

Cape Ann Capital, Inc.

December Letter

Dear Friend:

Looking back on 2014 it is tempting to conclude that there was an unusual spread between the best performing asset class (US Stocks, up 12.4%) and the worst (commodities, down 17%), but this would be off base. This year's 29.4 point spread is actually below average compared to the last eight. The dominance of US stocks and bonds in this year's rankings has the media questioning the value of international stocks and commodities in a diversified portfolio. Follow this advice at your peril. A portfolio with everything moving in the same direction, by definition, would not be diversified.

	Last 10-Yrs	Last 5-Yrs	2014	December
U.S. Cash	17.6%	0.2%	0.0%	0.0%
U.S. Bonds	56.4%	23.1%	5.8%	0.1%
U.S. Stocks	115.6%	106.1%	12.4%	0.0%
European Stocks	57.7%	30.4%	-6.7%	-4.5%
Pacific Stocks	47.2%	28.6%	-4.7%	-2.5%
Emerging Markets Stocks	114.9%	9.0%	0.4%	-5.0%
Commodities	-17.1%	-24.8%	-17.0%	-7.6%
Risk Level 8 (0/42/22/7/7/15)	69.0%	30.7%	1.8%	-1.8%

In early December Cape Ann Capital spent three fascinating days at PIMCO's Newport Beach, CA home office. PIMCO invited about 90 advisors to a Wealth Management Forum. It appears we were selected because we take a careful, deliberative approach to selecting mutual funds and, of course, because we did not abandon PIMCO in this year of turmoil. We were treated to presentations from virtually all of the senior investment team and senior management. There was a lot of discussion among the advisors present about the "Fall of the Bond King" article that was published by Bloomberg on December 3rd. The article paints a sharp contrast to the decorum and professionalism we experienced on our last visit to PIMCO in May of 2009.

For us, one of the highlights of our recent visit was the CEO's presentation. Doug Hodge, who is the guy most "on the hook" for the business side of PIMCO and for keeping Allianz (the German parent company) happy, was reduced to tears when he talked about his pride in the employees at PIMCO. Doug was clearly exhausted and admitted this was the toughest year in his 33 years in the business. Here is a rough summary of his remarks: "Our employees give every ounce of their energy to their jobs throughout their 12 to 15 hour days. Most arrive at work at 5:30am; some as early as 3:30am. Their only real time off is Friday evening. All are on call on weekends. These folks are competitive and they like to win."

We believed Doug when he declared "Mission Accomplished" and said that PIMCO will thrive going forward. PIMCO has already hired back three alumni who had quit because they could not take Bill Gross's erratic and prickly behavior. Please let us know if you would like a copy to the Bloomberg article. It provides interesting insights on the interpersonal dynamics at play in PIMCO's transition from a founder-lead organization to a team-lead firm. The new investment team is led by Dan Ivascyn. Dan received a standing ovation from his colleagues when his appointment was announced.

Dave & Jim