3Q13

The Financial Solutions Advisor

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Economic & Market Perspectives

Despite the recent rise in market volatility, stocks finished the first half of 2013 up firmly in double digits, a surprising outcome given the various risks investors faced at the beginning of the year. Since the beginning of the year, the S&P 500 Index advanced 13.8% and the Nasdaq Composite has risen 10.09%. On the other hand, bond yields have risen as we expected (prices move in the opposite direction of yields) over that time period, with the benchmark 10-year Treasury rising from 1.76% to close on Friday, June 28th at 2.49%.

Coming into the year, our view was that the US economy would not break out of its doldrums, but would continue its slow growth path as it was held back by higher taxes and lower government spending. We expected growth to be positive but sluggish, at around 2%, and inflation to remain low. The first half pretty much played out that way, with growth coming in for the first quarter at 1.8%, and we expect the second quarter to be similar.

Global market volatility has returned. Investors have at times equated signs of an improving economy with an imminent end to the accommodative monetary policy that has supported this year's rally. Stocks have at times headed south in reaction to good economic news and north in response to weak, or mediocre, economic news. This seemingly irrational market behavior is likely to persist until we see consistently robust economic growth numbers. While there are signs pointing toward slower global growth in the second and third quarters, we expect growth to pick up this fall. We foresee the Federal Reserve (Fed) beginning to wind down its asset purchase programs in late 2013 or early 2014, assuming the US economy continues to slowly grow with an improving labor market.

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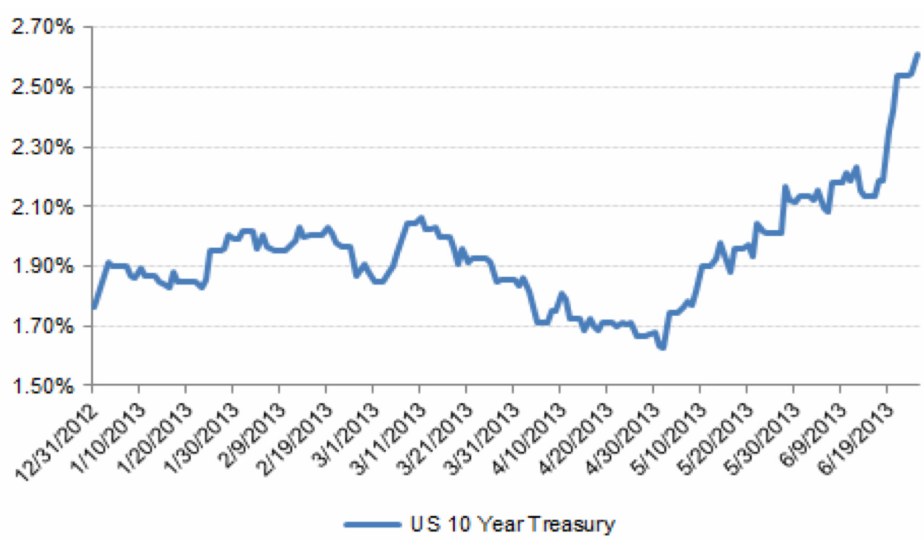
2013 Returns

S&P 500	*13.82%*
NASDAQ	*10.09%*
Russell Small Cap	*15.86%*
Russell Mid Cap	*15.45%*
MSCI EAFE	*4.10%*
MSCI World	*8.43%*
Barclay US Agg	*(2.44%)*
Barclay Muni.	*(2.69%)*

Year-to-date changes in 10-yr Treasuries through June 25



Source: FactSet

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Understanding the New Medicare Tax on Unearned Income

Health-care reform legislation enacted in 2010 included a new 3.8% Medicare tax on the unearned income of certain high-income individuals. The new tax, known as the unearned income Medicare contribution tax, or the net investment income tax (NIIT), took effect on January 1, 2013.

Who must pay the new tax?

The NIIT applies to individuals who have "net investment income," and who have modified adjusted gross income (MAGI) that exceeds certain levels (see the chart below). (Estates and trusts are also subject to the new law, although slightly different rules apply). In general, nonresident aliens are not subject to the new tax.

