Making End$ Meet ~ 18th Annual Report ~ 2013

Dear client, colleague, and/or friend, Spring 2013

This is a discussion of mutual fund reports which, instead of being embedded here, are for brevity's sake located at this web page and will be referenced with hyperlinks throughout.

Since Return on Investment (ROI) is one of the most consequential variables in an investor's economy, every spring I skim the cream off the mutual fund market and share the results in an annual report. This is the eighteenth.

Although this discussion is about mutual funds, I don't mean to imply that they're the only way to invest. However, their regular accountability facilitates the making of a report like this; and since they're invested in almost all sectors of the economy, from precious metals to health care to real estate and more, I regard them as statistically representative samples of the entire investment universe.

The purpose of this discussion is to help you prosper by defining excellence. However, beware that investing in the funds on these reports right away can result in “performance chasing.” Nonetheless, with such excellent track records, I reckon they're noteworthy for future reference, at least as historic examples of what's possible. Past performance is no guarantee of future results; read prospecti and annual reports; if you need help understanding them, get it. Buy low, and sell high.

This year's excellence-defining Return on Investment (ROI) criteria are 23.9%, 17.5%, 11.5%, and 15.3% for 1, 3, 5, and 10 year annual averages, respectively. In other words, of all the funds that Morningstar tracks, when sorted by one time frame at a time, within each time frame 200 funds met or exceeded these thresholds.

The following chart puts these criteria into historic perspective:

Average Annual ROI Criteria, Top Performing Mutual Funds, 1996-2013
Data courtesy of Morningstar.com, 03/31/2013

Minimum ROI Criteria:	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1 Yr	45.0	29.7	59.0	55.4	80.0	17.0	22.0	14.7	84.5	23.8	54.0	31.8	27.4	7.5	98.5	41.2	19.3	23.9
3 Yr	22.5	22.8	34.7	31.3	40.0	16.0	20.0	13.7	22.1	19.8	47.0	28.9	28.5	6.7	8.6	11.8	31.8	17.5
5 Yr	19.5	18.1	23.5	27.1	29.0	19.0	17.0	7.8	19.0	17.8	26.0	25.2	33.3	9.4	14.9	11.1	8.5	11.5
10 Yr	14.7	14.0	19.8	19.2	20.0	16.0	14.0	10.0	13.2	13.9	15.3	14.7	14.1	9.8	12.4	14.0	12.7	15.3

Notice how the criteria were really low in 2003 and 2009. Knowing this is really useful now. More about that below.

Over the years, I have developed the following rating scheme, based on the idea that the ideal investment never loses money and enjoys excellent, stable growth by meeting more than one criterion:

A – All criteria (1, 3, 5, & 10 year average annual return)
B – 1, 3, 5
C – 1, 3
D – Honorable Mention: met criteria in the past, & still performing respectably

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April 2012 – March 2013 was a period of notable recovery. For the first time in several years, I had the pleasure of recognizing twenty-seven funds that qualified to be in the A (4), B (10), and C (13) categories, ten of which I had already noticed in previous years. (New to this year's report is a column on the far right indicating in what year funds had previously qualified.)

Sector Discussion

Here is a breakdown of these twenty-seven funds by sector. Health care enjoyed a surge of activity, while precious metals dropped completely off the list. To understand sector trends over time, see the 1996-2013 Sector Analysis.

Sector	Frequency
Health Care	11
Large Blend	4
Real Estate	4
Utilities	2
Small Blend	1
Medium Growth	1
Communications	1
World / Foreign Stocks	1
Technology	1
Small Value	1
Total	**27**

Preparing for the Next Downturn: Reviewing 2003 & 2009

In 2003 and 2009, we saw major economic downturns. In 2003 the country attained a firm war footing, and in 2009 we really felt the effects of the 2007-2008 real estate bubble. At the time pessimists predicted doom, but we've since recovered.

You know the old saying: “Buy low, sell high.”

Now we're in a recovery led for the moment by health care. Where to invest during a recovery? Not in the things that are peaking now . . . that would be “buying high” or performance chasing.

