AMM

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THE BIG PICTURE ~ PERCEPTION IS NOT REALITY

A common refrain here at AMM is that investing isn't rocket science, it's harder! Of course, this is said in jest, but the point is that unlike rocket science, physics or chemistry, which are governed by the immutable laws of nature, economics (and by extension investing) is a social science. In economics, the perception of market participants can shape market outcomes. Not true in natural science, where scientist observations do not shape the outcome of the experiment.

A good example of this is the housing bubble of 2005-07. As lenders loosened their standards, more people borrowed money to buy more expensive homes. This, in turn, pushed up the price of housing which led to the perception that housing was a "safe, can't lose" investment, leading to even more lending and even higher prices. Throw in misaligned incentives for lenders to do more deals and a touch of greed on the part of investors, and a bubble was born. We all know the story in hindsight, but the financial crisis occurred because real estate lenders and investors in aggregate couldn't perceive this outcome while they were doing the very thing that made it all but inevitable.

While this is an extreme example, investors day to day perceptions never fully reflect reality. If we're lucky, we can approximate economic reality; but, more often than not, the variables at play are too complex making predictions about the future a roll of the dice at best. The good news for investors is that achieving your investment goals doesn't require you to be a market soothsayer, understand every variable or even hold an advanced degree. Warren Buffet, perhaps the most talented investor of our era, famously quipped, *"if calculus or algebra were required to be a great investors, I'd have to go back to delivering papers".*

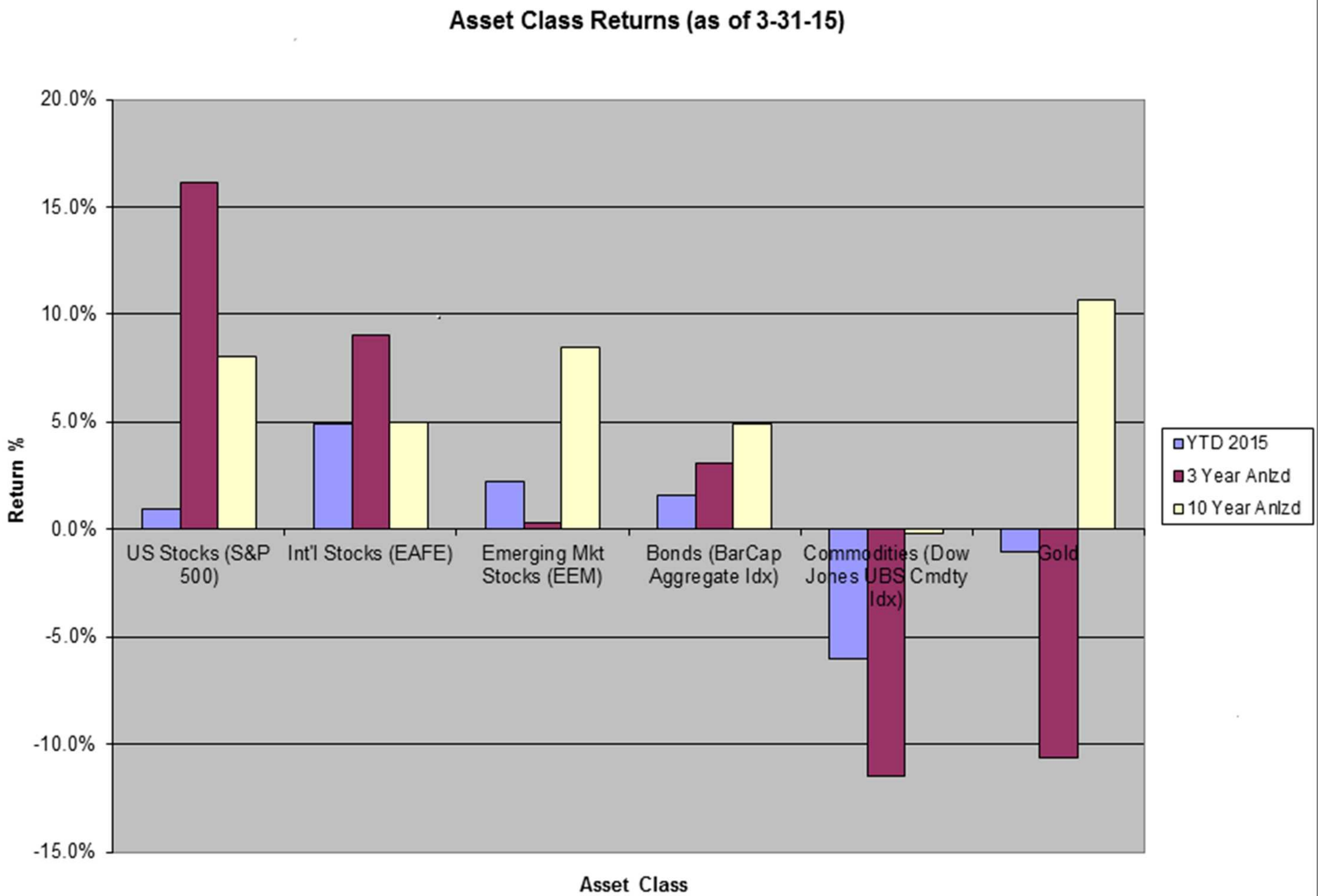
Bottom line, predictions are risky. To achieve your investment goals you should stay keenly focused on the factors you can control. Our core investment principles, which we repeat often in these letters, provide a roadmap to building and managing your portfolio in a complex world:

