

# Cape Ann Capital, Inc.

## November Letter

Dear Friend:

US stocks were once again the top performing asset class for the month and remain the top performer year-to-date. US bonds and emerging markets stocks are also in positive territory year-to-date. Commodities posted a fifth straight month of losses and remain the worst performing asset class on the year. Pacific and European stocks are also in negative territory for the year.

	Last 10-Yrs	Last 5-Yrs	YTD	November
Cash	17.8%	0.2%	0.0%	0.0%
U.S. Bonds	57.7%	20.9%	5.7%	0.7%
U.S. Stocks	123.5%	112.0%	12.4%	2.4%
European Stocks	72.2%	37.2%	-2.3%	2.1%
Pacific Stocks	58.0%	34.2%	-2.2%	-3.4%
Emerging Markets Stocks	138.2%	18.9%	5.7%	-1.0%
Commodities	-14.7%	-16.9%	-10.2%	-4.1%
Risk Level 8 (0/42/22/7/7/15)	74.6%	34.2%	3.6%	0.1%

This year is proving to be very difficult for fundamentally-driven, long-term US equity investors. In May we discussed the performance spread between large and small cap stocks. It has gotten worse. There is now an 11.5 percentage point spread between large growth stocks (up 14.6%) and small growth stocks (up 3.1%). This is a frustrating environment for security analysts. Jason Zweig reported in Saturday's Wall Street Journal that 2014 is on track to be the worst year for U.S. stock pickers in at least 25 years.

Investors, or perhaps we should say speculators, seem to be interested in just one factor. If the company is big and well known they buy it regardless of the fundamentals. This may well be driven by hot money coming from overseas to gobble up shares of VTSMX (the Vanguard Total Stock Market Index Fund) or SPY (the S&P500 ETF). The VTSMX is now the largest fund in the world and SPY is a close second.

Jason cites research on the dispersion of returns within the U.S. stock market. Aside from the dispersion due to size, dispersion for fundamental reasons is very low. This cannot possibly continue indefinitely. There is always a wide dispersion in the economic performance of publically traded companies. Small companies with spectacular economic performance and protection from competition cannot, and will not, go unrewarded forever. Similarly, large companies with unimpressive economic performance will not soar to the moon.

Sooner or later fundamentals win out! If you have done your homework and selected mutual fund managers with strong evidence of stock selection skill, have trust in your stock pickers. Fight the urge to chase short-term performance.

Dave & Jim