Shorepoint
Capital Partners LLC

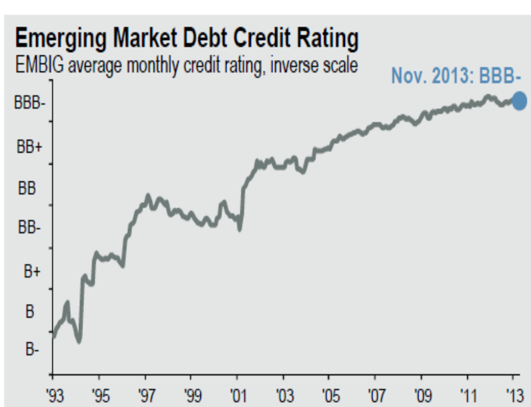
Identifying Opportunity.
Navigating Risk.

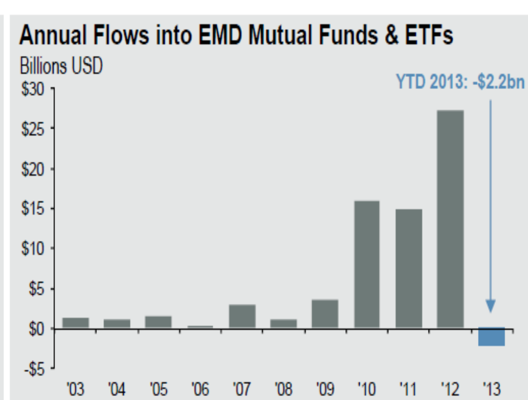
Newsletter – January 2014

Fourth Quarter 2013 Market Recap

2013 was a year of tremendous resilience in domestic equity markets. The equity markets seemed to ignore the rapid rise in interest rates last spring due to the expected Federal Reserve "Fed" tapering and the government shutdown in the fall. Instead it focused on the improving, stable global economies as domestic stock markets reached record levels. The overriding issue for 2013 was if/when/how much the Fed would pull back on the quantitative easing ("QE") program by reducing the amount of bond purchases and the unknown consequences to financial markets. The Fed's announcement in December that they were finally going to reduce monthly bond purchases by $10 billion was met with a muted response by investors as the "taper" had already been priced into equity markets. However, interest rates continued to rise in the fourth quarter, with the 10-year U.S. Treasury interest rate touching 3% in December. We believe that the tapering will be a constant source of concern and volatility for markets in 2014 as the expected and necessary Fed unwinding of quantitative easing will take the world into unchartered territory.

For 2013, domestic equity markets returned over 30%, led by small caps (+38.8%), mid caps (+33.5%) and large caps (+32.4%), while major international markets trailed. Developed equity markets were up 22.8%, helped by economic stabilization and attractive valuation, while emerging markets (-2.7%) were hurt by inflation, weaker economic growth and the possible impact of the Fed's tapering. Our allocation to emerging markets has been a drag on equity performance relative to the S&P 500 Index for the last couple of years; however, we are still committed to the allocation and believe that it is an attractive long-term investment opportunity. We have actually been using this weakness to increase our overall exposure to both emerging market equities and bonds. This is a contrarian call as the consensus is for continued weakness in emerging markets.





Source: J.P. Morgan, MorganMarkets, FactSet, Strategic Insight, J.P. Morgan Asset Management.

MARKET TRENDS 12/31/2013

US Stock Markets	YTD	Q4
S&P 500 Index	32.39%	10.51%
S&P MidCap 400 Index	33.50%	8.33%
Russell 2000 Index	38.82%	8.72%
Int'l Stock Markets		
EAFE Index	22.78%	5.71%
Emerging Mkts Index	-2.60%	1.83%
Fixed Income		
Barclays Intermediate Gov't/Credit Bond Index	-0.86%	-0.02%
Barclays Capital Muni Bond 3 Year Index	1.32%	0.59%
Commodities		
SPDR Gold Shares (NAV)	-28.09%	-9.52%
Goldman Sachs Commodities	-1.22%	-0.33%
Real Estate		
Dow Jones US REIT Index	1.77%	-0.06%
Yields	**12/31/2012**	**12/31/2013**
T-Bills	0.04%	0.09%
10 Yr UST	1.76%	3.03%

