AMM

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To Invest Or Speculate?

Investment and speculation are two very different pursuits. However, too often the words are used interchangeably creating confusion as to the true meaning of these activities. An online search for the word *speculate* provides the following definition: to invest in stocks, property, or other ventures in the hope of gain but with the risk of loss. So here, the definition implies that speculation is a form of investment. Alternatively, a search for the word *invest* provides the following: to expend money with the expectation of achieving a profit or material result by putting it into financial schemes, shares, or property. If "financial schemes" isn't a connotation for speculation, I'm not sure what is. Confused yet?

Investing and speculating are always about foregoing consumption today with the expectation for more in the future. So what's the difference? In his usual straightforward fashion, Warren Buffett provides some much needed clarity on the issue:

> *"An investment operation is one where you look at the asset itself to determine your decision to lay out some money now to get some more money back later on. So you look at the apartment house, you look at the stock, you look at the farm, in terms of what that will produce.* ***You don't really care whether there is a [price] quote on it at all. You are basically committing some funds now to get more funds later on, through the operation of the asset."***

Exhibit A

We suspect that a reason why many investors find relative success in physical real estate (whether it is their primary residence or a rental property) versus stocks is because there is not a marketable daily price quote (i.e. it can't be easily sold or flipped with the press of a button). It is not that real estate is an inherently "better" asset (see Exhibit A); it is just that the nature of real estate as a relatively illiquid asset without marketable daily price quotes helps to foster patience for the investor and to keep their speculative urges at bay. Buffett on speculation:

> *"Speculation, I would define as much more focused on the price action of the stock [or asset]. You think quarterly earnings are going to be up or the stock is going to split, or whatever it may be, or increase the dividend, but you are not looking to the asset itself. The real test of what you're doing is whether you care whether the markets are open.* ***When I buy a stock, I don't care if they close the stock market tomorrow for a couple of years because I'm looking to the business to produce returns for me in the future."***

(OVER)

(To Invest or Speculate cont.)

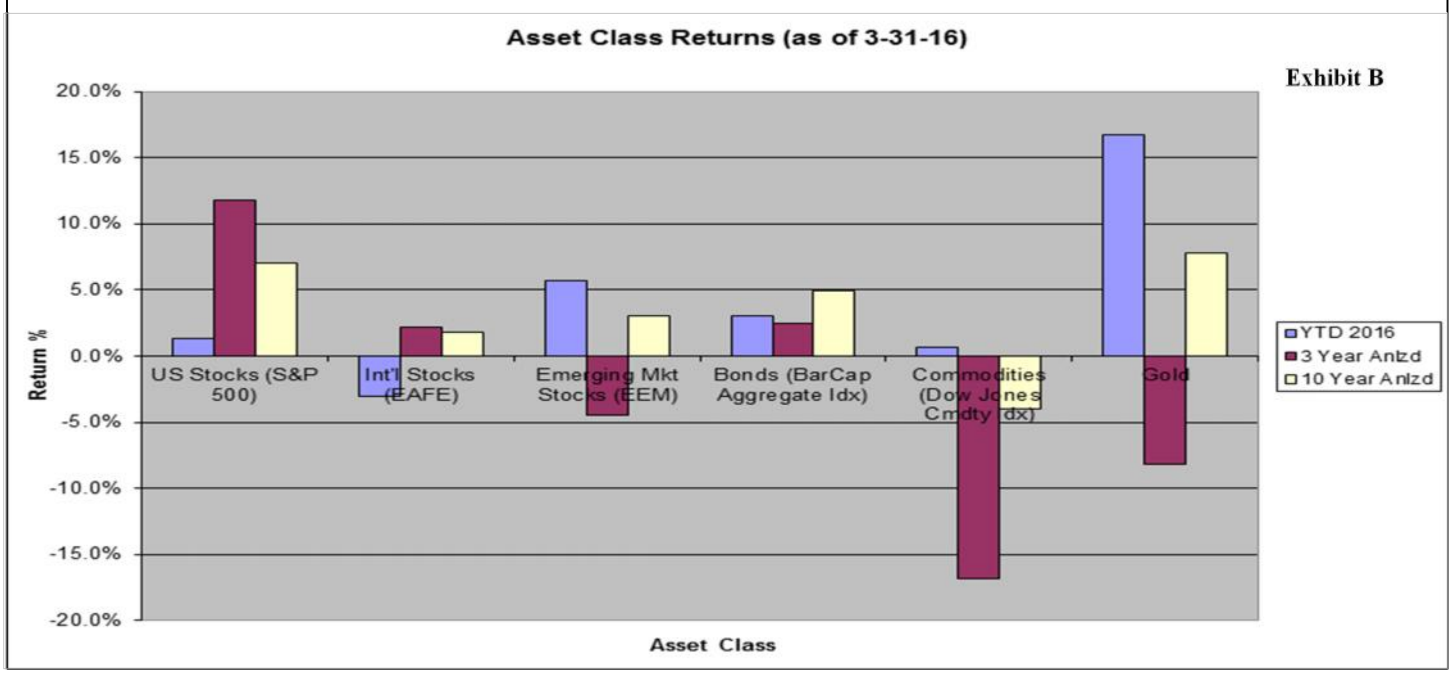
If you are looking at price everyday, then you are appealing to your speculative nature. This is okay if you are admittedly running a speculative portfolio. Most hedge funds are speculators. They trade based on a variety of strategies, but most rely heavily on short-term price action. Many use borrowed money on margin, which amplifies both gains and losses. These businesses are set up to speculate, and their investors are required by law to be accredited and agree to assume the risk of permanent capital loss. We are NOT of the opinion that all speculation is bad. Market speculators provide an ample source of market liquidity, which helps to reduce bid/ask spreads and trading costs. Some, though a fairly small minority, may even be quite skilled at this endeavor.

