PARAGON CAPITAL MANAGEMENT, LLC

January 2014

Looking Back at 2013

In our last newsletter we listed five current events and tried to explain if we thought the item was newsworthy, or just noise, from an investment point of view. During the 4th quarter of 2013, we got glimpse of what the markets thought about those news items, and it was pretty much in line with what we thought.

For the quarter, the stock market was up roughly 10%, and the bond market was down (as is the case when interest rates rise). So, our assessment that the market would ignore news out of Syria, Iran and the rest of the problem areas around the globe seems to have panned out. Likewise, our assumption that the U.S. government shutdown (remember that?) would end quickly, and have no effect on the markets, proved out as well.

At last writing, the Affordable Care Act (Obamacare) was in the news every day. The rollout of the insurance exchanges was hindered by a balky website which, for the most part, has now been swept under the rug. Enrollment rates are still drastically below projections, and the Act itself seems to be re-defined by the administration on a weekly basis. The markets didn't seem to care, but eventually the health care sector will begin to quantify the changes (in enrollments, revenue and costs) in company earnings reports. We believe that the markets will start to notice, and react to, such changes on an industry by industry basis.

The last two news items we discussed were joined at the hip; Quantitative Easing and a new Fed chairman. To date, the Fed has announced a slight tapering of QE to roughly $75 billion per month (down from $85 billion) and the markets seemed to take it in stride. Also, Mrs. Yellen has been confirmed as the new Fed chairman by the U.S. Senate, albeit with the largest number of dissenting votes for a confirmed chairman in history. For the record, March 18 will be a historic day as it will be the first time in history the Fed has convened with a female chair.

So, good news, bad news, or non-news . . . it didn't matter during 2013. However, we still were busy managing your accounts during the year. Broadly speaking, we were able to lock in gains from the previous several years (since the market lows of March 2009) by trimming positions in stocks that were reaching new highs. Rarely did we sell entire positions (that decision is based on our fundamental long-term outlook for each company within its industry). However, we sold small positions of stocks in order to take advantage of a short-term "pop" in the stock price or to trim it down to a more normal position in the portfolio, relative to the other stocks held.

As always, we will continue to strive to identify companies that are profitable in all types of economic environments and market situations. We attempt to determine appropriate values for those companies, and invest in them when their stock price is materially below what we believe its true value is. However, in years such as 2013, when “cheap” stocks are the exception rather than the norm, we try and maximize our value to you, our client, by taking advantage of the gains in your portfolios and re-allocating those gains to be prepared for the future.

And, as always, thank you for your continued trust and support.

Ward, Craig, Howard & Elizabeth

In the ongoing effort to continue to give our clients the most detailed, and meaningful, data available, you may have noticed that your Schwab statement now includes, within the detail sections, cost basis information on your individual securities. Although this is information which we provided to you on an ongoing, quarterly basis in the past, it is now available on your custodial statements. We trust that you find it useful. A copy of our SEC Brochure (formerly Form ADV Part II) is available to you at anytime. This document describes who we are, what we do, and how we do it. Also, our Proxy voting policy is available to you at any time. If you would like to receive either of these documents, or inquire as to how your shares have been voted, please contact us at a phone number, or e-mail, listed below.

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