The Lam Group
Investment Management

While 2014 began with a rocky start, the first quarter finished solidly with domestic real estate, international small cap stocks, commodities, global bonds, TIPS, and emerging markets debt leading the way. Contributions to aggregate portfolio performance to date were more broadly-based than last year, and almost all YTD asset class returns have been positive (the only exception was emerging markets equities at -0.43% in 2014, but up +3.07% in March).

We are particularly happy with the nascent recovery in emerging markets debt. As we have often said, the EM debt asset class has some of the best long-term risk/return characteristics. After a difficult 2013, emerging markets debt may be approaching attractive valuations. Historically, stable/stabilizing debt markets are often precursors to robust equity markets. The early recovery in emerging markets debt may lay the groundwork for a long-awaited recovery in emerging markets equities.

With the performance and valuations of equity asset classes in developed domestic and international markets so strong (many markets at record levels), the valuations in the emerging markets have become attractive on both absolute and relative terms. As a consequence, the emerging markets (both equity and debt) will continue to figure prominently in our portfolio rebalancing strategy.

Table 1: Periodic Asset Class Returns as of 3/31/14

EQUITY ASSET CLASSES	***1Q 2014***	***12 Months***	**3 Years***	**5 Years***	**7 Years***	**10 Years***	***10 Years***
S&P 500 Index - Domestic Large Cap Stocks	***+ 1.81%***	*+21.86%*	+14.66%	+21.16%	+ 6.31%	**+ 7.42%**	***+104.53%***
Russell 2000 Index - Domestic Small Cap Stocks	***+ 1.12%***	*+24.90%*	+13.18%	+24.31%	+ 7.08%	**+ 8.53%**	***+126.77%***
MSCI EAFE Index - International Large Cap Stocks	***+ 0.66%***	*+17.56%*	+ 7.21%	+16.02%	+ 1.29%	**+ 6.53%**	***+ 88.22%***
MSCI EAFE SC Index - International Small Cap Stocks	***+ 3.36%***	*+23.26%*	+ 9.40%	+21.70%	+ 2.79%	**+ 8.56%**	***+127.33%***
MSCI EM Index - Emerging Markets Stocks	***- 0.43%***	*- 1.43%*	- 2.86%	+14.48%	+ 3.39%	**+10.11%**	***+161.95%***
DJ US Select REIT Index - Domestic Real Estate	***+10.35%***	*+ 4.35%*	+10.27%	+28.92%	+ 1.85%	**+ 8.05%**	***+116.92%***
S&P Global (ex-US) REIT Index – International Real Estate	***+ 3.27%***	*- 1.59%*	+ 6.91%	+19.82%	- 2.00%	**+ 5.98%**	***+ 78.73%***
FIXED INCOME ASSET CLASSES	***1Q 2014***	***12 Months***	**3 Years***	**5 Years***	**7 Years***	**10 Years***	***10 Years***
BarCap Aggregate Bond Index - US High-Grade Bonds	***+ 1.84%***	*- 0.10%*	+ 3.75%	+ 4.80%	+ 4.96%	**+ 4.46%**	***+ 54.76%***
BarCap High-Yield Bond Index	***+ 2.98%***	*+ 7.58%*	+ 9.00%	+18.25%	+ 8.72%	**+ 8.68%**	***+129.96%***
BarCap TIPS Index - US TIPS	***+ 1.95%***	*- 6.49%*	+ 3.50%	+ 4.91%	+ 5.20%	**+ 4.53%**	***+ 55.78%***
DJ UBS Commodities Index - Commodities	***+ 6.99%***	*- 2.10%*	- 7.37%	+ 4.24%	- 2.72%	**+ 0.43%**	***+ 4.36%***
Citigroup Non-$ World Govt Bond Index - Non-$ Bonds	***+ 3.22%***	*+ 2.43%*	+ 1.37%	+ 4.15%	+ 4.95%	**+ 4.27%**	***+ 51.94%***
JPM EMBI Global Diversified Bond Index - Emerging Markets Debt	***+ 3.73%***	*+ 0.59%*	+ 7.11%	+11.71%	+ 7.38%	**+ 8.19%**	***+119.78%***

Sources: Morningstar, JP Morgan, and Dimensional. * Annualized

On Sunday March 30th, the CBS News show *60 Minutes* aired a segment on High-Frequency Trading (HFT) featuring well-regarded author Michael Lewis. Provocative proclamations of "rigged" stock markets and "unfair" trading practices has some investors questioning if and how HFT affects their portfolios. While Mr. Lewis's bold and somewhat inflammatory headlines may draw attention to his new book, the ramifications of HFT require a deeper understanding than the *60 Minutes* segment allowed. It is worth noting that HFT is most detrimental to investors who actively trade stocks; the negative effects of HFT on a *passively-oriented* investment approach like ours is de minimis. Dimensional Fund Advisors, whose patient and unique trading strategies are unaffected by HFT, feels that some aspects of HFT have lowered trading costs for all investors. Clients who would like to have a more in-depth discussion on the effects of HFT on our investments should call us.

Despite the rising geopolitical tensions in the world (Russia/Ukraine, Iran), unexpected seismic activity (earthquakes in southern California and South America) and mysterious global events (missing Malaysian Air flight 370), we are pleased with our results this quarter.

As always, the future is impossible to predict

In 2013 our portfolios were negatively-impacted by a decline in inflation expectations, however, the 1Q 2014 resurgence in real estate, commodities, TIPS and foreign currencies (US dollar weakening) may indicate inflationary pressures ahead. As our colorful “periodic chart” of annual asset class returns has illustrated (the latest version is in the Newsletter section of our website), just because an asset class has done well (or poorly) in one year, does not mean it will continue to do so in the future.

Greater transparency with regard to Fed leadership and future tapering intentions have certainly been good for the markets globally. Nevertheless, we will continue to stay disciplined and committed to our globally-diversified and balanced portfolio strategy, rebalancing the portfolio towards long-term asset allocation targets as necessary and with tax-efficiency in mind.