

FARNAM STREET
Investments

Are You Prepared

for an

85%

Market Plunge?

A Perfect Storm

With the market's amazing 2013 run-up, we've entered a very rare and dangerous environment. There have only been a handful of times in the last 100 years when a confluence of economic and financial factors have combined to place markets on the precipice of such staggering losses. The most notable and severe was the Great Depression loss of 85%. Based on a perfect storm of valuations, sentiments, interest rates, and economics that have only occurred together a few times in history, **we're standing on the edge of one of those cliffs right now.** *

This table shows other times when certain key variables were above thresholds identical to where we are today, and the subsequent losses that shortly followed:

Aug 1929	Jan 1973	Sep 1987	Jan 2000	Jul 2007	Jan 2014
-85%	-48%	-34%	-45%	-57%	???

What We've Done to Prepare

We've been carefully monitoring market exposure in all of our clients' accounts. Bonds are an even worse investment in a rising interest rate environment. Looking back over 2013, we've been happily selling into this dramatic run-up. Even as the cash levels have risen to approximately 75% of your account, we've still roughly kept pace with this torrid market thanks to some savvy stock selection. Our flagship fund returned 24.8% after fees in 2013, despite ending the year with 60% cash and dramatically reduced risk. Since our Jan 2008 inception, we've returned 65.2% vs. the market's 43.7%.

We've taken a lot of chips off the table and we have a game plan for spotting the right time to redeploy them. But it's certainly not at these levels. We're too conservative to press our luck any farther. Our timing will not be perfect- you either have to look like a fool before the crash or after, and we're choosing before.

What You Can Do to Prepare

1. **Don't procrastinate** in checking your current stock and bond exposure! Don't be afraid to sell; cash is absolutely king right now because of the future optionality it will provide. There may not be time to get another reminder from us before it's too late.
2. Any questions, **don't be afraid to reach out to us.** There's a lot of noise out there. We can help you assess how much you may have at risk. We'd also be happy to provide more information about the key variables that we're monitoring, for those who like the nitty-gritty details.
3. **Talk to people you care about** who may be unknowingly at risk. This note is our public service announcement, officially sounding the alarm. Get the message out there to everyone you care about before they're decimated by a big market drop, especially those nearing retirement.
4. **Make an appointment with us** and we'll do everything we can to spare you from the coming turmoil. We're here to help you and those you care about. In fact, due to our rapidly growing business, we're moving into a brand new office March 1st and have hired a dedicated office manager to better serve our clients.

* Dr. John Hussman has greatly influenced our thinking on this subject.

Warm regards,



Jacob L Taylor
CEO



Lonnie J Rush
CIO