Filing Status	MAGI over ...
Single/Head of household	$200,000
Married filing jointly/ Qualifying widow(er)	$250,000
Married filing separately	$125,000

What is MAGI?

For most taxpayers, MAGI is simply adjusted gross income (AGI), increased by the amount of any foreign earned income exclusion.

AGI is your gross income (e.g., wages, salaries, tips, interest, dividends, business income or loss, capital gains or losses, IRA and retirement plan distributions, rental and royalty income, farm income and loss, unemployment compensation, alimony, taxable Social Security benefits), reduced by certain "above-the-line" deductions (see page one of IRS Form 1040 for a complete list of adjustments).

Note that AGI (and therefore MAGI) is determined *before* taking into account any standard or itemized deductions or personal exemptions. Note also that deductible contributions to IRAs and pretax contributions to employer retirement plans will lower your MAGI.

What is investment income?

In general, investment income includes interest, dividends, rental and royalty income, taxable nonqualified annuity income, certain passive business income, and capital gains--for example, gains (to the extent not otherwise offset by losses) from the sale of stocks, bonds, and mutual funds; capital gains distributions from mutual funds; gains from the sale of interests in partnerships and S corporations (to the extent you were a passive owner), and gains from the sale of investment real estate (including gains from the sale of a second home that's not a primary residence).

Gains from the sale of a primary residence may also be subject to the tax, but only to the extent the gain exceeds the amount you can exclude from gross income for regular income tax purposes. For example, the first $250,000 ($500,000 in the case of a married couple) of gain recognized on the sale of a principal residence is generally excluded for regular income tax purposes, and is therefore also excluded from the NIIT.

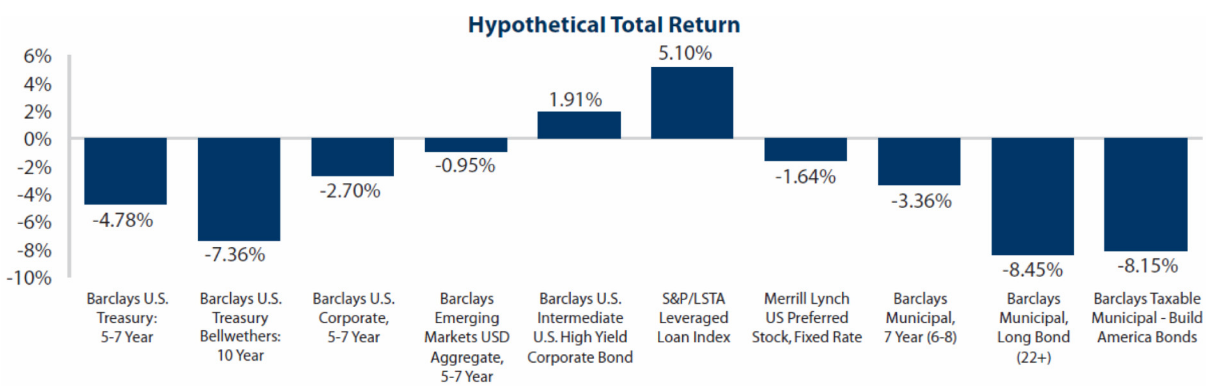
Investment income does not include wages, unemployment compensation, operating income from a nonpassive business, interest on tax exempt bonds, veterans benefits, or distributions from IRAs and most retirement plans (e.g., 401(k)s, profit-sharing plans, defined benefit plans, ESOPs, 403(b) plans, SIMPLE plans, SEPs, and 457(b) plans).

Net investment income is your investment income reduced by certain expenses properly allocable to the income--for example, investment advisory and brokerage fees, investment interest expenses, expenses related to rental and royalty income, and state and local income taxes.

How is the tax calculated?

