4Q12

The Financial Solutions Advisor

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Economic & Market Perspectives

The last few weeks have been highly eventful in terms of central bank action. The Fed's decision to engage in a new round of quantitative easing is particularly striking for two reasons. The first is that the Fed has linked its mortgage-backed bond purchases to an attempt to reduce the unemployment rate, which is unprecedented in its specificity. As such, the Fed has left itself some room to increase its planned purchases if unemployment does not move down noticeably. Secondly, it is important to note that the Fed took these steps despite the fact that inflationary expectations have been starting to move higher, suggesting that the central bank is willing to risk higher inflation levels in exchange for a jolt to economic growth.

To be sure, the US economy is still weak and remains dependent on policy help, but we have seen the data turn modestly more positive. Bank lending standards have been easing, demand for credit is expanding and borrowing rates are up. After a long and painful downturn, the housing market is also showing signs of life. It seems to us as if the tremendous amount of liquidity the Fed has injected into the system is finally leaking into the real economy.

For its part, the European Central Bank's (ECB's) recent actions are an indication that Europe's central bank will be willing to provide open-ended assistance to countries that are willing to sacrifice some of their fiscal independence. From an economic perspective, Europe remains deeply troubled, but the bold actions by the ECB provide some hope that improvements may be on the horizon.

Although global economic data has been relatively weak in recent years, risk asset prices have nonetheless advanced. We would attribute this trend to the fact that weak economic growth does not, by itself, limit the potential for risk assets (stocks). In our view, the liquidity-driven reflationary policies of the world's central banks have been a more important factor for asset prices than economic growth levels have been.

Looking ahead, however, it's worth asking what it will take for a sustained bull market phase in risk assets to continue. In our view, there would be several preconditions. The first is that European policymakers and the ECB must remain committed to protecting that region's sovereign

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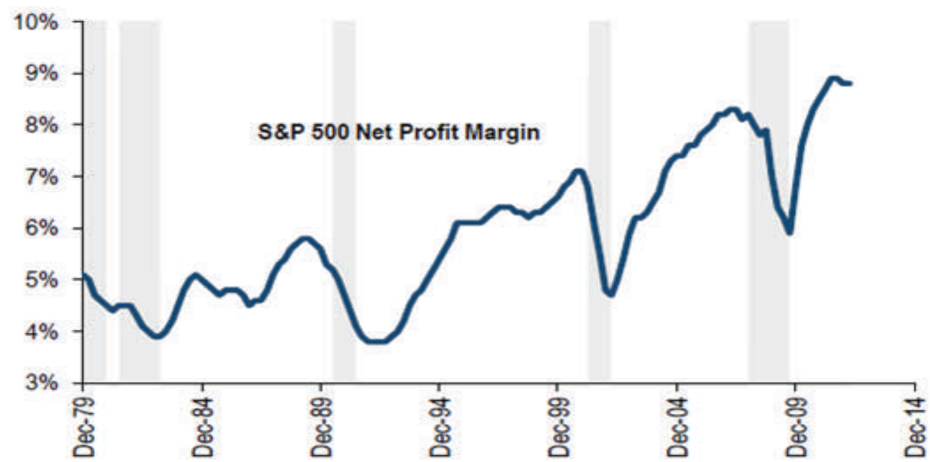
2012 Returns

S&P 500	*16.44%*
NASDAQ	*20.65%*
Russell Small Cap	*14.23%*
Russell Mid Cap	*14.00%*
MSCI EAFE	*10.59%*
MSCI World	*13.56%*
Barclay US Agg	*3.99%*
Barclay Muni.	*6.06%*

US Corporate Profit Margins are at Record Levels



Source: Goldman Sachs Global ECS Research

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Breaking Down the Taxpaying Population: Where Do You Fit In?

Every quarter, the Statistics of Income Division of the Internal Revenue Service (IRS) publishes financial statistics obtained from tax and information returns that have been filed with the federal government. Recent reports reflect data gleaned from 2009 individual federal income tax returns. These reports offer a snapshot of how Americans break down as taxpayers.

The big picture

Individuals filed roughly 140 million federal income tax returns for 2009. Of those returns, just under 82 million (approximately 58%) reported federal income tax greater than zero--representing the lowest percentage of taxable federal income tax returns in 24 years.

