, they are also more volatile than bonds and expose investors to more downside during market panics and recessions. Alternatively, while we view the returns for most bonds as being low in relation to stocks, their volatility is a fraction of stocks, and they tend to do better during periods of stock market stress. Yearly returns of assets will always vary widely; however, a diversified investor with exposure to a suitable mix of these assets should generate a good risk adjusted return over time.



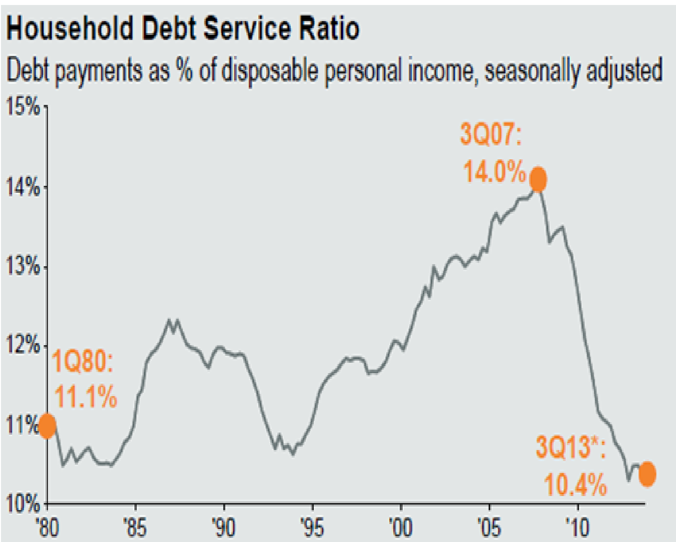
(OVER)

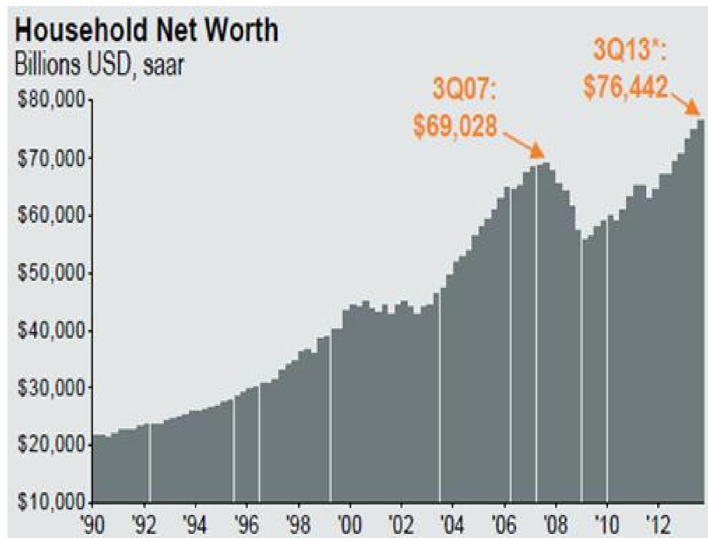
Current Economic and Market Outlook

Heading into the fourth quarter, our analysis suggests that, on balance, global economic growth should accelerate in the fourth quarter and beyond. Our cautiously optimistic outlook includes:

1. **Housing**: The continued recovery in housing is supported by low inventories, low mortgage interest rates, and the relative affordability of mortgage vs. rent payments. Additionally, recent survey data by the national association of homebuilders (NAHB) suggests continued confidence among homebuilders with a reading of 58 vs. 44 in May. (Readings above 50 suggest favorable conditions.)

2. **Private Sector Strength**: The charts below show that aggregate household net worth is at all-time highs while the household debt service ratio (debt payments as a % of disposable personal income) is at 30 year lows (a stark juxtaposition from the extreme high reached at the height of the housing bubble in 2007).





Source: BEA, FRB, JP Morgan Asset Management. 3Q13 figures are JP Morgan Asset Management estimates.

3. **Fed Policy**: The Federal Reserve has continued its low interest rate policy, and, surprising market participants in September, they announced they would continue with the $85Billion a month asset purchase program. This is a double edged sword: while asset purchases may be stimulative to the economy, the fact that the Fed is not ready to reduce the level of purchases suggests that they want to see more economic improvement before tapering and ultimately removing the stimulus. Nevertheless, Fed policy has provided a clear and decisive backstop to the economy since the recovery began in 2009.

4. **Business Investment**: Companies continue to sit on record high levels of cash, which has frustrated the Fed's attempts to stimulate through easy monetary policy. Confidence surveys and new orders data suggest that some of this cash is beginning to be put to work in longer term investments which we feel will help fuel the next leg up in the market.

5. **The Millennials**: Sometimes called generation Y and generally defined by demographers as ranging from 18-37, the Millennials make up the largest population group the US has ever seen (7% larger than the baby boomers). Like the baby boomers, we expect this generation to be a massive engine of economic growth as they form households, buy homes and invest for their future. While demographic themes are very long-term in nature as they play out over decades and through many business cycles, we feel it is important to keep this big picture theme in mind as we invest for future growth.

(Current Economic and Market Outlook cont.)