The tax is equal to 3.8% of the lesser of (a) your net investment income, or (b) your MAGI in excess of the statutory dollar amount that applies to you based on your tax filing status. So, effectively, you'll be subject to the additional 3.8% tax only if your MAGI exceeds the dollar thresholds listed in the chart above.

The Effect of a 1% Rise in Interest Rates



	Barclays U.S. Treasury: 5-7 Year	Barclays U.S. Treasury Bellwethers: 10 Year	Barclays U.S. Corporate, 5-7 Year	Barclays Emerging Markets USD Aggregate, 5-7 Year	Barclays U.S. Intermediate U.S. High Yield Corporate Bond	S&P/LSTA Leveraged Loan Index	Merrill Lynch US Preferred Stock, Fixed Rate	Barclays Municipal, 7 Year (6-8)	Barclays Municipal, Long Bond (22+)	Barclays Taxable Municipal - Build America Bonds
Yield	1.03%	1.86%	2.39%	4.01%	5.60%	5.10%	4.77%	1.55%	3.40%	3.97%
Duration	5.81	9.22	5.09	4.97	3.69	0.25	6.4	4.91	11.85	12.12

Source: Barclays and Bank of America/Merrill Lynch. The table illustrates hypothetical examples and does not represent the return on any particular investment. Data as of 3/31/13. Effective duration is used for the preferred index and modified adjusted duration for all others. The performance figures are for illustrative purposes only and do not account for all factors that may potentially impact returns. Index returns do not include management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Coordinating Social Security Benefits with Other Retirement Assets

Social Security provides retirement income you can't outlive. And, in addition to your own benefit, your spouse may be eligible to receive benefits based on your earnings record in the form of spousal benefits and survivor's benefits. So, it's easy to see why, with all of these potential benefit options, Social Security is an important source of retirement income. But, according to the Social Security Administration, only about 40% of an average worker's preretirement income is replaced by Social Security (Source: SSA Publication No. 05-10035, July 2012). When trying to figure out how you'll meet your retirement income needs, you'll probably have to coordinate your Social Security benefits with other retirement income sources such as pensions, qualified retirement accounts (e.g., 401(k), IRA), and other personal savings.

Factors to consider

How you incorporate Social Security benefits into your total retirement income plan may depend on a number of factors, including whether you're married, your health and life expectancy, whether you (or your spouse) will work during retirement, the amount of your Social Security benefit (and that of your spouse, if applicable), other sources of retirement income (e.g., pension), how much retirement savings you have, and, of course, your retirement income needs of you and your spouse, including the income need of your spouse after your death.

A factor to consider is that Social Security has a "built-in" protection against longevity risk. Benefits increase each year you delay starting benefits through age 69 (benefits do not increase past age 70), so the later you start receiving benefits, the greater the benefit amount. In addition, Social Security benefits are inflation-protected, and may increase with annual cost-of-living adjustments based on increases in the Consumer Price Index.

How much you may pay in income tax may also factor into your retirement income plan. For example, distributions from tax-qualified accounts (e.g., 401(k)s, IRAs, but not including Roth IRAs) are generally taxed as ordinary income. Up to 85% of your Social Security benefits may also be taxed, depending on your modified adjusted gross income and tax filing status. Tax issues are complex, so you should talk to a tax advisor to understand your options and the tax consequences.

Pensions

If you're lucky enough to have a traditional employer pension available, that's another reliable source of income. You'll want to be sure that you effectively coordinate your Social Security benefit with pension income. Your pension may increase in value based on your age and years of employment, but it may not include cost-of-living adjustments (COLAs). As mentioned earlier, Social Security not only increases the longer you delay taking benefits, but it may increase with COLAs.

If your pension benefit increases past the age at which you retire, you might consider waiting to take your pension (either single or joint and survivor with your spouse) in order to maximize your pension benefit amount. Depending on your income needs, you could start Social Security benefits earlier to provide income. Or, if you've already reached your maximum pension benefit, you could start your pension first, and defer Social Security in order to receive an increased monthly benefit later. Your decision depends on your individual situation, including your pension benefit amount and whether it increases in value after you retire, and the pension options that are available to you (e.g., single life, qualified joint and survivor). You can get an explanation of your pension options prior to retirement from your pension plan, including the relative values of any optional forms of benefit available to you.

