Planning Has Its Place
One of my resolutions for 2014 is to be more spontaneous. My family often accuses me of being too much of a planner. While I agree life would probably be a lot more fun if I would simply "go with the flow" or "hang loose" a little more often, when it comes to protecting financial wealth, resolving to have a plan really should be at the top of the list.

I am concerned about the results of the fifth annual New Year’s Resolution Survey, conducted by Allianz Life Insurance Company of North America. The survey found that only 16 percent of 1,000 participants in the poll vowed to include financial planning in their resolutions for 2014. Similar behavioral trends were found in research compiled by Fidelity Investments that showed, of investors on the cusp of becoming millionaires, 77 percent do not have a financial plan in place to meet long-term financial objectives, and nearly four in 10 are not planning to create one. We’ve seen the same trend—a lack of planning—ring true with high-net-worth individuals who are especially concerned about being able to preserve the lifestyle and resources they desire throughout their retirement.

So, why the resistance to planning?
Many individuals fear that putting a plan in place may result in having to limit spending and thus create a crimp in fun activities like dining out and vacations. They may take steps, such as shedding debt and increasing savings, as a means toward achieving goals that include saving for college or retirement. However, these "goals" are, realistically, just vague hopes without a plan in place. Investors need to create strategies and track progress toward goals; a process often difficult without the help of a qualified financial advisor. Here are a few good reasons to hire a financial advisor:

• Goal Formation. Individuals can face a hard time establishing goals. A good financial advisor assists by establishing realistic, manageable goals, creating an appropriate investment strategy and asset allocation based on your specific needs and tolerance for risk.

Economic Outlook
Too early for an equity market bubble
Excellent returns in domestic markets will be difficult to repeat this year, but should not provide concern of pending market collapse. Our outlook, a continuation of the bull market that started in 2009, will continue to be supported by macro-economic expansion progressing along a similar path. Long-term trends signal sustained improvement in labor markets, deficit reduction, consumer confidence, and manufacturing. The Federal Reserve shares this macro view as the basis for reducing its support of the financial markets.

Since the bull market is longer in the tooth, the cyclical rebound of multiple expansion supplementing improved earnings will pause with enhanced focus on earnings forecasts. Instead of rising tides lifting the entire market, stocks will enter higher territory based on earnings growth. Stock selection becomes more paramount, requiring more diligence in identifying companies with the ability to not only deliver expected results, but also to remain optimistic about forward earnings. This is usual behavior in more mature bull markets. Such markets also tend to induce more volatility as the winners are separated from the pack, specifically around earnings seasons.

With a more mature equity bull market, concern about peak equity markets is expected. We continually analyze market environments for a potential change in the forecasts. Our concerns at this time are mitigated by the following observations:

• Macro-economic indicators continue to strengthen when viewed over medium term timeframes. Unemployment has been trending down, durable goods (autos to airplanes) orders are strong, inflation is below the Fed’s desired level, and deficit reduction has made significant gains (from $1.1 Trillion in Fiscal 2012 to an expected $560 Billion in Fiscal 2014).

• Domestic equity markets exhibit technical strength. The S&P 500 and other major indices continue to trade above their 100- and 200-day moving averages. It should be noted that due to strong market performance last year, a 5 percent downward correction from market highs would not breach the moving averages, suggesting a continuation of the upward trend.

• Bubbles, froth and exuberance has normally been coincident with rampant labor markets (with wage growth still sub-par), inflation pressures, valuation abnormalities, and irrational extensions of loans and credit. While some of these measures have now rebounded from lows to slightly above normal, in typical end-of-economic cycle scenarios, these measures have reached much more elevated levels.

• Typical late cycle sector leadership has not occurred. The energy, materials, and technology sectors lagged the overall market in 2013.
Market Watch - from page 1

Also, earnings growth expectations are positive and reasonable. As the S&P 500 Earnings Growth chart below illustrates, consensus earnings estimates continue to support higher valuations. Early earnings reports from Q4-2013 have been favorable to date, with the majority of those reporting exceeding estimates.