Half of all the individual income tax returns filed showed adjusted gross income of under $32,396. (Adjusted gross income, or AGI, is basically total income less certain adjustments--e.g., deductible contributions to a traditional IRA.) As a whole, this bottom-50% group accounted for just 13.5% of the total AGI reported on all federal income tax returns. Put another way, 86.5% of AGI was concentrated in the top 50% of returns filed.

A look at the top

What did it take in AGI to make the top 5% of all individual filers? Probably not as much as you think. If your return showed AGI of $154,643 or more, you would have been one of the almost 6.9 million filers comprising the top 5%. This group reported about $2.5 trillion in AGI--31.7% of the total AGI reported--and was responsible for 58.7% of the total income tax for the year.

The roughly 1.3 million returns showing AGI of at least $343,927 made up the top 1% of all filers. This group reported 16.9% of total AGI; in other words, over $1.3 trillion of the $7.8 trillion in AGI reported was reported by the top 1% of filers. This group was responsible for 36.73% of the total income tax for the year.

There were just under 138,000 tax returns with AGI exceeding $1.4 million. These returns, making up the top 0.1% of all filers (that's the top one-tenth of one percent), accounted for approximately $610 billion in AGI (about 7.8% of all AGI), and paid just over 17% of the total income tax.

Not all high-income returns showed tax

There were just over 3.9 million returns filed with AGI of $200,000 or more. Of these returns, 20,752 (0.529%) showed no U.S. income tax liability. Why did these returns show no income tax? The IRS report that provided the data noted that high-income returns generally show no income tax as a result of a combination of factors, including deductions for charitable contributions, deductions for medical and dental expenses, and partnership and S corporation net losses.

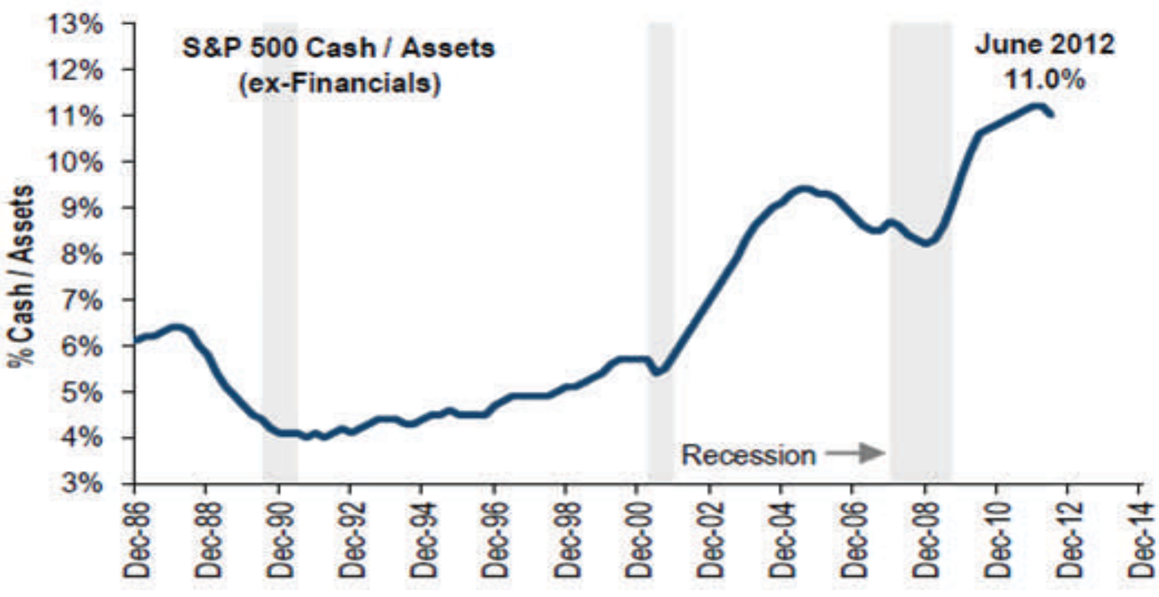
Average tax rates

Simply dividing total income tax paid by total amount of AGI results in the following average federal income tax rates:

- Top 0.1%--Average federal income tax rate of 24.28%
- Top 1%--Average federal income tax rate of 24.01%
- Top 5%--Average federal income tax rate of 20.46%
- Top 10%--Average federal income tax rate of 18.05%
- Top 50%--Average federal income tax rate of 12.5%

Source: *IRS Statistics of Income Bulletin, Spring 2012 and Winter 2012*

US Corporate Balance Sheets in Excellent Shape



Source: Goldman Sachs Global ECS Research

High-Income Individuals Face New Medicare Taxes in 2013

Two new Medicare-related taxes take effect in 2013: an additional 0.9% payroll tax on high-wage earners, and a 3.8% tax on the unearned income of high-income individuals. Here's what you need to know.