Real problems arise, however, when you begin speculating with an investment portfolio. Consider the investor who has put together a thoughtful, diversified investment portfolio of assets that produce both current income and have long-term appreciation potential based on the operations of the underlying asset (whether it be a stock, bond, etc.). Then, something happens to trigger a speculative decision. The market falls and the investor seeks to minimize losses purely because prices are declining; or, one sector of the market is *hot*, so the investor decides to reallocate some of his "dogs" to the winners. While these trades may seem entirely rational at the time, they do not generally result in better returns for the investor as they often coincide with buying high and selling low. There is no crystal ball, seer, or guru capable of consistently and accurately predicting short term fluctuations.

In addition to the obvious ones, there are hidden dangers to speculation as well. Like the first time handicapper at the horse races who hits it big, novice market speculators who find early success tend to succumb to overconfidence. We recall the stories of so many day traders who quit their regular jobs during the late 90s tech bubble to speculate in stocks. Many made a lot of money (at least on paper), because the technology and "dot.com" darlings that they speculated on seemed to only go up. However, this instilled significant over-confidence in their abilities, which sowed the seeds of their financial demise once the bull market in tech stocks ended. Early losses are perhaps the best form of tuition for a rookie trader.

YTD 2016 Review ~ Asset Class Outlook

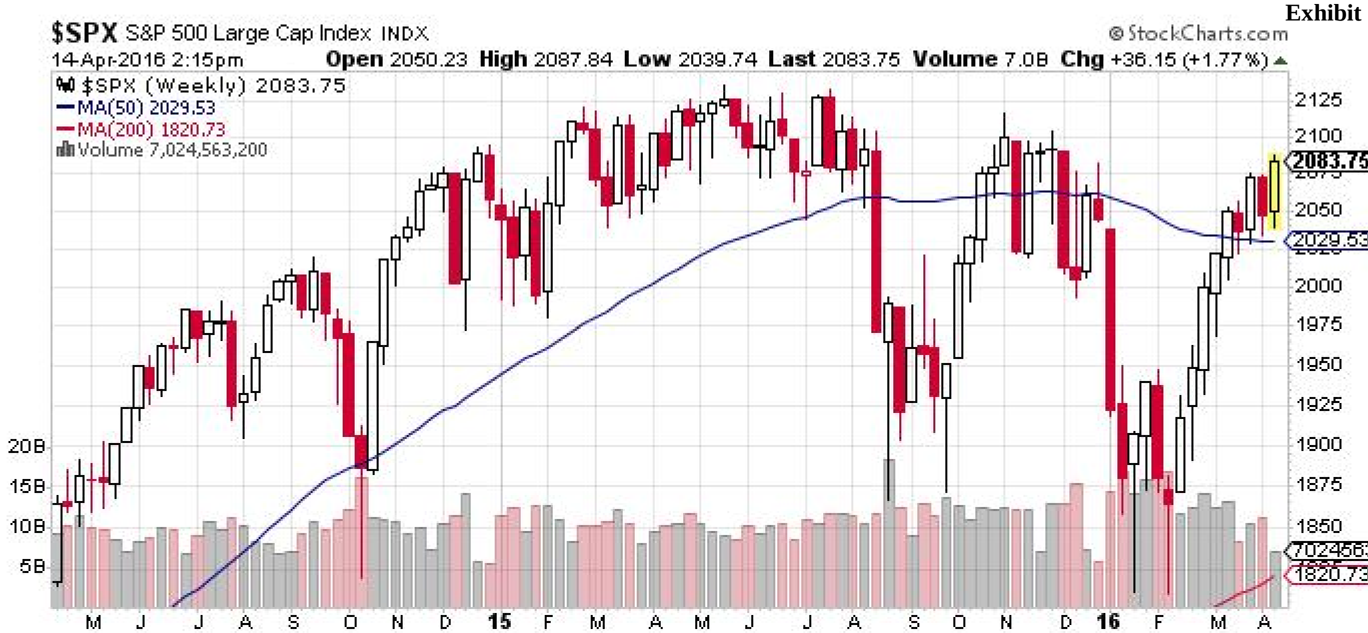
Through 3/31/16, domestic stocks (S&P 500) increased 1.4%, developed international stocks (EAFE) declined -3.0%, and emerging market stocks (EM) increased 5.7%. Bonds (Bar Cap Agg Idx) gained 3%, commodities (DJ Commodity Idx) gained .6%, and gold gained 16.7%. We have updated our asset class return chart (Exhibit B) to reflect YTD 2016 along with three and ten year annualized returns for the aforementioned asset classes.



(YTD 2016 Review cont.)

