PARAGON CAPITAL MANAGEMENT, LLC

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Is It News . . . Or Is It Noise?

The stock market continues its steady and historic rise. So this quarter, instead of dissecting the causes, catalysts, and complaints of the market, we will be looking at current events and offering our opinions as to whether today's headlines are ***News or Noise*** *(as they relate to investing)*.

Syria/Iran/World stage
Does Syria have chemical weapons? Did the Assad government use them against its own people? Who are the rebels, exactly? How much uranium can Iran enrich? How close are they to developing nuclear weapons? Will their president talk to ours? These are important questions; each and every one. Sadly they are representative of a host of others around the world involving political, economic and ethnic conflicts. However, as far as the markets are concerned, ***Noise not News.***

Government Shutdown
This is the 18th Federal government shutdown since 1976. They have lasted anywhere from 1 day to 21 days. Interestingly enough, from September 1977 to October 1979, there were five shutdowns that occurred while the White House and both houses of Congress were controlled by the same party. Eventually, everyone involved will want to hit the campaign trail and run for re-election. So, although no one knows how it will end – rest assured it will end. ***Noise not News.***

Affordable Care Act (Obamacare)
One cause of the government shutdown was posturing over the funding and implementation of the Affordable Care Act. In addition to the uncertainty over its impact on the economy, healthcare system and quality of life, there is also uncertainty over how it even works from a "nuts and bolts" perspective. Is the lack of a smooth rollout evidence that the entire Act is flawed, or proof that the current system is so poorly utilized that demand overwhelmed capacity? It depends on who you ask. From our perspective, the investment effects of Obamacare will not be known for months, or years***. News, but open to interpretation.***

Continuing Quantitative Easing (QE)
Quantitative easing (QE) is an unconventional monetary policy used by central banks to prevent the money supply from falling when standard monetary policy has become ineffective. A central bank implements quantitative easing by buying specified amounts of financial assets from commercial banks and other private institutions; thus increasing the monetary base. This is distinguished from the more usual policy of buying or selling government bonds in order to keep market interest rates at a specified target value. (Source: Wikipedia, et al.)

The U.S. is currently in its third round of QE, and the Federal Reserve (the Fed) is currently purchasing approximately $85 billion in Treasury securities each month. That works out to a cool $1 trillion per year.

Of importance to us is the last announcement the Fed made regarding whether QE was going to continue apace, or whether they were going to begin "tapering" the amounts of securities purchased. On September 18, outgoing Fed chairman Bernanke announced that purchases would remain in the $85 billion/month range; as the Fed needs more lasting evidence of the economy improving. He warned that an increase in interest rates threatened to curb the expansion.

The stock market rallied substantially on this news. In essence, the stock market is so addicted to easy money flowing in (due to the funds being freed up in firms by the Fed purchasing their Treasury securities) that it was up on news that the economy is not getting materially better anytime soon. ***If you like your news as a "glass half-full", the Quantitative Easing should prolong the robust markets we are enjoying. If you prefer your news as a "glass half empty", the effects of QE on the stock market are simply masking a struggling economy.***

Janet Yellen appointed Fed Chair

Mrs. Yellen is a well-respected economist known for her outspoken views. Her resume is rock solid. As a junior governor of the Fed from 1994 – 1997, she famously confronted Chairman Greenspan in 1996 pushing him to wean the economy from cheap credit (which later proved to have been sage, though unheeded, advice). From 1997 – 1999 she was the head of President Clinton's Council of Economic Advisors, and guided the administration through the Asian credit crisis. She is currently vice-chairman of the Fed after serving as president of the San Francisco Federal Reserve district until 2010. During her tenure there, she was again at odds with the powers that be as she warned that subprime mortgage woes would lead to falling housing prices and rising mortgage delinquencies.

> *"The possibilities of a credit crunch developing and of the economy slipping into a recession seem all too real". Janet Yellen, New York Times, December 2007*

The data later revealed that the U.S. was in recession even as she made that comment.

Since the "great recession", she has been a staunch backer of QE, and outspokenly dovish on interest rates, as she sees no visible signs of inflation. She has been entirely correct that core inflation in the U.S. is well contained.

Going forward, it seems reasonable to assume that Mrs. Yellen will strive to continue QE until she sees evidence of substantially increasing inflation. And, given her track record as an economic forecaster, it seems reasonable that we should follow her lead rather than headline-seeking soothsayers and doomsayers.

Moreover, the new Fed chairman seems to be apolitical, nor beholden to Wall St., hedge funds or "Corporate America". She is not on the speakers' bureau circuit, nor does she sit on corporate boards. We are of the mindset that she will bring an academic, objective outlook to her new role, and will maintain the status quo for Fed policy until she can thoughtfully lay out a rationale to the board of governors that it should change.

"Steady as she goes". Is this News? We think it is. We also believe that future tapering of Quantitative Easing will be well thought out, adequately announced, and appropriately implemented so as not to roil the markets when it happens.

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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