No . . . let us look back and see what funds were doing well doing the downturns. Consider buying these, or funds like them, now. Then during the next downturn, buy the funds that appear at the top of this year's report, after their values have declined. It's all about learning to work with cycles.

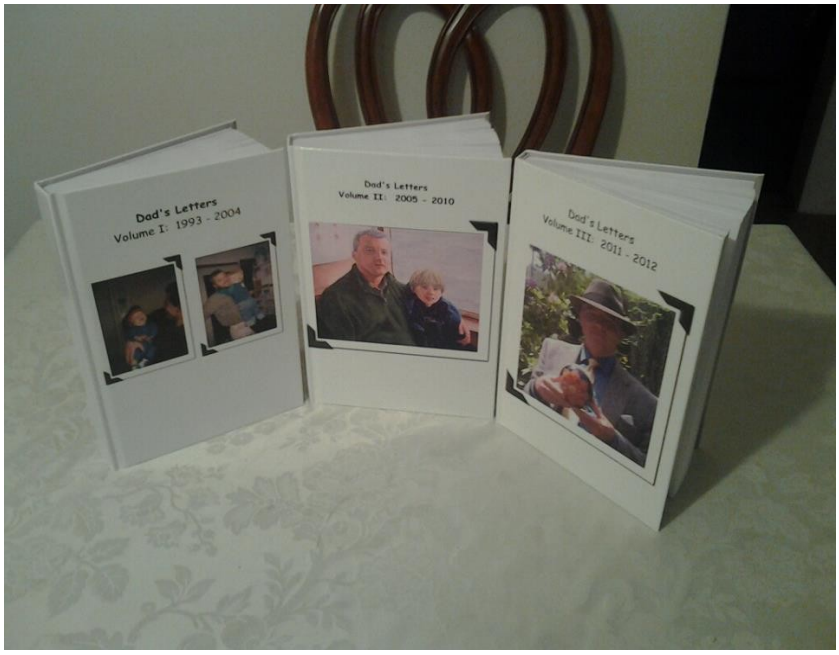
Here are the 2003 top funds with their current results, and here is a Morningstar screen shot of funds that held their value nicely during the 2009 crash.

What's New

My son grew up. He turned 18 last October.

This year I'll celebrate my 50th birthday. I'm pleased to announce I still feel 23 and am probably in better physical shape now than I was then, and certainly a lot wiser . . . and I find that as I become increasingly cognizant of my own mortality, of the swift passage of time, and of the brevity and preciousness of life, I become less tolerant of nonsense and more focused than ever on the things I believe matter most.

In early October, when I realized his pending birthday wasn't just another birthday but that it marked the end of his childhood, I fell into a state of mourning, a sort of trance that lasted several weeks. When I came out of it, I found I had created these:



They're a collection of all the letters, poems, images, and music that I wrote or found during his childhood and that were somehow formative and significant for us as father and son. They total 1,183 pages.

Prior to the compilation of these books, what helped lead up to them is that last year I took an extended break from my usual routine, got a little counseling, and wrote a lot of prose and poetry about important things and people in my life. It helped break my heart open, be more awake, aware, watchful, humble, appreciative, and nimble.

Since then, the very existence of these books has proven to yield surprising, unpredicted advantages that I may share in future newsletters.

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Minding One's Own Business. After I did my 2012 taxes, I sat myself down and took a very hard look at my own financial statements by year going back to 2001, when I began using QuickBooks.

Fortunately, since accounting is the language of Economics, my own books are tight. I know my financial statements are absolutely right and can be trusted for decision-making. That's the good news. And, I have been gainfully employed and consistently profitable going on eighteen years. I suppose that is good news, too.

The bad news is, I saw how I had let myself be distracted by a variety of crises and misfortunes including family separation (at the age of seven, my son was taken to an island in 2002), war and military service (Army National Guard 2001-2006), courtship, marriage, and divorce (2003-2009), grief (2006-2008), and convalescence & recovery (2009-present). I discovered that even in a state of happiness, life can be full of diversions, several of whom I have encountered on the dance floor over the past few years as, under doctor's orders, I danced my way back to felicity and health.

I'll bet you've had your share of diversions, too. For example as a country, today we are reacting to the Boston Marathon attack. It seems like there's always something.