![S&P 500 Earnings Growth Supports Valuations](image)

Source: Bloomberg - Consensus earnings estimates continue to support higher valuations.

Our outlook for fixed income is mixed. From a yield perspective, we continue to be in a low interest rate environment, albeit at higher levels than a year ago. Increasing yields have pressured bonds, specifically longer treasury bonds. However, we are less pessimistic than the market on the trajectory of rates going forward while still recognizing an increasing rate environment. Much focus is awarded to Fed monetary policy, specifically, the path of reducing purchases of treasuries and mortgage securities. Hence, the argument is that yields must move significantly higher as the demand by the Fed is reduced. As the chart below illustrates, decreased issuance of treasuries to finance smaller deficits more than offset the announced reduction in Fed purchases.

![Public Borrowing for Deficit Financing](image)

Source: Bloomberg - Decreased issuance of treasuries to finance smaller deficits more than offset the announced reduction in Fed purchases.

Understanding the role for fixed income allocations in a portfolio will best align the strategy with results. As most investors purchase bonds for income considerations, the yield on investments does not change once purchased. If held to maturity, the income derived from the investment will be anticipated upon purchase (and with an improving economy, default risk diminishes). Thus, unless you’re an active bond trader, rising rates won’t impact your bottom line, except if there is a need to sell prior to maturity, in which case we can assist with cash flow forecasting. Rising rates will allow for better yields to produce higher income upon reinvestment. We currently recommend a mixture of maturities to take advantage of high yields at medium-to-long maturities, and to allow for shorter bonds to mature and reinvest at more favorable rates at that time.

Investment Focus – Year in Review

Equity investors celebrated 2013 results; both domestic and international equities produced double-digit returns, with the S&P 500 posting an impressive 32 percent gain. Meanwhile, bond investors are coping with price pressures as long treasury rates increased.

What worked?

Out of the 60 stocks on our large cap buy list, we had only one negative returning stock (NYSE: ADT) of those we held for the entire year. Within the large cap segment, we outperformed the S&P 500 by more than 2 percent, so we are very happy with our results in a year that the index was up over 32 percent. Our top contributors were Google, Delta, VISA, Disney, and Goldman Sachs, with many of those listed among the 10 largest holders in our client portfolios. To realize some of those gains as valuations grew, we trimmed Delta (twice) and VISA during the year. We continue to hold all five stocks.

On the international side, we continue to remain short of our longer term allocation as we preferred the U.S. economy. We did outperform the ACWIxUS index, our primary international benchmark, which includes emerging market exposure. Long-term, emerging markets do look favorable due to higher anticipated economic growth expectations and we will continue to participate with controlled allocation.

Not without struggles

On the flip side, our bottom five performers were ADT, CF Industries, Apple, Oracle and Cisco. ADT, a leader in security solutions, was spun off from Tyco at the beginning of 2013. We believe the market overreacted to short-term restructuring issues following that spin-off, and as such, we continue to hold ADT, with steady evaluation of the position. We sold CF industries, which markets Nitrogen as their primary product for farming fertilizer. Nitrogen and most commodity materials companies have continued to be challenged with weak global demand and excess supply with little inflation. We trimmed Oracle twice (in September and June of 2013), but we still own the name and like the product and management. But, it has struggled as capital expenditures spending has been slower than anticipated and sales in Europe have been soft. We continue to monitor this long-term winner to potentially increase our stake again.

The Cisco investment has been frustrating as we both bought and trimmed the name in 2013. The premise behind holding the stock is based on increased demand on network equipment to switch the Internet packets created by increased usage of mobile applications. However, the company has turned in a Jekyll and Hyde performance, beating expectations handily one quarter to miss significantly the next, and then beating and missing again. We’re being more patient now with the stock.

