PROFESSIONAL FINANCIAL MANAGEMENT, INC.
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April 20, 2014

Dear Client,

Hello and hope you are enjoying the transition to warmer spring weather, wherever you are! Enclosed, please find your 1st Quarter 2014 performance report. Also included in this mailing you will find Professional Financial Management's policy outlining our commitment to protecting the privacy of our clients' non-public information. If you have any questions concerning our commitment to protecting your non-public, private information, please give us a call so we can discuss.

Our letter to you this quarter includes commentary written by Jim Parker, Vice President, Dimensional Fund Advisors (DFA). The content of this piece is not only timely, but ageless, and echoes the message we consistently preach about the effect (or rather, "non-effect"!) that current events (i.e. political, economic, or natural disasters) should have on investment portfolio strategy decisions. Mr. Parker does a very good job re-enforcing sound investment practices in light of some of the events that have transpired this past quarter and that we will continue to face in the immediate future. First, however, is a quick re-cap of the markets for the first quarter.

Q1 2014 in Review

	US Stocks	International	US REIT	Fixed Income
1st Qtr 2014	1.94%	.75%	10.13%	1.84%

Sources: Wilshire, MSCI, Barclay's Capital - US Dollars

Across all asset classes, US REITS rebounded to post strong returns after declining in Q4 2013. Overall, equity returns were mostly positive but lower than they were during much of 2013. Emerging Market large cap stocks lagged all equity asset classes while emerging market small stocks fared the best.

Both US and International developed market stocks posted modest gains for the quarter. In both the US and International markets, value indices outperformed growth indices across all size segments, while in the US market, large cap stock outperformed small cap stocks and Internationally, small caps outperformed large caps. Emerging markets indices trailed US and non-US indices, and as mentioned above, emerging market small cap stocks outperformed large cap by a wide margin, and value underperformed growth in all emerging market size segments.

In the fixed income markets, broad US bond market returns were positive as US interest generally fell during the quarter. The Barclays Aggregate Bond Index advanced 1.84%, with corporate bonds performing better than Treasuries and lower quality bonds outperforming higher quality bonds.

The quarter saw a substantial amount of volatility. However, as we've discussed in earlier communications, volatility is part of the investment process and does not necessarily equate to risk. The results of the quarter do emphasize the importance of maintaining a diversified approach. For example, if one had moved away from REITS following their dismal performance last year, or followed the crowd and exited from emerging markets on the whole in January, they would have missed the rebound and the performance garnered in both REITS (the best performing asset class over the past quarter) and emerging market small cap stocks (the best performing stock asset class for the quarter)….a great segue into Jim Parker's commentary.

NOT ROCKET SCIENCE

Jim Parker, Vice President Dimensional Fund Advisors

When the media raises the subject of beating the market through astute stock picking, the name Warren Buffett is usually cited. But what does this legendary investor actually say about the smart way to invest?

Buffett is considered to have such a track record of picking stock winners and avoiding losers that his annual letter to shareholders in his Berkshire Hathaway conglomerate is treated as a major event by the financial media ("Buffet Warns of Liquidity Curse," Bloomberg, Feb 25, 2014). What does he think about the Federal Reserve taper? What could be the implications for emerging markets of a Russian military advance into Ukraine? What does an economic slowdown in China mean for developed markets?

Buffett has a neat way of parrying these questions from journalists and analysts. Instead of offering instant opinions about the crisis of the day, he recounts in his most recent annual letter a folksy story about a farm he has owned for nearly 30 years (Berkshire Hathaway Inc. shareholder letter, 2013). Has he laid awake at night worrying about fluctuations in the farm's market price? No, says Buffett, he has focused on its long-term value. And he counsels investors to take the same sanguine, relaxed approach to liquid investments such as shares as they do to the value of their family home. "Those people who can sit quietly for decades when they own a farm or apartment house too often become frenetic when they are exposed to a stream of stock quotations," Buffett said. "For these investors, liquidity is transformed from the unqualified benefit it should be to a curse."

While many individuals seek to ape Buffett in analyzing individual companies in minute detail in the hope of finding a bargain, he advocates that the right approach for most people is to let the market do all the work and worrying for them. "The goal of the non-professional should not be to pick winners," Buffett wrote in his annual letter. "The 'know-nothing' investor who both diversifies and keeps his costs minimal is virtually certain to get satisfactory results." As to all the predictions out there about interest rates, emerging markets, or geopolitics, there will always be a range of opinions, he says. But we are under no obligation to listen to the media commentators, however distracting they may be.

"Owners of stocks . . . too often let the capricious and irrational behavior of their fellow owner's cause them to behave irrationally," Buffett says. "Because there is so much chatter about markets, the economy, interest rates, price behavior of stocks, etc., some investors believe it is important to listen to pundits—and, worse yet, important to consider acting upon their comments."

The Buffett prescription isn't rocket science, as one might expect from an unassuming, plainspoken octogenarian from Nebraska. He rightly points out that an advanced intellect and success in long-term investment don't necessarily go together. "You don't need to be a rocket scientist," he has said. "Investing is not a game where the guy with the 160 IQ beats the guy with 130 IQ" ("The wit and wisdom of Warren Buffett," Fortune*, November 19, 2012, management.fortune.cnn.com/2012/11/19/warren-buffett-wit-wisdom/").*

Mr. Parker writes very thought provoking articles that take a common sense approach to various investment topics, and we will continue to share his writings with you in future communications.

As always, thank-you for the opportunity to serve as your Advisor and we look forward to discussing your specific situation in the coming months.

Sincerely,

Doug Babcock, CFP®

Bob Frey, MS, CFP®