1. **Asset Allocation is the most important decision**. We can control the mix of stocks, bonds, real estate and alternative assets in your portfolio. All else being equal, a more conservative investor should lean more towards fixed income, while more aggressive investors will tilt more heavily towards stocks for their long-term growth potential. Most will fall somewhere in between.
2. **Volatility is not risk**. We cannot control the gyrations of the market, but we can control how we react to them. Understanding that true risk is the likelihood of a permanent loss of capital and not volatility, should allow us to make better risk management decisions in both good and bad markets.
3. **The price you pay determines your return**. We can control the price we pay for an investment. By focusing on paying a fair or ideally bargain price for an investment, we seek to improve long-term returns (i.e. the lower the price paid the higher the projected return) and avoid the costly mistake of overpaying for an investment.
4. **Time is your ally, but returns are not linear**. We believe long-run investment returns generally follow a loose version of the "Pareto Principle," more commonly known as the 80/20 rule, where 80% of the returns come 20% of the time. This means there can be long periods of sideways or consolidating returns in a portfolio. This can lead investors to abandon an otherwise sound portfolio strategy due to a lack of immediate results. We can control when we buy or sell relating to principles 1-3 rather than impatience. Activity for the sake of doing something rarely improves investment results.
5. **You can't predict the future.** Reiterating this factor is critical as too often investors succumb to the seemingly rational process of reading something in the financial press and then extrapolating what this might mean for their investment, perhaps even going so far as to trade on that information. In all likelihood, if you are reading about it in the press or seeing it on TV, it is already priced in to the investment.

(OVER)

Where We Are Investing Capital Now*

Exhibit A



We have updated our asset class return chart (Exhibit A) to reflect Year to Date 2015, 3 year annualized and 10 year annualized returns. Year to date through March 31st, domestic stocks (S&P 500) increased 1%, international stocks (EAFE) increased 4.9%, and emerging market stocks increased 2.2%. Bonds (Bar Cap Agg Idx) were up 1.6%, while commodities and gold were down -6% and -1% respectively.

Fixed Income (Bonds): Traditionally, the bond portion of a portfolio is intended to provide both stable income and diversification. Following core principal #1, the more conservative you are as an investor the greater allocation you should have to investment grade bonds. This has created a conundrum for conservative investors in the current low interest rate environment as investing in bonds at low rates provides low income as well as heightened risk as an eventual rise in interest rates from generational lows would negatively impact the majority of bond portfolios.

Currently, our approach to investing in fixed income involves: 1) Keeping maturities relatively short (< 5 years). Shorter maturity bonds are less exposed to interest rate risk than their longer counterparts; 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) Investing in low volatility merger arbitrage strategies with limited correlation to the equity and bond markets.