After a difficult start for US stocks, the S&P 500 rallied from being down more than 10% in January to close out the quarter with a small gain. Emerging market stocks, a big laggard over the last several years, posted an even more dramatic recovery climbing out of a -12% hole to close the quarter up more than 5%. We continue to view emerging market and international stocks favorably based on valuation. While valuations appear much more attractive in these markets relative to the US, investors need to balance the more attractive foreign valuations with the unique risks associated with international investing (i.e. currency fluctuations, geo-political issues, etc.).

Exhibit C



Domestically, while US stocks are back to within striking distance of their recent highs, the S&P 500 has effectively been range bound over the better part of two years (Exhibit C). Like volatility, this too is a normal part of investing and why we often paraphrase Pareto's 80/20 principal when referring to market returns: "80% of returns come 20% of the time". This aspect of investing in stocks is another reason why we like dividend payers, which can provide a cash return on your investment in good, bad and sideways markets. Relative to bonds, which currently offer historically low interest rates, we still expect that US stocks will be a better inflation hedge and offer higher returns relative to bonds over the long run. For the bond portion of a client's portfolio, we are primarily investing in investment grade bond funds and, to a lesser extent, unconstrained bond funds. These funds can be flexible and are not constrained by a rigid investment mandate. Simply put, they seek to go to where the best potential bond returns are based on their research.

In March, we filed the annual amendment of our firm's ADV brochure dated March 24, 2016 with the Securities and Exchange Commission. Pursuant to regulatory requirements, we have included a document that itemizes material changes to the last annual amendment filed in February of 2015. If you would like to request a full copy of the ADV filing or, if there have been any changes to your investment and/or retirement objectives, please contact our office.

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

(OVER)

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*	Bree Carlson *Administration*

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