New additional Medicare payroll tax

Beginning in 2013, the employee share of the hospital insurance (HI), or Medicare, portion of the Federal Insurance Contributions Act (FICA) payroll tax will increase by 0.9% (from 1.45% to 2.35%) for high-wage earners. Will you be affected? The tax applies to the extent that your wages exceed $200,000 ($250,000 in combined wages if you're married and file a joint federal income tax return, $125,000 if you're married and file separately). So, in 2013, a single individual with wages of $230,000 will owe HI tax at a rate of 1.45% on the first $200,000 of wages, and HI tax at a rate of 2.35% on the remaining $30,000 of wages for the year.

The additional tax doesn't apply to the employer portion of the FICA payroll tax, but your employer is responsible for withholding your portion of the tax--the additional 0.9% will be withheld on any wages you receive over $200,000. Your employer won't account for any wages earned by your spouse, so if you are married, you may owe more (or less) tax than the amount that's withheld. In that case, you will pay any additional tax due (or claim a refund for taxes overpaid) on your federal income tax return for the year.

If you're self-employed, the additional 0.9% tax applies to self-employment income that exceeds the dollar amounts above (reduced, though, by any wages subject to FICA tax). If you're self-employed, you won't be able to deduct any portion of the additional tax.

New tax on investment income

Beginning in 2013, a new 3.8% Medicare contribution tax will generally be imposed on the unearned income of high-income individuals. The tax is equal to 3.8% of the lesser of:

- Your net investment income
- The amount of your modified adjusted gross income (basically, your adjusted gross income increased by an amount associated with any foreign earned income exclusion) that exceeds $200,000 ($250,000 if married filing a joint federal income tax return, $125,000 if married filing a separate return)

So, if you're single and have modified adjusted gross income of $250,000, consisting of $150,000 in earned income and $100,000 in net investment income, the 3.8% Medicare contribution tax will only apply to $50,000 of your investment income.

What is "net investment income"?

Net investment income generally includes all net income (income less any allowable associated deductions) from interest, dividends, capital gains, annuities, royalties, and rents. It also includes income from any business that's considered a passive activity, or any business that trades financial instruments or commodities.

Net investment income does not include interest on tax-exempt bonds, or any gain from the sale of a principal residence that is excluded from income. Distributions you take from a qualified retirement plan, IRA, IRC Section 457(b) deferred compensation plan, or IRC Section 403(b) retirement plan are also not included in the definition of net investment income.

Both taxes can apply

If you have high wages and investment income, you could be subject to both the 0.9% additional HI payroll tax and the 3.8% Medicare contribution tax on your investment income. So, you'll want to be sure to account for them in your overall tax plan.

Economic & Market Perspectives

Continued from page one

bond market and financial system. Recent actions in Europe suggest that they will do so, but there is ample room for policy error. In the US, we believe we would need to see some progress in terms of tackling the fiscal cliff issues and creating a longer-term plan for fiscal stability. Additionally, investors would need to be assured that China is undergoing a soft landing and the world would also need to avoid any sort of geopolitical incident that could cause a spike in oil prices.

None of these developments is assured, but neither is any impossible to achieve. We are modestly optimistic that the trends will be pointing in the right direction as the year draws to a close and into 2013. However, uncertainty remains high and investors are poised to react strongly to any unforeseen events, so the probabilities of volatile market periods are elevated.

On balance, we would argue that while a consolidation of the gains we have seen in the last few months could happen at any time (and, indeed, some would argue that such a consolidation is overdue), we expect that stocks should continue to outperform Treasuries and cash over the next twelve months.