Sources: Total Returns from WSJ Market Data Group, Standard & Poor's, Barclays

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As for fixed income, 2013 was generally a poor year for investors, with intermediate and longer maturity bond indices finishing in negative territory. Some of the worst performing sectors include: U.S. Long-Term Treasury Index (-12.7%), U.S. Treasury Inflation Protected Securities (-8.6%), emerging market bonds (-8.3%), international bonds (-3.1%), Municipal Bond Index (-2.6%) and mortgage-backed securities (-1.4%). The exceptions were domestic high yield (+7.5%), leveraged loans (+5%) and short maturity bonds. Commodities also struggled in 2013 with the broader basket of commodities down -1.2% while gold was down a whopping -28.1%. Real estate ended the year in positive territory with 1.8% total return.

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No Big Calls! Stable Economy, More Volatile Prices Ahead?

The fourth quarter of 2013 punctuated a historic and memorable year for U.S. equity markets, which accelerated, once again, to new highs for the year with the Dow Jones Industrial Average ("Dow") and S&P 500 Index reaching all-time highs and the Dow posting the biggest annual gain in 18 years. Four years after the depths of the financial crisis, patient stock investors were handsomely rewarded with the best return since the great recession of 2008/2009. For us at Shorepoint, this unloved bull market has its roots in that familiar, fertile soil we contrarians look and hope for—low expectations.

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Throughout 2013, markets climbed a wall of worry resplendent with wicked, thorny vines - the China slowdown, an Iraq showdown, a near recession throughout Europe, high U.S. unemployment, a non-functioning U.S. government, both figuratively and literally for a time! In short, there was plenty to worry about. And what did the market do in the face of these snarls as worries remained more risk than eventuality? The Dow Jones Industrial Index rose 29.7% and the S & P 500 Index gained 32.4%.

The market, as it is a reflection of the short term emotions of millions, is fickle in the short term. But we subscribe to the belief of Benjamin Graham and Warren Buffett that, over time, the markets price securities very precisely. Hence, as individual investors, our opportunities to make money most safely come at moments of extreme emotion. The March equity bottom of 2009 is the most dramatic example of that in our lifetime thus far - and we hope it stays that way! Incredibly cheap broad-based buying opportunities are a rare treat, but the despair and tragedy of those days, with markets unhinged from reality and rationale, hurt many people who have yet to recover. I think we all prefer a more stable system, even if we have to overpay a bit on intrinsic value.

"…our opportunities to make money most safely come at moments of extreme emotion."

This past year was an example of how an investor can still make serious money in the face of such negativity and group think. Few pundits called for the kind of strong performance of 2013; even Jeremy Siegel's regularly

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bullish, optimistic view for stock prices was realized. At Shorepoint, we don't make big calls. We don't swing for the fences. And we don't try to run the table. (See recent article on our website called ***"Singles and Doubles for Rounding the Financial Diamond"***). Instead, we look for cheap securities in less popular sectors and try to buy them when they aren't in favor. We try to uncover individual stocks in companies that are well managed and able to increase their dividends to shareholders at a high rate. In short, we are boring and disciplined.

So why don't we make big calls and rearrange asset classes massively from year to year? Well, we just don't believe in it. We don't think anyone can do it well and sustain that type of prescience over multiple years, and we know we can't do it. And we don't need to do it to create sound investment portfolios to fulfill the reasonable goals of our clients' financial plans.

A recent example of a big swing and a miss comes in the form of the former credit analyst who predicted the 2008-2009 mortgage meltdown, Meredith Whitney. We don't mean to malign her personally, but her professional approach flies in the face of what we believe - don't try to make big calls, and if you are lucky to get one right, don't try for another! Ms. Whitney was forced to close up shop earlier this year as her call for an unbridled disaster in the municipal bond markets has failed to take shape for over two years. This dire prediction was made on **60 Minutes, CBS** and was a strain of fear mongering that likely resulted in many investors losing money and/or opportunity. We continue to favor municipal bonds but as a small portion of an overall taxable portfolio - location and duration of the credits matter; we like Massachusetts, not Puerto Rico, for example. Now Ms. Whitney may one day be right on municipal bonds, but when one makes big calls, one brings in a factor almost impossible to get right - timing. You need to be right on the tactical call you are making and have the event occur in a timely fashion so that it makes your constituents money!

