VALUE FINANCIAL ADVISERS, INC.

Financial Quarterly

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Getting Greener - Would Like Your Help

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One. After 24 years of printing and snail - mailing this newsletter, we're very interested in saving some trees, and cutting unnecessary costs. We'd like to start emailing this publication to you in the future, and also provide additional timely information via our website.

So, if you are inclined please email > jan@valuefin.com <. Give her your name, and write that you'd like to receive future copies electronically. We'll automatically have your email address and soon will take you off the 'old' list and add you to the 'new' one. (If it's easier you can always call Jan @ (303) 770-3030.)

Two. We recently filmed parts of our all–day Annual Roundtable where we hash–out the major financial issues facing us and our clients in the New Year. We posted three video segments on our website, and believe these have valuable information you might find useful in this complex, quickly changing world. You can see those at www.valuefin.com - click on: Client Center, then Videos.

Also, under Client Center – Previous Relevant Writings, are some written materials that discuss how we view the markets, world - wide economies, etc. Information is king in this business and we're working hard to keep our friends and clients abreast of the important issues. The U.S. media is full of a bunch of shrill hype and sales pitches. Our goal is to cut through that noise and deliver a rational look at the many moving parts of successful investing. Please let us know what you think of our efforts.

Three. Consider attending one of our upcoming Workshops (details inside, page 3). We're going to spend a lot of time discussing how investors should allocate their portfolios during these unprecedented times.

Central Banks all over the world are printing money, that's never happened before ! This creates both opportunities and risks. And with interest rates at near – record lows, investors are seeking higher paying investments. Is this a good time to be aggressive, or cautious ? Are you older and looking for income, or younger and seeking growth ? Regardless, we believe to be successful you need to have a sober view of the financial landscape and a time–tested approach to investing. Please feel free to join us for an educational 2 hours. See page 3 for details.

Four. Feel free to pick up the phone and call us for our opinion on anything to do with finances. Going all the way back to 1987, when we hosted Denver's first investment radio show, we've always been willing to help investors when we can. This applies to those who are our clients, and those who aren't. We are committed to providing high quality information and advice and don't try to turn every caller into a client. We'd much rather you have access to our experienced advice than stumble into some neophyte, or worse.

From all of us at Value Financial, we hope that 2014 is your Best Year Ever !

How About Gold? Part 2

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Holders of gold and other precious metals suffered through a -28% price decline in 2013, the first drop in a dozen years. Stocks of miners did far worse. As of this writing, the price of the SPDR Gold Shares (GLD) ETF, the oldest & largest of the bullion-backed exchange traded funds, is 1/3 lower than where it was at the metal's all-time high of $1900/oz. on 9/6/11. Bill Connors' column in last April's Financial Quarterly did a fine job of analyzing the reasons why we think it is prudent to have a portfolio "hedge" that includes gold. I would certainly recommend re-reading it now that prices are lower. It's available on our website – www.ValueFin.com.

Quite simply, it's inflation insurance that we feel is necessary, and it just got cheaper. The following chart shows how much the value of your money has declined over the past century, during which the Fed has been issuing Federal Reserve notes. You know, those green pieces of paper with pictures of dead presidents in your wallet – aka U.S. dollars.

We're not gold bugs, and we're not particularly happy that it's necessary to carry such a hedge in our portfolios. It clearly detracted from 2013 performance, while at the same time making ever more sense given the unprecedented and experimental monetary policies being carried out by our Fed and other central banks. Yet look what's happened over the past year; the assets held at the Fed have skyrocketed to $4 Trillion, while the price of gold has slumped. This is not sustainable, & we expect it to correct with gold once again rising when broad-based inflation takes hold. This potentially could turn out much worse than the 70s, when we experienced high inflation without debt monetization. Given that the cost of production is very close to current price levels and the global cash market for precious metals is solid, we intend to hold or increase our investments related to gold and silver.

Workshop

How to Allocate Your Portfolio for Safe Growth: 2014 & Beyond

These are unprecedented times—don't be complacent about your finances. We'll discuss the likely effects of the growing U.S. debt and Fed money printing. And time-tested ideas for both older and younger investors.

Wednesday, February 26. 10:00 am until noon. Presented by: Bill & Phillip Connors

Workshops are free, but Reservations are Required.

Seating is Limited. Feel free to invite friends and family.

Call (303) 770-3030

Warning... Objects May be Closer than They Appear

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Everybody has seen this warning on the side view mirror of their cars. Though most recognized for car safety, the warning carries validity in many different instances. If we aren't seeing things directly and with full focus, we are not likely to completely grasp the situation. Money has the ability to cloud our judgment. Emotions get involved and people's heads and hearts fight it out. Many are convinced they still have time before big problems arrive. But investor's judgment is notoriously cloudy, and I believe the bubble is closer than most people perceive.