Source: BlackRock

Fund in the News: Calamos International Growth Fund Class I (CIGIX)

Goal
The Calamos International Growth Fund seeks long-term capital growth.

Strategy
The fund invests at least 40% of its assets in securities of foreign issuers and may invest in securities of issuers in emerging markets. The fund may invest in securities of well-established companies with large market capitalizations as well as in small, unseasoned companies. It generally defines a large-cap company to have a market capitalization in excess of $25 billion and a mid-sized company to have a market capitalization greater than $1 billion, up to $25 billion.

Philosophy
Calamos believes a changing global regime will result in a redistribution of wealth toward developing nations. It appears that investors' allocations have shifted toward international stocks, international small caps and emerging markets. However, investors have not taken as quickly to international growth. Calamos believes now may be the time. Calamos sees many international growth companies priced attractively relative to the free cash flows they generate. Given what Calamos believes is the promising trend in international growth stocks, investors' allocation toward the category appears underrepresented.

Key Facts

- 5 Star Morningstar Rating
- 5 Star Standard & Poor's Rating
- 5 Star Total Return, Consistent Return, Tax Efficiency Lipper Ratings
- YTD Return 12.62%
- 3 Year Return 11.28%
- 3 Standard Deviation 18.23
- 3 Year Beta 0.84

Sources: Morningstar, Calamos Asset Management

Speculating on the Future of the Federal Estate Tax

What's the future of the federal estate tax? All we know is that no one knows for sure; it's all speculation. So, let's take a look at what could happen. There are five possibilities: (1) Congress could extend current tax law (commonly referred to as the "Bush tax cuts"); (2) Congress could do nothing, essentially turning the calendar back to 2001; (3) Congress could compromise, agreeing on something between the 2001 tax rules and the rules that apply in 2012; (4) Congress could enact new estate tax reform; or (5) Congress could repeal the estate tax altogether.

Congress could extend current tax laws again, probably for two years

That would mean the top gift and estate tax rate would remain at 35%. The generation-skipping transfer (GST) tax (this is an additional tax that's imposed on transfers to beneficiaries who are two or more generations below you) would also remain at a 35% tax rate. The gift and estate tax exemption (may also be referred to as an exclusion) would remain at $5,120,000 (plus any adjustment due to inflation) plus any deceased spousal unused exclusion amount (DSUEA).

The DSUEA is the amount of the gift and estate tax exemption that the first spouse to die does not use. This amount can be transferred from the estate of the first spouse to die to the surviving spouse. This is referred to as portability. Portability would remain.

The GST tax exemption of $5,120,000 plus any adjustment due to inflation would remain. There is no DSUEA for the GST tax (i.e., the GST tax exemption is not portable between spouses). The smart money is on this possibility. It has been Congress's tendency of late.

Congress could do nothing

Congress could allow all or some of the provisions that sunset to expire, reverting to the 2001 tax rules. The top gift and estate tax rate would be 55% with a 5% surtax on estates that exceed $10 million but do not exceed $17,184,000. The GST tax rate would also be 55%. The gift and estate tax exemption would be $1 million. And, the DSUEA would no longer apply. The GST tax exemption would be $1 million indexed for inflation (estimated so far to be $1,360,000).

Some analysts have proposed letting the Bush tax cuts expire as part of a plan to balance the budget over time.

Congress could compromise

Congress could pass a compromise bill that would set the top tax rate to 45% and the exemption amount to $3.5 million. Whether portability would expire or be extended is anyone's guess.

President Obama supports this option. His 2013 budget plan would return the gift and estate tax, and the GST tax, to 2009 levels; the top tax rate would be 45%, the exemptions would be $3.5 million (but only $1 million for gift tax purposes), and portability would be made permanent.

Congress could enact estate tax reform

Many believe that permanent and comprehensive estate tax reform is needed. However, the political landscape is probably not currently amenable to this option. Besides, permanent tax reform does not really mean that it will be permanent (it could, of course, be modified or repealed by future legislation).

Congress could repeal the estate tax altogether

The arguments for and against the repeal of the estate tax continue to wash in, like ocean waves. The tide was high for repeal a few years back, but the current economic and fiscal situation may have slowed its momentum, and the tide seems to be ebbing.

Note: *Only a few of the estate tax laws that are affected are discussed here.*

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