

# wf Portfolios



## Ir-ra-tio-na-li-ty

### Name of the game

The game is fairly simple: analysts evaluate companies and determine levels of future earnings. Then actual earnings are released by the companies. And here comes the beauty: good earnings, bad earnings, it does not matter, what matters is that released earnings be in line with what the analysts had forecasted. Whether these forecasts were right or wrong no one question it?

Then companies with good earnings are slaughtered while others with insignificant earnings just go unnoticed and move forward.

Should we rate companies or analysts?

Irrationality was the name of the game for this first month of 2014! What was rational was that markets needed a break after a 20-month run. Break, they did. But the irrationality was in what moved up and what moved down and when.

We enjoyed –and suffered– rather striking examples of this craziness.

However, we want to underline that the irrationality of the markets is what attracts us (and probably you) to those same markets.

In a rational-only world with economies growing around 0.5% in Europe, 1.5% in the USA, and between nothing to 5% in Emerging Markets, a rational investor should expect a 1-2% return for his portfolio. Which is what state savings (Caisse d'Épargne, Sparkasse, Saving Banks, or Caja de Ahorros) are offering.

Without market irrationality, you'd get only those 1-2% per year!

Irrationality was underlined in a

few examples:

**Apple (AAPL)** was a winner of that game. Kind of... Only good news, nice earnings, mountains of cash. The stock lost close to 10% this month.

**Amazon.com (AMZN)** about the same story though with less earnings.

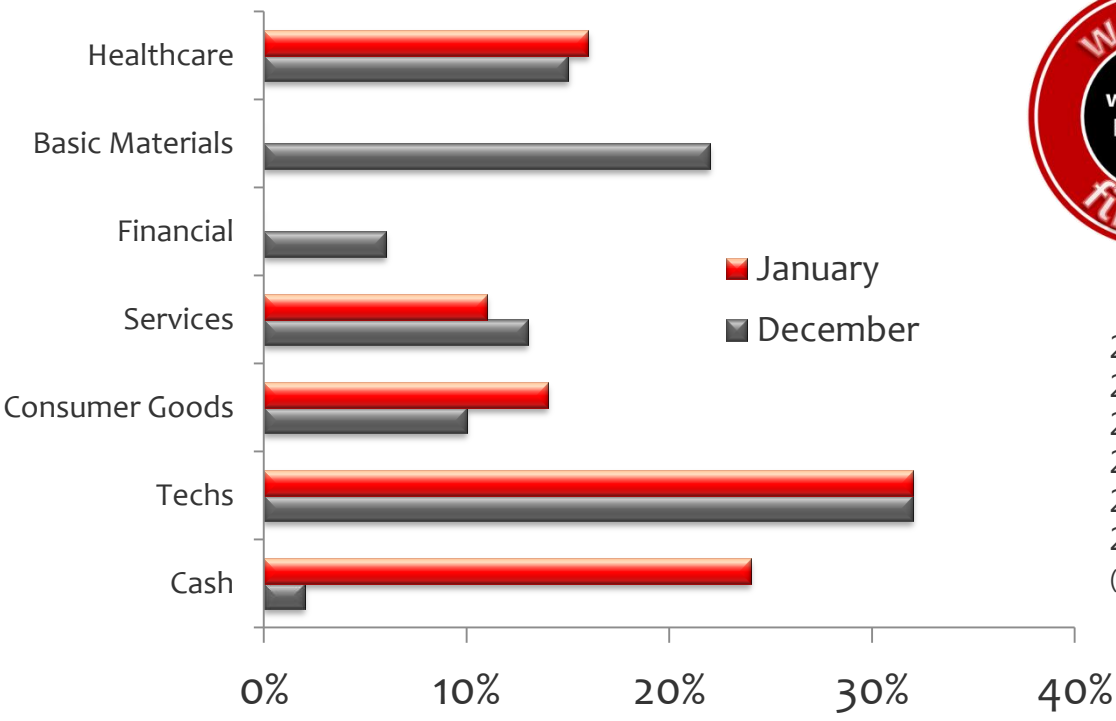
**Netflix (NFLX)** gained 13% with not-so-good earnings but good prospects.

**Google (GOOG)** is another example, normal-minded people would think that having sold Motorola to Lenovo \$9 Billion less than it paid for it would seem bad business. The stock jumped 7% on the news and Lenovo lost 9%.. However one should keep in mind that Google sold Motorola without its 17,000 patents. A factory without tools and workers...

We are now seriously considering **Lenovo (0992.HK)** which has jumped from nothing to 3<sup>rd</sup> PC maker in the world in a few years, and you don't achieve this by being a fool.

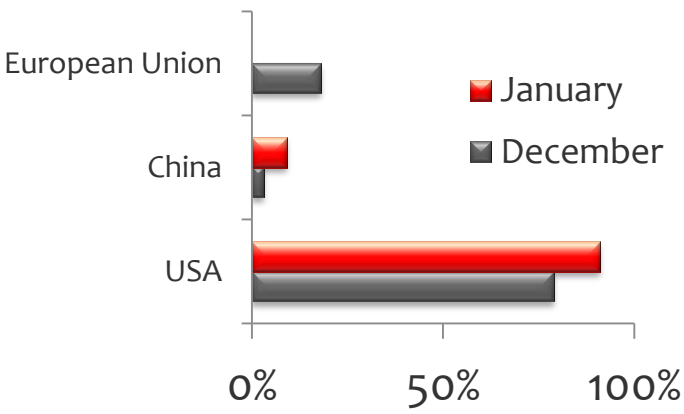


Celebrating 10 Years



|             |         |
|-------------|---------|
| 2009        | +98.97% |
| 2010        | +56.84% |
| 2011        | +41.45% |
| 2012        | +26.73% |
| 2013        | +31.38% |
| 2014*       | -2.75%  |
| (* 1 month) |         |