Though not as literal as the side view mirror of a car; this warning applies to investors whose assets remain in the path of the bubbles currently inflating in the U.S Economy (Fed money printing, student loans, etc.). Many investors recognize this bubble possibility, but are just not willing to accept low returns and think they will see the right time to sell out. Many of these investors are the same ones who saw huge declines in their portfolios in 2008. Memories are short.

In 2013, the S&P 500 finished with its best return since 1997. Rather than calm, this makes me nervous. It's hard to justify this type of price appreciation. Revenues for those 500 companies are up just 2.2 % total over the last 6 years! And over ½ of all profit growth has come from cost cutting, layoffs and refinancing debt at lower rates. Companies manipulate performance with adjusted forecasts and returns with share buyback programs. Even with adjusted returns, many of these companies missed their mark. In the past those sorts of misses often severely impacted a company's stock price. Today the market is indifferent and accepts it as the new normal.

I said earlier that money often clouds people's judgment. It also does not lend itself to discussion easily. In general, people are very private with their money. Sometimes friends may discuss their money in generalities, but it's not a conversation people like to have with strangers. Perhaps they may feel like they have not done enough, made mistakes, or don't want to admit they need help. Retirement is what we work our whole lives for, why not make sure what we are doing makes sense?

Feel free to call me, I am always willing to meet or talk about your situation (no cost or obligation). Bubbles can severely damage an account that is not allocated correctly. Perhaps some understanding of where your accounts are currently positioned will help you make better decisions about your situation moving forward.

"The Fed's Insane and Unsound Monetary Policy is in a Word, Dangerous!"

Bob Rodriguez, March 7, 2013

William Mason CFA

I do believe that being cautious and owning some gold related investments are the right choices for long-term returns.

Intermediate and long-term bonds had a bad year in 2013. I have had to stay away from them yet I consider them strategic investments. The Federal Reserve manipulation of interest rates won't last forever.

Bubble

Bubbles are built on leverage, that means massive amounts of debt.

1. Since the financial crisis U.S. government debt has almost doubled to $17.2 trillion. Precrisis in 2007 the U.S. government debt was $9 trillion.
2. Margin debt to buy investments with borrowed money is at a new all-time record.
3. Corporate debt is at an all-time record. 35% above the peak in 2008.

Bubbles are also made of high prices.

1. At year end 2013, the P/E of the S&P 500 was 20.25.
2. Stock prices to corporate net-worth is at a record high going back to WWII.
3. The P/E of the Russell 2000 is an astonishing 87.

The great investor Peter Lynch once wrote about how the P/E of the market hit 20 in 1971 and went on to say:

"Any student of the P/E ratio could have seen that this was lunacy."

Richard Fisher, the Dallas Federal Reserve Governor made the following comment on January 14, 2014:

"Stock market metrics such as price-to-sales ratios and market capitalization as a percentage of gross domestic product are at eye-popping levels not seen since the dot-com boom of the late 1990s. "

Money Printing

The Federal Reserve calls money printing Quantitative Easing (QE). It has been money printing from the Federal Reserve that has led to the bubbles in the stock market. Last year the Fed printed over $1 trillion and since 2009 they have printed $3.4 trillion.

The money printing carries two risks. The Fed artificially lowers interest rates and the creation of so much money creates an inflation risk.

Regarding money printing Richard Fisher had this to say December 2, 2013:

"I don't think these are programs that should be continued and I worry about the fact that we've already painted ourselves into a corner. It's going to be very hard to get out of."

Regarding the lowered interest rates Bill Gross had this to say in December:

"But investors are all playing the same dangerous game that depends on a near perpetual policy of cheap financing and artificially low interest rates in a desperate gamble to promote growth. "

The Federal Reserve already tried to stop money printing twice. After QE1 the S&P 500 dropped 16%. After QE2 the S&P 500 dropped 17%. In each occasion it was rescued by a new round of money printing (QE). Unfortunately, you can't do that forever.

Warnings

These are a couple of warnings regarding money printing.

1) Charles Schwab (<u>the</u> Charles Schwab whose name is on the firm), November 21, 2013:

The problem is the manipulation by the Federal Reserve. We are in a manipulated market right now.

2) Dallas Federal Reserve Bank Chairman Richard Fisher speech, Jan 14, 2014:

QE [quantitative easing] puts beer goggles on investors by creating a line of sight where everything looks good.

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