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The Financial Solutions Advisor

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Economic & Market Perspectives

After strong resistance from conservatives who criticized it for not addressing the burgeoning federal debt and deficit, the House approved a measure that resolves the so-called fiscal cliff.

The legislation stops approximately $600 billion in tax increases and automatic spending cuts that threatened to throw the US economy back into recession. The country had technically gone over the cliff for a day before the House passed the fiscal-cliff bill. The measure allows Bush administration tax cuts to expire for households earning more than $450,000 - boosting the top rate from 35% to 39.6% - while locking in the lower Bush rates for earnings below that level.

The measure makes permanent a capital gains and dividend rate of 20% for households making more than $450,000 and 15% for those below that level. It also adds to the tax code the alternative minimum tax exemption, protecting nearly 30 million Americans who would have been hit by that levy this year.

The bill sets an estate tax rate of 40% with a $5 million individual exemption - a rate increase from the current 35% but much lower than the 55% rate and $1 million exemption that would have gone into effect if the Bush tax cuts had expired.

The fiscal-cliff bill also extended unemployment benefits for the long-term jobless for a year and ended the 2% reduction in the payroll tax.

What the fiscal-cliff bill did not do is address the approximately $1 trillion federal deficit and $16.4 trillion debt. It delayed for two months $110 billion in domestic spending cuts slated to go into effect January 1st.

The battle over spending cuts and reducing the costs of social insurance programs is sure to flare up again soon. In about two months, the Treasury Department's borrowing authority to fund the federal debt will be breached. Raising the ceiling requires congressional approval.

Although the fiscal cliff issues represent a near-term modest negative part of our outlook, there are some positives to consider. Long term, we would point to reasonable valuations for stocks, acceleration in emerging market economies and a likely continuation of the low-inflation/low-interest-rate environment as reasons to be optimistic. As such, we would suggest that near-term volatility could represent good buying opportunities for investors with longer time horizons.

Regarding our outlook for economic growth, we still believe the US economy will grow modestly in 2013. While fiscal policy and political gridlock are negatives, there are other factors that remain supportive of growth, including a modest recovery in housing and further improvements in household balance sheets.

Additionally, we expect both interest rates and inflation in the US to remain well contained, at least for the first half of the year. In sum, we expect US economic growth to remain around the 2% level—a slow rate, to be sure—but absent a complete failure from Washington, growth should remain positive.

Outside of the US, we expect European growth to continue to struggle, possibly recovering in the second half of 2013. However, we expect to see stronger growth levels in China and other emerging markets, as well as stronger growth levels in smaller developed markets such as Australia, Singapore and Hong Kong.

Taking a look at financial markets, we would expect stocks to out-perform bonds again in 2013. On a relative basis, we prefer US mega caps, global technology companies and emerging markets.

Within fixed income, we remain cautious on Treasuries. While we are not forecasting a significant rise in yields, even a modest backup would be a significant negative for Treasuries. As such, we suggest a short duration/maturity fixed income strategy in 2013, and emphasize such sectors as high yield and floating rate credit.

In conclusion, the US is still likely to expand in 2013 thanks to low rates, somewhat cleaner consumer balance sheets and an improving housing market. In this environment, we believe investors would be well advised to overweight their allocations to stocks and to focus on high yield fixed income and floating rate credit sectors. The year ahead will certainly bring with it its share of challenges, but we believe that opportunities remain as well. We would suggest that near-term volatility could represent good buying opportunities for investors with longer time horizons.

Sources: BlackRock, Investment News

2012 Returns

S&P 500	*16.00%*
NASDAQ	*18.35%*
Russell Small Cap	*16.35%*
Russell Mid Cap	*17.28%*
MSCI EAFE	*17.32%*
MSCI World	*15.83%*
Barclay US Agg	*4.21%*
Barclay Muni.	*6.78%*