Of course, there is always downside risk, which brings us to the "bad and ugly" items that could act as headwinds to both asset markets and economic growth. Most notably, in the very short-run, markets are adjusting to the recent government shutdown and upcoming debt ceiling debate. As of the time of this writing, the stock market reaction has been tame with the S&P down only 2% from its all-time high and about flat since the start of the shutdown on October 1st. The market's current view seems to be predicated on the assumption that the shutdown does not go on for more than a few weeks, and that the debt ceiling is successfully raised later in October

If there is a prolonged shutdown (i.e. more than a few weeks) and/or contentious and ugly debt ceiling debate, we think the odds would be high of a more severe market selloff. In this event, however, we would view the correction as a buying opportunity, barring any major change in circumstances. In our view, the long-term positives outlined above far outweigh the short-term negatives. As always, it is critical for clients to match their investment objectives, risk tolerance and time horizon to a suitably diversified portfolio. Surprises happen all the time in the financial markets, which reinforces the need to have both a long-term view and a diversified portfolio.

Where We Are Investing Capital Now*

Bonds: At current levels, investment grade treasury and corporate bonds do not provide attractive inflation adjusted returns. Since bond prices have an inverse relationship with interest rates, they will decline in value as interest rates rise. In a low but rising rate environment like today, this creates a conundrum for traditional bond investors (including public pension plans, endowments, retirees, and balanced investors). Since it is not prudent for a conservative investor to have all of their assets in stocks, an investment in bonds must remain part of the strategy even at low rates. Unfortunately, this exposes them to interest rate risk or default risk if they buy lower quality bonds.

Although we are not thrilled with the prospects for bonds in coming years, we recognize the importance of the asset class in a diversified portfolio and have developed a bond strategy that we feel adequately addresses the challenges bond investors face in the current environment. This includes: 1) Keeping maturities relatively short (<5 years). Shorter maturity bonds are exposed to less interest rate risk than long-term bonds and vice versa; 2) Investing in alternative fixed income sectors including floating rate bank notes and absolute return bond funds. Both investments should do better than traditional bonds in a rising rate environment; and 3) "Hedging" a portion of our bond exposure via an exchange traded fund (TBF) that shorts treasury bonds (i.e. as interest rates rise, this security should rise in value). This is a loose hedge as we do not have pure treasury exposure in the portfolio, and we have not tied the position to our other bond oriented holdings on a 1:1 basis. Still, we feel this three pronged strategy provides our clients with the ability to generate modest income from their bond holdings while benefiting from the diversification the asset class provides.

Diversifying Assets: Our investment case for gold as an asset class is twofold: 1) Gold acts as a hedge against monetary inflation as it has preserved purchasing power for millennia, and 2) Gold is uncorrelated to the returns of stocks and bonds and therefore adds a greater degree of diversification to a portfolio. While we have had significant asset price inflation (stocks, real estate, etc) since the recession ended, we have not yet seen a major acceleration in consumer price inflation that would help substantiate the inflation hedge "benefits" of Gold. However, as the economy continues to recover, we expect inflation to accelerate and provide a tailwind to these assets. We will continue to hold modest positions in gold and commodities in our asset allocation oriented strategies.

Stocks: We continue to tilt domestic equity exposure towards large cap dividend paying holdings and smaller growth oriented funds, where applicable. Yields on investment grade bonds remain at historically low levels which we feel has caused many investors to seek the higher yields provided by select dividend paying stocks. Additionally, dividends provide a cash return to investors while they wait for price appreciation. In addition to dividend paying stocks, we continue to favor exposure to financial and technology oriented issues. The former group should, on par, benefit from a more normal interest rate environment, while the latter should be a beneficiary from higher corporate investment and capital spending.

(OVER)

(Where We Are Investing Capital Now cont.)

Internationally, we still like the value prospects offered by European equities and have provided exposure via the iShares German exchange traded fund (EWG). The Eurozone emerged from recession in the 2nd quarter, and while headline risks remain (potential funding shortfall in Greece, political uncertainty in Italy, etc), we think the very worst may be in the rear view mirror. Most importantly, the European Central Bank (ECB), "Europe's Fed", continues to provide very loose monetary policy

Finally, we reduced our emerging market exposure in the 3rd quarter via the liquidation of TFMAX. Emerging markets have been one of the great beneficiaries of Fed monetary policy (i.e. low US interest rates have caused investor money to flow to asset classes offering higher, albeit riskier, returns). While we still view emerging markets as good values and expect them to offer strong long-term returns from current levels, we felt it was prudent to reduce exposure as rising rate headwinds may persist in the short-term. The liquidation of TFMAX increased cash by a modest amount in most client portfolios. Given the uncertainties surrounding the government shutdown and upcoming debt ceiling debate, we are comfortable holding this cash position but would view a broader market selloff as an opportunity to reinvest these funds at more favorable prices.

**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 in greater detail.*

Should you have any questions regarding your investment account(s) or, if there have been any recent changes to your investment and/or retirement objectives, please do not hesitate to contact our office. We can also provide you with a current copy of our SEC Form ADV Part II, at your request.

As always, it is a great privilege to be entrusted with the stewardship of your retirement and investment assets.

Your Portfolio Management Team

Gabriel Wisdom — *Managing Director*
Michael Moore — *Chief Investment Officer*

Jim Rhodes, CFA — *Executive Director*
Glenn Busch — *Portfolio Manager*
Mike Green — *Portfolio Manager*
Adele Canetti — *Portfolio Manager*

Robert Frazier — *Investment Advisor*
John Nyaradi — *Investment Advisor*
Bryan Case — *Investment Advisor*
Vicki Ohara — *Operations Manager*
Lili Waters — *Administration*

AMERICAN MONEY MANAGEMENT, LLC

14249 Rancho Santa Fe Farms Road
PO Box 675203,
Rancho Santa Fe, CA 92067

Tel: (858) 755-0909 Tel: (888) 999-1395 Fax: (866) 364-1084 E-mail: info@amminvest.com

www.amminvest.com