## wf \$1 MM Portfolio

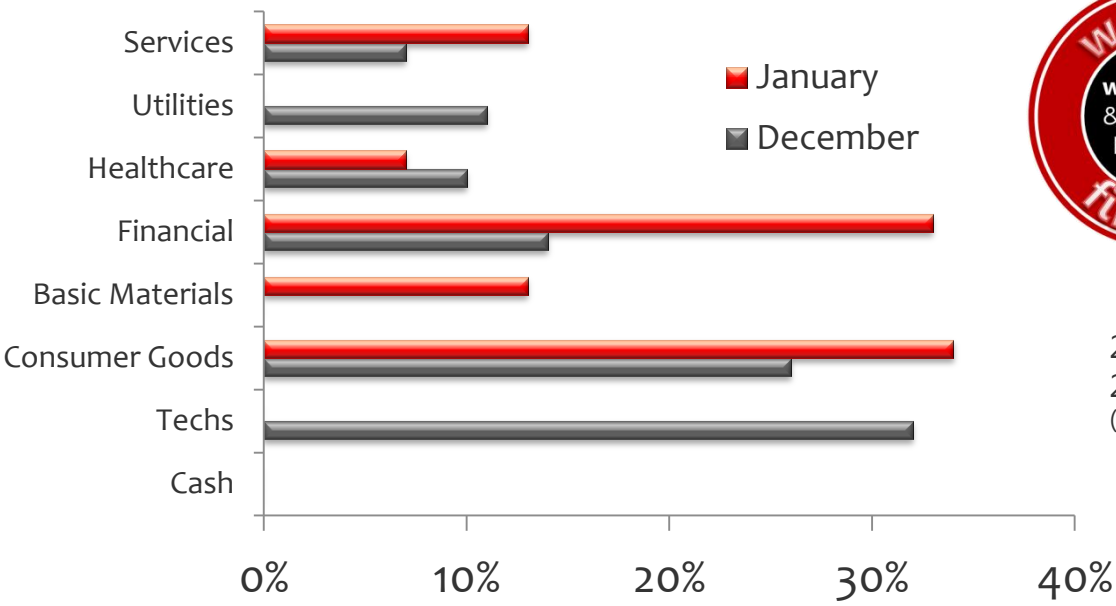


Portfolio's winners for this month:  
**Google** (USA) – Technology  
**Facebook** (USA) – Technology  
**Baidu** (China) - Technology

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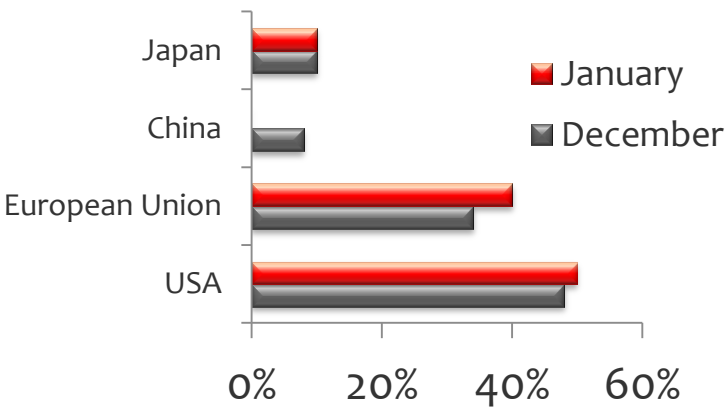
Portfolio's losers for this month:  
**Apple** (USA) – Consumer Goods  
**GameStop** (USA) – Services  
**Citigroup** (USA) – Financial

The wf \$1 MM Portfolio suffered a -2.75% loss beating by nearly 1% the S&P500 which lost -3.56%. It was a difficult month for the managers as earnings released were followed by irrational (see editorial) behavior of the markets. Nevertheless it is now an open question as to what 2014 equity markets will yield. As usual analysts and fund managers are split 50-50. The best for us – and our investors – is to focus on companies that can deliver performance whether the markets like it or not. Some sectors are more sensitive to markets environment (Financials), other are less sensitive (Defense), it is up to us, Managers to be as efficient as possible.



2013 +17.48%  
 2014\* -4.51%  
 (\* 1 month)

## wf Income & Growth Portfolio



Portfolio's winners for this month:  
**SAP** (EU - Germany) – Technology  
**Bank of America** (USA) – Financial  
**Baidu** (China) - Technology

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Portfolio's losers for this month:  
**Technip** (EU - France) – Basic Materials  
**Citigroup** (USA) – Financial  
**Adidas** (EU - Germany) – Consumer Goods

The wf Income & Growth Portfolio suffered a -4.51% loss this month, its largest one-month loss ever. It was due to a combination of all markets (USA, European Union and Japan) going south. In addition, the European Union portion (18%) of the portfolio suffered from a sharp decline in the Euro.

**Both** the decline in stocks value

and in the Euro vs. US Dollar were triggered –at least partially– by Emerging Markets and their currencies – especially Turkey and Argentina– collapses. **We** believe, however, that the Portfolio is well positioned to actively participate in any recovery that could be seen in the coming months.