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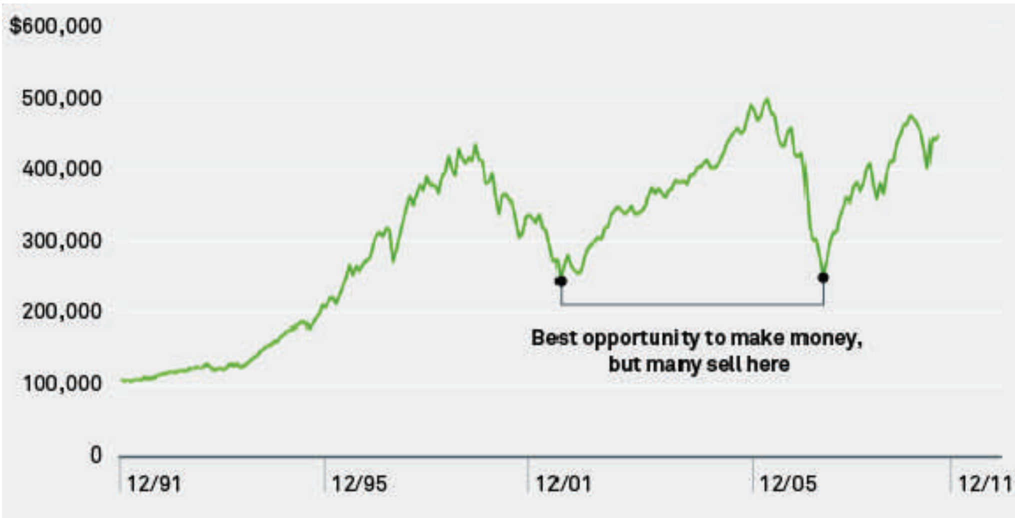
Avoid Overreacting to Volatility

Growth of $100,0000 in S&P 500 Index Over the Last 20 Years (1992 - 2011)



Sources: BlackRock, Informa Investment Solutions

Though the "buy low, sell high" approach may apply to an ideal world, the reality is, time and again investors do the opposite - buying securities when prices are high and selling when they bottom. Viewing historical mutual fund flows versus the performance of the S&P, we saw that most flows out of the market took place when prices dropped. This was also the period when markets were set to rally. Peak flows entered the market when prices were highest. This means most investors are buying high & selling low.

Two Social Security Strategies for Married Couples

Deciding when to begin receiving Social Security benefits is a major financial issue for anyone approaching retirement because the age at which you apply for benefits will affect the amount you'll receive. If you're married, deciding when to retire can be especially complicated because you and your spouse will need to plan together. Fortunately, there are a couple of strategies that are available to married couples that you can use to boost both your Social Security retirement income and income for your surviving spouse.

File and suspend

Generally, a husband or wife is entitled to receive the higher of his or her own Social Security retirement benefit (a worker's benefit) or as much as 50% of what his or her spouse is entitled to receive at full retirement age (a spousal benefit). But here's the catch--under Social Security rules, a husband or wife who is eligible to file for spousal benefits based on his or her spouse's record cannot do so until his or her spouse begins collecting retirement benefits. However, there is an exception--someone who has reached full retirement age but who doesn't want to begin collecting retirement benefits right away may choose to file an application for retirement benefits, then immediately request to have those benefits suspended, so that his or her eligible spouse can file for spousal benefits.

The file-and-suspend strategy is most commonly used when one spouse has much lower lifetime earnings, and thus will receive a higher retirement benefit based on his or her spouse's earnings record than on his or her own earnings record. Using this strategy can potentially boost retirement income in three ways: 1) the spouse with higher earnings who has suspended his or her benefits can accrue delayed retirement credits at a rate of 8% per year (the rate for anyone born in 1943 or later) up until age 70, thereby increasing his or her retirement benefit by as much as 32%; 2) the spouse with lower earnings can immediately claim a higher (spousal) benefit; and 3) any survivor's benefit available to the lower-earning spouse will also increase because a surviving spouse generally receives a benefit equal to 100% of the monthly retirement benefit the other spouse was receiving (or was entitled to receive) at the time of his or her death.

Here's a hypothetical example. Leslie is about to reach her full retirement age of 66, but she wants to postpone filing for Social Security benefits so that she can increase her monthly retirement benefit from $2,000 at full retirement age to $2,640 at age 70 (32% more). However, her husband Lou (who has had substantially lower lifetime earnings) wants to retire in a few months at his full retirement age (also 66). He will be eligible for a higher monthly spousal benefit based on Leslie's work record than on his own--$1,000 vs. $700. So that Lou can receive the higher spousal benefit as soon as he retires, Leslie files an application for benefits, but immediately suspends it. Leslie can then earn delayed retirement credits, resulting in a higher retirement benefit for her at age 70 and a higher widower's benefit for Lou in the event of her death.

