American Radio Relay League

Treasurer's Report
Rick Niswander, K7GM
For the quarter and year ending December 31, 2013

2013 was a very good year for the ARRL portfolio. The broad domestic stock market finished the year up 33.55%, the best increase in well over 20 years. Domestic equities continued to benefit from cost cutting and low interest rates – although the positive effects of those two factors on earnings are getting a bit long in the tooth.

In 2013, the dollar appreciated by 4.6% against a broad basket of currencies. Thus, while the dollar-denominated return on international stocks was strong at 15.63%, the return was moderated by the strength of the dollar and economic weakness in Europe (2013 GDP in the EU is estimated to be slightly negative versus a US increase of around 3%). While 2013 saw an appreciating dollar, the long-term trend is the opposite – since 1985 the dollar has <u>decreased</u> by over 40% against major foreign currencies.

The total return on the bond market was down 2% for the year, a result of the slow increase in interest rates over the year which reduced bond prices by more than interest payments.

As was the case most of calendar 2013, the fourth quarter of 2013 was good for stocks and slightly negative for bonds.

For the quarter, the benchmark total return (45% US stocks, 5% international stocks, 45% bonds, 5% money market) came in at 4.72%. The total actual return on the ARRL portfolio was 4.50%, or 22 basis points less. For the year, actual return of 14.66% exceeded the portfolio benchmark of 14.06% by 60 basis points.

The following chart illustrates the percentage change in various market and portfolio total return indicators for the fourth quarter of 2013 as well as calendar years 2013 and 2012.

	Q4 2013		Calendar Year 2013		Calendar Year 2012
Total Return Indices:					
US stock – Russell 3000 (broad market)	10.10%		33.55%		16.42%
Foreign stock – FTSE All World ex-US	4.74%		15.63%		17.80%
Bonds – Barclays US Aggregate Bond	(0.14%)		(2.02%)		4.22%
Vanguard Money Market	0.01%		0.04%		0.04%
Portfolio Benchmark (total return)	4.72%		14.06%		10.18%
Actual Portfolio Return (total return)	4.50%		14.66%		10.93%

ARRL Portfolio Analysis

As noted in Appendix A, the portfolio ended the fourth quarter of 2013 at $21,157,075. Contributions of $114,366 were added to the portfolio somewhat evenly during the quarter and no transfers out occurred. The total actual portfolio return (interest, dividends, realized and unrealized gains and losses) was $905,579 for the fourth quarter.

For 2013, the portfolio increased a bit over $3.4 million, about $2.65 million from portfolio returns and the remaining ≈$779K from contributions, net of withdrawals.

The top of Appendix B provides detail concerning the dispersion of investment portfolio assets across investment classes. The composition of the investment portfolio conforms to the asset allocation policy.

The rest of Appendix B provides detail on the total portfolio return with respect to the portfolio benchmark. The portfolio benchmark is a blend of total return indices in proportions consistent with the asset allocation policy. The benchmark proportions are 45% broad domestic stock, 5% international stock, 45% bonds, and 5% money market.

For the 2013 fourth quarter, the total return benchmark increased by 4.72% and the actual ARRL portfolio return lagged by 22 basis points at 4.50%.

For the year, actual total return surpassed the portfolio benchmark, 14.66% to 14.06%. Actual return also exceeded the benchmark for 2012. Actual return exceeded the benchmark for three of the four quarters in both 2012 and 2013.

When comparing benchmark return to actual return, variability from quarter-to-quarter or year-to-year should be expected. Comparisons should be made with caution over three-to-five year time horizon.

Preferred Stock

The preferred stock portfolio decreased from $360K to $299K (last January it was $720K), a result of some securities being redeemed by the issuer. These securities carry a relatively-high interest rate and I expect issuers will continue to unilaterally redeem these securities to reduce their costs.

Looking forward

Looking forward is always perilous but here goes.

Overall, the equity markets have been very good lately, but I don't expect 2014 to be as strong. First of all, the broad US market has been positive for the last 5 years running and, absent 2011, the smallest increase was 16.4%. While I don't expect a collapse, I do expect moderation. Second, corporate profits should be reasonable but not stellar – the general economic improvement will provide modest assistance providing some support to prices. However, as noted above, the two big drivers of corporate profit increases – low interest rates and cost cutting – have pretty much played out.

