

## April 2013 Letter

### Buffett's Key Metric Says Markets Overvalued

*"Investors wanting to do well had better learn how to deal with the next outbreak [of market irrationality].*

*What's needed is an antidote, and in my opinion that's quantification. If you quantify, you won't necessarily rise to brilliance, but neither will you sink into craziness... The market value of all publicly traded securities as a percentage of GNP... is probably the best single measure of where valuations stand at any given moment."*

- Warren E. Buffett

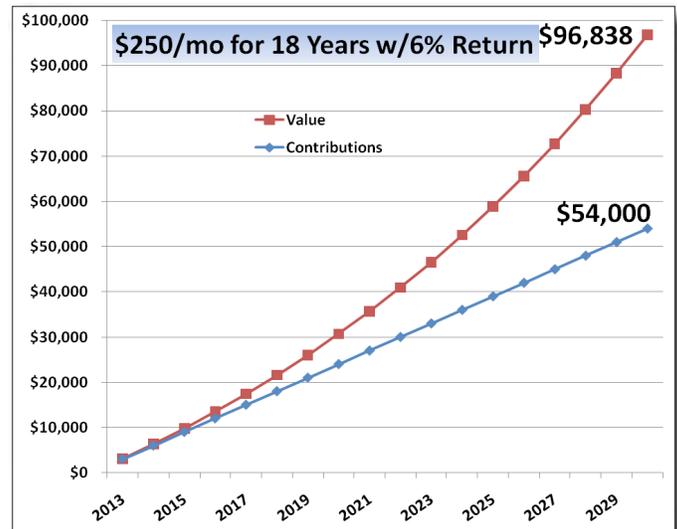


- Based on Mr. Buffett's favorite measure, stock markets are currently expensive and unattractive. Not quite 1999 delirious, but still frothy.
- In fact, in 1969 Buffett closed down his fund because he was unable to find good investments – the markets today are more expensive than they were in 1969.
- Today's market levels imply a depressing 0-4% return expectation over the next 7-10 years, based on historical evidence.
- Downward movements of >20%+ are not rare: occurring once on average every five years.
- To avoid walking under this teetering anvil, we're in the most cash we've ever had in both the fund and client retirement accounts.
- Patience now will be rewarded with handsome choices later. We're well-positioned to take advantage of new opportunities as they arise.

### Our Best Investment Idea: Your Kids

*"Education is the most powerful weapon which you can use to change the world."*

- Nelson Mandela



- We're big fans of education, so much so that FSI will set up and manage a 529 education account for any child that a client cares about enough to make regular contributions. **For free.**
- Automation of finances is the least psychologically-taxing way of building wealth. Set it and forget it; we can help.
- Contributions to a 529 account provide friends and family a great alternative for birthday and holiday gifts. College>clutter.
- Having their own education accounts teaches kids about the importance of saving and the magic of compounding.
- \$250 per month for a child's first 18 years with a 6% return (long-run market average) becomes nearly \$97k, almost half of which is earned tax-free. Save it now so you don't have to borrow it later.
- We're doing it for the kids we care about; let's add yours to the list and change their trajectories.