File for one benefit, then the other

Another strategy that can be used to increase household income for retirees is to have one spouse file for spousal benefits first, then switch to his or her own higher retirement benefit later.

Once a spouse reaches full retirement age and is eligible for a spousal benefit based on his or her spouse's earnings record and a retirement benefit based on his or her own earnings record, he or she can choose to file

Continued on Page 4

What health-care provisions are effective in 2013?

With the Supreme Court's favorable ruling on the constitutionality of the Patient Protection and Affordable Care Act (ACA), more of the law's provisions will become effective in 2013. Here are some of the new features that may be important to you.

Medicare Part D participants who reach a gap in their drug coverage (the "donut hole") are required to pay the entire cost of prescription drugs out-of-pocket. In 2013, the ACA will continue to close this gap by increasing subsidies to reduce the cost of brand-name and generic drugs to participants who reach the donut hole. These subsidies will continue until 2020, when the participant's maximum contribution toward the cost of prescriptions will be reduced to 25%.

The threshold for the itemized deduction for medical expenses increases from 7.5% to 10% of adjusted gross income, beginning in 2013. However, this increase is waived for taxpayers age 65 and older through 2016.

In 2013, the annual pretax employee contribution to a Section 125 cafeteria plan flexible spending account (FSA) is reduced to $2,500, subject to annual increases for cost-of-living adjustments. The reduction does not apply to certain employer non-elective contributions (e.g., flex credits).

Beginning in 2013, the hospital insurance (HI) portion of the payroll tax, commonly referred to as the Medicare portion, increases by 0.9% for individuals with wages exceeding $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).

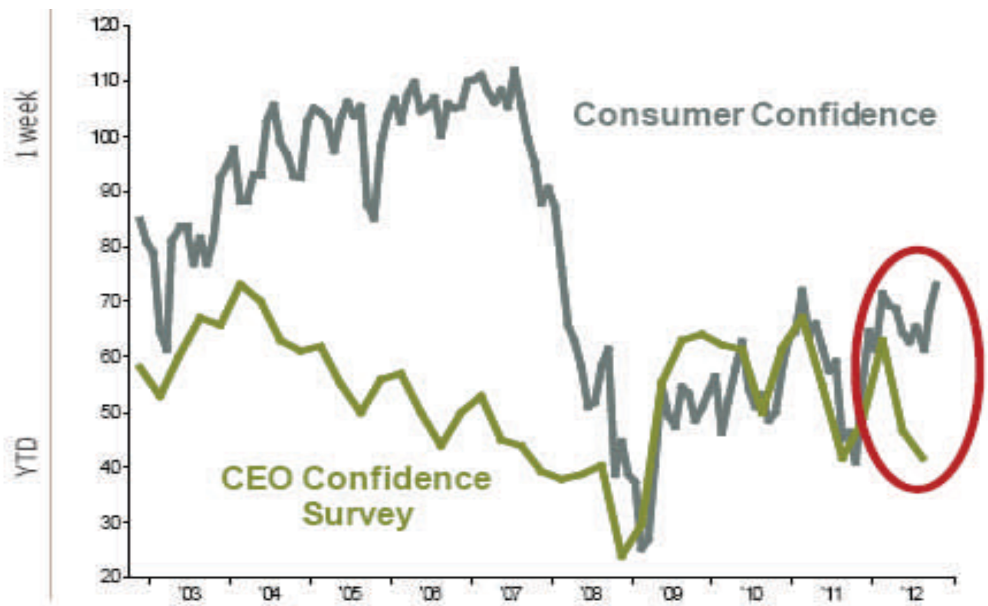
In addition, 2013 marks the imposition of a new 3.8% Medicare contribution tax on the unearned income of high-income individuals. This 3.8% contribution tax generally applies to the net investment income of individuals with modified adjusted gross income that exceeds $200,000 ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separately).

Looking ahead, 2014 brings the implementation of the health insurance exchanges, premium and cost-sharing subsidies, and the requirement that most individuals have health insurance.