Apple is in the largest position and also is the most talked about stock in the market. We added this name to our buy list in June 2006 at $57.38, so although the stock struggled in 2013, it has been a great investment (hindsight being 2020, yes, we should have bought more). The stock transitioned

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*Public Borrowing for Deficit Financing*

FY 2012 FY 2013 FY 2014E Fed Taper

($1,152) ($570B) ($582) $230B

Source: Bloomberg - Decreased issuance of treasuries to finance smaller deficits more than offset the announced reduction in Fed purchases.

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My Two Cents - continued

Affluent individuals who come to us for advice these days are concerned about the current low interest rate environment, steadily increasing living costs, and escalating costs of health care. They are worried about being able to fund the lifestyle they desire during their retirement. It's often the unknown that makes people worry. What we find is that, as we work through the issues with our clients, establish their goals, develop a plan and implement that plan, the worry lifts. When they have a clear plan and realistic picture of their financial future, they know, versus worry, about what they need to save and what they can spend. Oftentimes, we find that the fear of having to curb spending is really just that, fear and not reality. So, while spontaneity can create excitement in life, when it comes to your financial future, planning definitely has its place.

As wealth grows, finances are only going to become more complicated and demanding. We are experts at helping our clients shift from a saving for the future mentality to an investing in the future mentality, and to developing long-term plans to provide financial peace of mind. We thank our clients for the confidence they have placed in us and welcome the opportunity to be of service to those of you with whom we have not yet had the pleasure of working.

— Kimberly Dwan Bernatz, CFP® Senior Vice President
kberantz@firstam.com

Events & Happenings

Here are a few highlights that kept us busy during the last quarter of 2013, as we sponsored community and philanthropic events. We look forward to more of the same in 2014.

Welcome to our New Chief Fiduciary Officer

Eric McMullen, CFP® has been appointed to the position of executive vice president and chief fiduciary officer. McMullen, who has more than two decades of wealth management and investment service experience, will oversee the company’s wealth management and trust activities. He will also help lead First American Trust’s growth efforts as the company begins to expand its presence in the West.

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Events & Happenings - from page 3

Golf Tournament for SHORTSTOP®
We participated, in October, in the annual Orange County Bar Association Foundation’s golf tournament, which raises funds for SHORTSTOP®, a unique juvenile crime diversion program, developed in 1980, for juvenile offenders and their families. A cost-effective, comprehensive alternative to prosecution, the program applies effective, science-based models with incorporated strong restorative justice plans to reduce delinquency among youth.

An Estate Planning Seminar
As Sponsors of the 34th Inland Empire Estate Planning Seminar, which took place in November, we received invaluable information on federal tax updates that included the latest on income, gift and estate tax developments. The seminar schedule also included estate planning for the next decade, irrevocable trusts and family limited partnerships.

Dickens’ Chorale Feast
In December, First American Trust sponsored the Pacific Chorale’s annual holiday fundraising dinner, A Dickens Feast, which took place at the Westin South Coast Plaza, following the beloved Christmas concert, Tis the Season at Segerstrom Concert Hall. Proceeds from the event benefits Pacific Chorale’s fiscal artistic and educational goals for the year, such as Chorale Camp, Musicianship Classes, Passage, and Intro to the Arts. There is also a pilot program for elementary school students called Pacific Chorale Academy.

“In The News”
Jerry Braakman, Chief Investment Officer, quoted in:
- “U.S. Stocks Rise for Week as Economy Trumps Fed Concern.” Bloomberg, Nov. 8, 2013.

A Visit to Wall Street
First American Financial Corporation’s CEO, Dennis Gilmore, pushed Wall Street’s Closing Bell on November 5, 2013. He was accompanied up the narrow flight of stairs to the trading floor balcony, where a NYSE representative waited with instructions. First American went public on the NASDAQ exchange in 1964, but was advised to switch to the NYSE, where we have traded since 1993.

Best Place to Work Recognition
The Orange County Register added First American to its annual list of Top Workplaces in Orange County, an honor in tandem with our recent recognition as one of the Best Places to Work by the Orange County Business Journal. Feedback from First American employees in the form of a survey resulted in the accolade.

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