LANDMARK
FINANCIAL ADVISORS, LLC

WEALTH MANAGEMENT

APR 2014

THE RISK GAME

We subscribe to the belief that prudent investors only take on risk that they have the ability, willingness or need to embrace. We have stated on multiple occasions: “If you have already won the game, then why still play?” Our primary job is to keep our clients focused on the long term, and not on the rear view mirror watching what recently happened in the investment markets.

It is sometimes hard to know when enough is enough, but we know how the human brain is wired and losses are never accepted well. Clients who have become financially independent will have no meaningful change in their quality of life when markets are rising. However, an aggressive portfolio in a declining market will cause stress, sleepless nights and can be very painful to endure. In summary, why take above average risks realizing the potential benefit will not change your life very much, but a negative outcome like those experienced in 2007-2009 can be catastrophic.

Our suggestion is to identify what it will take for you to be happy. Understand your cost of daily living, travel, major purchases, gifting to heirs and charity, just to name a few. These are very personal and unique decisions with no right or wrong answers. The results of this effort will help us to determine the required rate of return needed to achieve your goals. The return needed will dictate the level of risk that is prudent.

The equity markets have only had a negative monthly return three (3) times over the last sixteen (16) months, ending February 2014. In addition, the gains have been substantial during this period of time. As such, knowing your required rate of return and letting that dictate your level of risk and not deviating from that is very important. Don’t be lured into the trap of reaching for excess returns because everything appears rosy!

> **“I can’t take it with me I know. But will it last until I go?”**
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> —Martha F. Newmeyer

> **“We simply attempt to be fearful when others are greedy, and to be greedy only when others are fearful.”**
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> —Warren Buffett

911 COLLEGE STREET | SUITE 301 BOWLING GREEN KY 42101 | 270.782.9222 | LANDMARKFA.COM

INTERNATIONAL EQUITIES

Stocks of companies outside the United States account for about half of global equity market capitalization, but they represent a much smaller share of the total equity allocation of U.S. investors. From 2004-2007 international equities were the darlings of the investment community. Every paper and media channel was talking about the growth occurring outside the US and the need to have your money overseas. Much has changed in the last five years; foreign markets have lagged our US markets by 5.7% on an annualized basis. On a cumulative basis this equates to a 60% underperformance by foreign markets.

It is difficult to find anyone who really likes foreign stocks today (especially emerging market equities). We believe that valuation, not the media experts, are the most useful measure in estimating the future returns in various equity markets. Developed international equities valuations are 30% cheaper than our US markets and emerging market equities are 45% cheaper. In our opinion, the global economy is interconnected, and the discounts mentioned above justify a tactical shift, thus increasing our international weightings.

This tactical asset allocation shift is an example of our work to identify attractive entry and exit points over a long-term time horizon. Our task is to identify assets with the potential to help our portfolios achieve their required rate of return with less risk.

LANDMARK FINANCIAL ADVISORS WEIGHTINGS AGAINST THE S&P 500