April Letter

Dear Friend:

International stocks and commodities were red hot in April. Commodities, up 5.7%, reversed nearly all of their Q1 decline. U.S. crude oil was up 25% in April. U.S. bonds, down 0.40%, were the only asset class with a negative return for the month.

	Last 10-Yrs	Last 5-Yrs	YTD	April
U.S. Cash	16.7%	0.2%	0.0%	0.0%
U.S. Bonds	57.0%	21.3%	1.2%	-0.4%
U.S. Stocks	131.1%	94.4%	2.2%	0.4%
European Stocks	73.6%	47.4%	8.3%	4.2%
Pacific Stocks	71.6%	37.3%	12.4%	4.0%
Emerging Markets Stocks	140.0%	16.8%	10.0%	7.8%
Commodities	-21.9%	-22.7%	-0.5%	5.7%
Risk Level 8 (0/41/22/7/7/7/15)	74.8%	31.2%	3.1%	1.9%

Dave attended Capital Group's Institutional RIA Forum in Los Angeles on April 15-17. Capital Group markets their mutual funds under the American Funds brand. There are currently 76 distinct American Funds available to U.S. investors. We have owned one of these funds since 2003. It has been a good investment. It was delivering statistically significant excess returns when we bough it and it continues to do so.

Dave attended a similar event in October 2011. The recent Forum had a very different feel. The Forum in 2011 was centered on providing marketing material; how to sell American Funds products. Capital Group has finally figured out that RIAs make their own decisions. We don't want sales information. We want to know about the investment process so we can make our own judgements as to whether the success that attracted us to a particular fund is sustainable.

While the fund's track record is convincing, the firm's organizational structure raises concerns. Capital Group has always relied heavily on the brokerage community to sell its funds. Amazingly, the 76 distinct funds are available in 863 share classes; an average of over 11 share classes per fund. Each share class represents a different payment schedule. The internal expenses of the share class we hold are reasonable at 53 basis points per year. All of these expenses go towards the management of the fund. The most expensive share class, available in some 529 Plans, is outrageous at 163 basis points per year. The additional 110 basis points, paid to brokers and other financial intermediaries, wipes out about 70% of the excess return enjoyed by the institutional share class. It is very disturbing to us that Capital Group allows these distribution expenses to be comingled with the legitimate expenses of managing the investments. Capital Group is a marketing machine. Of the 7,000 employees spread all over the world, only 300 are analysts, portfolio managers or traders. In mid-April the Department of Labor proposed a fiduciary rule for the management of retirement assets. If the proposal passes and brokers are not allowed to sell mutual funds to investors with retirement accounts, it will have profound implications for the way Capital Group does business.

Dave & Jim