Businesses Seem More Worried Than Consumers

Spurred in part by a stronger housing market, consumers appear to be becoming more confident. However, corporate leaders may not be feeling the same way. As the chart depicts, CEO confidence has diverged from that of consumers since the start of 2012. Not surprisingly, this divergence has been reflected in household and company spending. While consumer confidence has lead to increased consumption, durable goods and capital spending have remained stagnant for most of 2012, as a possible fiscal-cliff-induced recession approached. Although the fiscal cliff is certainly a danger, we continue to believe that a deal will be reached, providing CEO's with the clarity they need for capital investment spending and hiring decisions which could prove to be a tailwind for economic growth in 2013.

Conference Board Consumer Confidence and CEO Confidence Index Level



Source: JP Morgan

Fund in the News: John Hancock Floating Rate Income Fund (JFIIX)

The fund seeks a high level of current income by investing in floating rate loans, which often include debt securities of domestic and foreign issuers that are rated below investment grade and pay interest at rates that float or reset periodically at a margin above a generally recognized base lending rate such as the Prime Rate or the London Inter-Bank Offered Rate (LIBOR). We continue to recommend moving up the capital structure and buying loans over high-yield bonds. While loans may not be overly compelling in absolute terms, the risk / reward is likely better in loans than bonds. Our view is based on a few factors.

1-Loans are cheap to bonds according to our valuation metrics.

2-While loan prices have rallied along with stocks in general, they are still 4 points below the all-time high of 101, and nearly 7 points below high-yield bonds.

3-A large part of our loan call is simply based on rate risk. Should Treasury yields rise through next year, it will serve as a headwind to high-yield bond returns. Investors can now buy loans at a similar yield to bonds, and avoid this risk of rising rates.

4-LIBOR floors are another added benefit, often overlooked by investors. Low LIBOR rates give loans with floors significant value. Eventually many higher spread loans with LIBOR floors will get repriced, but until this happens, investors will accrue extra return through higher carry.

Key Facts

- 4 Star Morningstar Rating
- 1 Year Return 9.25%
- 3 Year Average Annual Return 7.88%
- 3 Year Standard Deviation 5.17
- 3 Year Beta –0.64 (relative to Barclay US Aggregate Bond

Sources: Morningstar, John Hancock Funds, Morgan Stanley Research

Our High Yield and Leveraged Loan Forecasts

	Current	Bull	Base	Bear
HY Index Spread (bp)	564	467	577	836
Default Rate	3.4%	2.3%	3.6%	5.9%
US Treasury 5-Year Yield	0.62%	1.63%	1.09%	0.40%
US Treasury 10-Year Yield	1.61%	2.79%	2.24%	1.02%
HY Bond Total Return Forecasts		**5.6%**	**3.1%**	**-4.8%**
Loan Index Spread (bp)	543	370	419	625
Loan Total Return Forecasts		**5.5%**	**5.0%**	**1.6%**

Source: Morgan Stanley estimates, historical data: the Yield Book, Moody's S&P LCD
Note: Interest rate forecasts are from Morgan Stanley's Interest Rate Strategy team.

Two Social Security Strategies for Married Couples *Continued from page 2*

a restricted application for spousal benefits, then delay applying for retirement benefits on his or her own earnings record (up until age 70) in order to earn delayed retirement credits. This may help to maximize survivor's income as well as retirement income, because the surviving spouse will be eligible for the greater of his or her own benefit or 100% of the spouse's benefit.

This strategy can be used in a variety of scenarios, but here's one hypothetical example that illustrates how it might be used when both spouses have substantial earnings but don't want to postpone applying for benefits altogether. Liz files for her Social Security retirement benefit of $2,400 per month at age 66 (based on her own earnings record), but her husband Tim wants to wait until age 70 to file. At age 66 (his full retirement age) Tim applies for spousal benefits based on Liz's earnings record (Liz has already filed for benefits) and receives 50% of Liz's benefit amount ($1,200 per month). He then delays applying for benefits based on his own earnings record ($2,100 per month at full retirement age) so that he can earn delayed retirement credits. At age 70, Tim switches from collecting a spousal benefit to his own larger worker's retirement benefit of $2,772 per month (32% higher than at age 66). This not only increases Liz and Tim's household income but also enables Liz to receive a larger survivor's benefit in the event of Tim's death.

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