(Where We Are Investing Capital Now cont.)

On the surface merger arbitrage (investing in merger and acquisition deals *following* the announcement) may seem an unlikely place to invest fixed income funds; however, the volatility and return profile of merger arbitrage is more similar to bonds than stocks. Exhibit B below shows the growth of an initial $10,000 investment in stocks (S&P 500 – orange line), bonds (Barclays Aggregate – green line) and merger arbitrage (HFRI Merger Arb Index – blue line) from 1995 through the end of 2014. While US stocks have been the hands down absolute winner, the benefit of both merger strategies and bonds can be seen in the significant stock bear markets that occurred between 2000-03 and 2008-09. Over the long run, the merger strategies have provided bond-like volatility with better returns.

Exhibit B

Source: Morningstar

Stocks: After several years of strong returns in US stocks, many have begun to question whether or not we are in a bubble. General valuation numbers suggest we are not in a bubble as the S&P 500 trades only modestly above its 25 year average price to earnings and price to cash flow ratios. Still, it is clear that domestic stocks have performed well over the last several years, in part due to the ongoing low interest rate environment and very supportive actions by the federal reserve. Of course, this is all hindsight. What will matter in the months and years to come is how the US stock market will react to:

1) Normalization of Interest Rates: History suggests that the initial aftermath of a fed rate increase is actually positive for stocks. Additionally, the low interest rate environment has meant that conservative savers have seen their income shrink dramatically since the financial crisis. This is income that could otherwise go in to consumption and should begin to increase again as rates move higher.

2) Dollar Strength: Estimates by the IMF suggest that a 10% move higher in the dollar will shave 1.1% off of Gross Domestic Product. Since last summer, the dollar has risen more than 15% against a basket of global currencies. If strength persists or doesn't dramatically reverse, many US multi-nationals will continue to show currency driven earnings weakness, which could negatively affect markets.

3) Oil price Weakness: The mostly unexpected plummet in the price of oil (Exhibit C) at the end of 2014 caused an initial spike in volatility. While lower oil provides a break for the consumer at the gas pump and should be a net positive for economic growth, investors remain concerned about the impact lower oil prices may have in the volatile middle east region, the effect of lower oil on US producers and, by extension, the US economy.

It appears likely that the tailwinds (low interest rates, low dollar, low valuation starting point) provided to the US stock market over the last several years run the risk of shifting to moderate headwinds in the years to come. While we continue to tilt domestic stock exposure towards large cap dividend paying holdings and growth oriented positions, for asset allocation oriented accounts we have increased and may continue to increase exposure to International and Emerging Market stocks. Unlike the US, these markets have not fully recovered from the '08 downturn and provide better value investment opportunities than the more fairly valued US market.

(OVER)

(Where We Are Investing Now cont.)

Diversifying Assets: As illustrated in Exhibit A, both commodities and gold have been rather sizeable detractors from portfolio performance over the last three years. The returns of a broad commodity basket were further weakened in the fourth quarter of 2014 with the major collapse in the price of oil (Exhibit C). Nevertheless, we continue to see value in these assets as both 1) a hedge against future inflation, and 2) a portfolio diversifier as these assets have relatively low correlations with other portfolio holdings.

Exhibit C

Source: JP Morgan Asset Management

Unfortunately, the problem with "diversification benefit" is that when the price of the asset goes the wrong direction, which has been the case with both gold and commodities, the "benefit" to a portfolios total return is not immediately present. Still, while volatility in this asset class may continue, we do not feel the risk of permanent capital loss is significant for long-term shareholders as both assets should benefit from an eventual rise in inflation.

**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 or asset classes 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, 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*	Glenn Busch *Portfolio Manager*	Vicki Ohara *Operations Manager*	Jim Rhodes, CFA *Executive Director*
Mike Green *Portfolio Manager*	Adele Canetti *Portfolio Manager*	Robert Frazier *Investment Advisor*	John Nyaradi *Investment Advisor*	Bryan Case *Investment Advisor*

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