We are reminded of the ancient Greeks and their timeless mythology. After an incredibly well-researched and once in a lifetime accurate prediction on the mortgage bust, Ms. Whitney doubled down and tried to make another big call on a separate industry from her expertise. Imagine Icarus flying too close to the sun only to have it dawn on him in mid-flight that his waxy wings were melting at his peak. Or perhaps it was more than hubris that drove her to fly in the face of the gods. It might have been the mundane taste for money of King Midas who wanted everything he touched to turn to gold. Most likely it was a combination of both. But enough on this. We won't make big calls at Shorepoint.

"This past year was an example of how an investor can still make serious money in the face of such negativity and group think."

"At Shorepoint, we don't make big calls. We don't swing for the fences."

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"…prices will be more volatile in the coming year."

"The biggest and easiest money has been made."

"…we still find many attractive areas of relative valuation in global stocks and bonds and in dividend-paying stocks."

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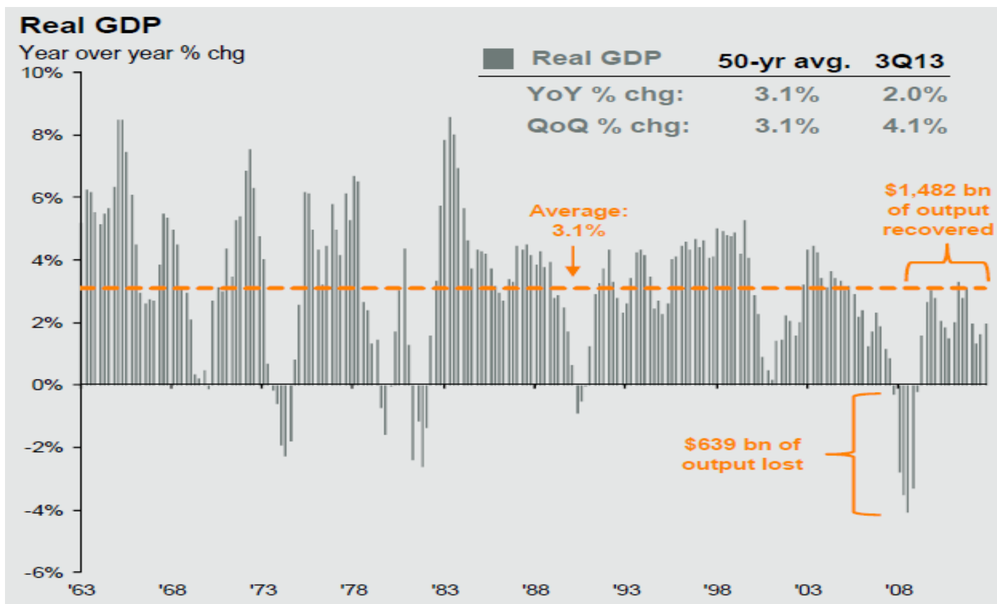
Conclusion

Here are a couple of small contrarian remarks and assumptions we are making heading into the New Year and 2014:

1.) The U.S. economy, as predicted by the current market (a leading indicator), was more resilient than most of us thought; and it will remain stable for some time, especially when compared to what we went through during the "great recession".



Source: BEA, FactSet, J.P. Morgan Asset Management.

2.) The volatility of stocks has been incredibly low for the last six months, if not the last two years, without a significant correction (10% or more); prices will be more volatile in the coming year, but, for now, we are approaching corrections as ideal times to add to the equity markets and existing undervalued positions.

3.) The biggest and easiest money has been made. Yes, we think the largest money may have been made at this point in the recovery which only makes sense as we crawl away from the low expectations and hopelessness of the great recession. That does NOT mean that we can't make solid long-term returns in the markets. In fact, we still find many attractive areas of relative valuation in global stocks and bonds and in dividend paying stocks. However, we continue to think cash, CDs, Treasuries and gold don't offer much that interests us.

So on to 2014 we go - no big calls, less upside, but with a pick and a shovel and a strong back - and certainly NO SUGARCOATING from us.