Reviewing the past twelve years, I realized we can spend our whole lives living in a state of distraction, focused on “Them” and on what is happening “Out There.” Distractibility can be habit-forming. We become news junkies and social media addicts. Meanwhile time marches on, our lives go by, our children
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grow up, we age, and one day we wake up, look back, and wonder where our lives went.

And we come by this tendency honestly. Have you noticed how many world-views and faith traditions condemn selfishness and, by contrast, extol selflessness? Of course narcissism is a bad thing and we should do what we can to prevent it; but have you ever wondered, if all our culture does is de-emphasize the self, then when do we ever get around to understanding what our own business is, and minding it?

And here is another thing I have learned from hard experience and prolonged consultations with skilled and experienced spiritual advisers: the self is the only "thing" over whom anyone really has any control at all.

So we really should be mainly about minding our own business, you know? But all too often, our culture tells us to be "selfless" and to focus our attention on "others" instead. This might sound benign and even virtuous, but what I have found it really amounts to is a lot of meddling, diversion, and frustration; and sometimes taken to an extreme, it can result in clinical mental, mood, and character disorders.

So, Making End$ Meet is all about helping people determine their own business, and mind it.

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Enthusiasm. The first Lifetime Savings Plan I wrote was my own. I wrote it shortly after my son was born, because I loved him and felt an urge to develop some kind of map that would provide at least a rough sense of direction for what was, at the time, my family.

When I wrote it, I thought I was just hacking together an expedient work-around that would have to suffice until I had enough assets together to impress a "professional" to write a "real" plan for me. Within a few short years, it turns out I outlasted the "professionals." As I lived and learned, I discovered that I had accidentally invented what is probably the best, most simple, thorough, affordable, and easiest to understand planning method extant.

And yet . . . I have also discovered that technical planning skills are not enough. Without ***enthusiasm***, a plan is not worth the paper on which it is written. Conversely, with enthusiasm, a plan is unstoppable. The combination of a good plan and enthusiastic people is a winning one.

In my case, looking back, I see how although I had a good plan, I had let diversions erode my enthusiasm. Having seen this, my focus is now on recollecting myself, marshaling all my assets, freshening my own plan, and going for it with unprecedented vigor.

Here's something else I've noticed: the most successful people I've ever had the privilege of helping loved somebody – I mean, REALLY LOVED them, not just through a decision or force of will, but from a heart-level feeling that manifests as enthusiasm. I know I've mentioned this before.

I've discovered that despite the book title Love is a Choice, love is most definitely a feeling that either does or does not exist, that can not be faked or forced. Either it isn't, or it is.

When it is . . . when it exists . . . watch out: ballistic enthusiasm, the kind that climbs the highest mountains and fords the deepest rivers, the kind that wild horses can not stop, the kind starry-eyed young women dream of, and the kind that motivates men to turn their lives upside down and do seemingly irrational things.

Love is the juice that brings plans to life. If you really think about it, it's the purpose of life . . . it isn't something we squeeze in around the margins of our lives when we're not busy doing "more important" things . . . it's THE thing. It's the point. It's what I would wish for everyone. It's the only thing on my "bucket list." How about you?

Crusty, dusty old Christian catechisms ask, "What is the purpose of life?" And the "right" answer is, "To glorify God" or something like that. But I would ask, if God is love, what is the best way to "glorify" God? Near as I can tell, it's by loving, and by being loved . . . and that is what generates the enthusiasm to take plans seriously and achieve them. Ya gotta love somebody.

(Actually, the "dirty little secret" about Making End$ Meet is that it didn't originate as a business model at all; it originated as a model for discipleship and pastoral care in churches. But churches weren't interested in it, and I needed something to do, so I made a business out of it. Hey, it works.)
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This loving, this caring . . . what the Greeks call “Diaconia” . . . this is really the point of Making End$ Meet, as I think I explained fairly well last year in the Benefits Manual, which, if you haven't yet, I surely hope you'll read.

Onward and upward.

At your service, and for your happiness,

Kris Freeberg, Economist

PS – Please share this, and be sure to introduce me to those you know who could use my help. Thanks.