Internationally, Europe and the rest of the world should have a better year in 2014, but not better overall than the US.

For bonds, interest rates are likely to be flat to slightly increasing. Thus, any portfolio benefit from bonds will come from interest income which remains pitiful. Overall, bond prices will be flat at best with some likely price deterioration towards the end of the year. Since the majority of our fixed-income investments are individual bonds, price swings do not, ultimately, result in any loss of principal.

When you roll all that together, 2014 should be ok, but not much more than that.

This all assumes there will be no unexpected shocks to the economy such as energy spikes, terrorism, or the complete and utter collapse of governance in Washington (to be differentiated from the simple dysfunction we have been experiencing for a while).

Ultimately, the key prediction is that no one can predict the future. A diversified and balanced portfolio is the key to long-term investment success. Everything else is simply gambling.

Appendix A

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Portfolio Flow de K7GM

	Investment Portfolio Fair Value
Balance, December 31, 2012	17,724,259
Additions from contributions	149,589
Subtractions	0
Total Return (see note)	992,476
Balance, March 31, 2013	18,866,324
Balance, March 31, 2013	18,866,324
Additions from contributions	925,667
Subtractions	0
Total Return (see note)	33,665
Balance, June 30, 2013	19,825,656
Balance, June 30, 2013	19,825,656
Additions from contributions	89,178
Subtractions	(500,000)
Total Return (see note)	722,296
Balance, September 30, 2013	20,137,130
Balance, September 30, 2013	20,137,130
Additions from contributions	114,366
Subtractions	0
Total Return (see note)	905,579
Balance, December 31, 2013	21,157,075

Appendix B

American Radio Relay League
Portfolio Composition as of December 31, 2013

de K7GM

	Fair Value	Percentage	Cost
Investment Portfolio			
Stock (of which $1,654,806 is international)	10,838,820	51.2%	8,071,587
Preferred	299,204	1.4%	318,020
Bond	9,186,830	43.4%	9,199,761
Cash	832,221	3.9%	832,221
Total Investment Portfolio	21,157,075	100.0%	18,421,589

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Portfolio Return and Total Return Metrics

	2013 1st Quarter	2013 2nd Quarter	2013 3rd Quarter	2013 4th Quarter	Calendar Year 2013	Calendar Year 2012
Applicable Total Return Indices						
US Stock - Russell 3000 TR	11.07%	2.69%	6.35%	10.10%	33.55%	16.42%
Foreign Stock - FTSE AW Ex US TR	3.08%	-2.79%	10.16%	4.74%	15.63%	17.80%
Bonds - Barclays US Agg Bond TR	-0.12%	-2.32%	0.57%	-0.14%	-2.02%	4.22%
VG Prime Money Market	0.01%	0.01%	0.01%	0.01%	0.04%	0.04%
Benchmark Blended Total Return	5.08%	0.03%	3.62%	4.72%	14.06%	10.18%
(45% us, 5% intl, 45% bonds, 5% mmkt)						
Benchmark Bended Total Return (above)	5.08%	0.03%	3.62%	4.72%	14.06%	10.18%
Actual Total Return						
In Percent	5.60%	0.18%	3.72%	4.50%	14.66%	10.93%
In Dollars (from page 1)	992,476	33,665	722,296	905,579	2,654,016	1,769,299

Notes:

Returns for greater than one quarter will be different than the sum of the quarterly returns because of compounding

The Russell 3000 Index is a measure of the total US stock market.
The FTSE index measures the World (AW) stock market, minus the US market
The Barclays index measures the aggregate US bond market
The Vanguard Prime Money Market is a proxy for the overall US money market

The Benchmark Blended Total Return is calculated from the above indexes in the proportions noted. It represents the expected return on the portfolio.

The Actual Total Return is calculated based on the dollar amount of Total Return (see page 1) relative to the original principal amount for the period calculated. If there are significant increases or decreases to the investment portfolio in the applicable period, the calculated Actual Total Return is adjusted accordingly.