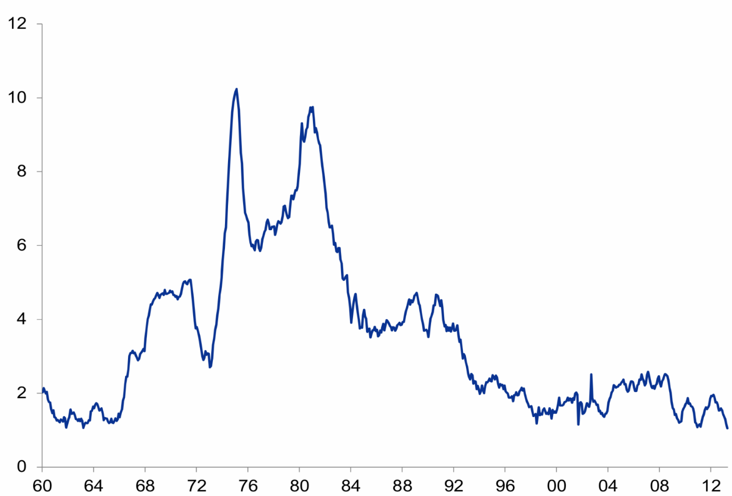
Personal savings

Prior to retirement, when it came to personal savings, your focus was probably on accumulation--building as large a nest egg as possible. As you transition into retirement, that focus changes. Rather than concentrating on accumulation, you're going to need to look at your personal savings in terms of distribution and income potential. Your savings potentially can provide a source of income to help you bridge any gap between the time you begin retirement (if you've stopped working) and the time you wait to begin taking Social Security benefits.

Incorporating Social Security into your retirement income plan involves several other important factors. Talk to your financial professional for help in developing the best plan for you.

50 Year Inflation Lows

Core Personal Consumption Expenditures (PCE) price index, yoy



Source: Department of Commerce

At Financial Solutions you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

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Quick Reference: Document Storage

Document	When to throw out
Bank deposit slips	After you reconcile your statements
Savings and checking account statements	After a calendar year; store with tax returns if they support deductions
Credit-card bills	After you check and pay them, or after 7 years if needed to support tax filings
Loan documents	When the loan is paid off; then keep discharge notices in a safe-deposit box
Pay stubs	After you reconcile them with your W-2
Brokerage, 401(k), IRA, Keogh, and other investment statements	Shred monthly or quarterly statements as new ones arrive; keep annual statements until you sell the securities
Purchase confirmations and 1099s	Hold until securities are sold; then keep with tax returns
Receipts	When warranty expires; after 7 years if needed to support tax deductions
Household warranties	When they expire
Employer defined-benefit plan correspondence	Never
Social Security statements	When you get a new one
Tax returns and supporting documents	After 7 years

Source: Consumer Reports

Economic & Market Perspectives

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In January, we emphasized that stocks were a better investment than bonds given the low rate environment. Stocks clearly won the first half, trouncing bonds. We expect continued market volatility and more muted market gains. Ultimately, however, we believe that stocks will finish the year higher given developed markets' low inflation and accommodative monetary policies. In addition, global stocks still appear reasonably priced relative to their own historical valuations and to cash and bonds, which are unusually expensive thanks to central bank buying.

With that said, there are four scenarios that could lead to a stock market correction:

- Europe's fragile banking system sparks a Eurozone crisis flare-up
- The US economy grows slower than expected
- A crisis in the Middle East leads to a spike in oil prices
- An unknown exogenous shock occurs

With regard to our fixed income strategy, we were successful as well. We emphasized higher yielding / lower duration and maturity bonds, such as floating rate notes and strategic income funds. These credits have all outperformed Treasuries and TIPS. Going forward, we continue to emphasize these fixed income investments.

Source: BlackRock, Financial Solutions