4Q13 The Financial Solutions Advisor

Inside this issue:

Economic & Market Perspectives

The road will get rockier
The Federal Reserve (Fed)'s surprise September no-taper announcement removed some risk of near-term volatility and took some pressure off rate-sensitive assets. But market volatility is likely to pick up as investor attention shifts toward budget debates in Congress and the uncertainty surrounding the next Fed chair, geopolitical instability and global economic growth. In addition, higher mortgage rates have hurt private consumption and slowed the US housing market rebound.

Stocks still appear reasonably priced
Stocks still appear reasonably priced relative to bonds and cash. US stocks have outperformed international stocks in 2013. In addition to this underperformance, we believe allocating between 15 to 25% of your total stock portfolio to international stocks (developed and emerging) can be a smart move for the following reasons:

-Potential for higher rates of growth abroad.

-International stocks are becoming a larger share of the investment universe.

-Potential to lower overall risk in your portfolio.

-Multiple currencies can provide an added layer of diversification.

Supported by continued monetary policy
The Fed isn't tapering for now, confirming that the recovery is still fragile. Absent a pickup in jobs growth, we believe that monetary policy will remain accommodative in the US, as well as in Japan, for the rest of 2013.

Higher oil prices could change our expectations
While it now seems that a strike in Syria may be avoided, should the violence in the Middle East escalate, higher energy prices could impede the global recovery.

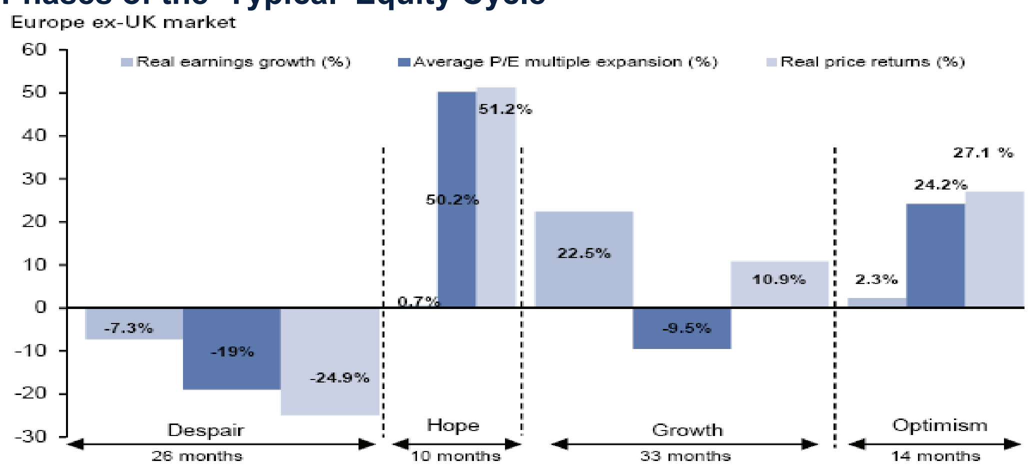
Fixed income strategy has worked well.
Investors are likely to continue searching for yield and demand for bonds should remain strong. We continue to follow our short-duration, high-yield fixed income strategy which has worked well for our portfolios. We have been keeping bond duration in the short range, so that market volatility and interest rates don't have as large of an effect on our bond portfolios as longer duration bonds might. We favor looking for yield by adding credit exposure rather than duration exposure simply because rates are so low.

Source: BlackRock

2013 Returns

S&P 500	*19.79%*
NASDAQ	*22.22%*
Russell Small Cap	*27.69%*
Russell Mid Cap	*24.34%*
MSCI EAFE	*16.14%*
MSCI World	*17.29%*
Barclay US Agg	*-1.89%*
Barclay Muni.	*-2.87%*

Phases of the 'Typical' Equity Cycle



Source: Datastream, Goldman Sachs Global Investment Research

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Tax Planning: Accounting for New Tax Rules

The American Taxpayer Relief Act of 2012 (ATRA), passed in early January, permanently extended a host of expiring tax provisions. It also largely set the rules for tax planning for 2013 and beyond. As you take stock of your tax situation this year, here are a few new wrinkles to keep in mind.

New top tax rate

The six tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) that applied for the last several years have been made permanent for most individuals. That's really good news, since it removes a great deal of uncertainty going forward (it's always easier to plan when you know what the tax rates will be the following year).

But higher-income individuals and families will have to contend with a new top federal income tax bracket starting this year, paying tax on a portion of their income at a rate of 39.6%. The new 39.6% rate applies to individuals with taxable income exceeding $400,000; married individuals filing joint federal income tax returns with taxable income exceeding $450,000; married individuals filing separate returns with taxable income exceeding $225,000; and individuals filing as head of household with taxable income exceeding $425,000.

Higher rates on investment income for some

Most individuals won't see any change in the rate at which they're paying tax on long-term capital gains and qualifying dividends. If you're in the 10% or 15% marginal income tax bracket, a special 0% rate will generally apply. If you are in the 25%, 28%, 33%, or 35% tax brackets, a 15% maximum rate will generally apply.

If you're in the new top 39.6% tax bracket, though, it's going to be a little different starting this year--that's because in 2013 a new maximum rate of 20% will generally apply to some or all of your long-term capital gains and qualifying dividends.

And keep in mind that a new Medicare contribution tax now applies to some or all of the net investment income of individuals with more than $200,000 in modified adjusted gross income ($250,000 for married couples filing a joint federal income tax return, and $125,000 for married individuals filing separate returns). The Medicare contribution tax is 3.8%, and is in addition to other taxes that apply.

Other considerations

- This year, if your adjusted gross income (AGI) is greater than $250,000 ($300,000 if you're married and file a joint return, $150,000 if married filing separately, and $275,000 if you file as head of household), your personal and dependency exemptions will be phased out in part or in full. Similarly, your itemized deductions may be limited.
- If you itemize deductions, note that the AGI threshold for deducting qualified medical expenses on Schedule A increased this year from 7.5% to 10% for most individuals. If you or your spouse will be 65 or older by the end of the year, though, the 7.5% threshold will continue to apply for 2013.
- The rules allowing qualified charitable distributions from IRAs were extended through 2013. This popular provision allows individuals age 70½ or older to make qualified charitable distributions of up to $100,000 from an IRA directly to a qualified charity; the charitable distributions are excluded from income and count toward satisfying any required minimum distributions for the year.

Make time to plan

It's never easy to set aside the time to analyze your current tax situation and project how you'll be affected by recent changes. But it's important to do so while you still have time to implement a plan and take action. This year, it's particularly important to consider all of your options if your income level brings you within range of one or more of the new provisions targeting higher-income individuals.

What return are you really earning on your money?

If you're like most people, you probably want to know what return you might expect before you invest. But to translate a given rate of return into actual income or growth potential, you'll need to understand the difference between nominal return and real return, and how that difference can affect your ability to achieve financial goals.

Let's say you have a certificate of deposit (CD) that's about to expire. The yield on the new five-year CD you're considering is 1.5%. It's not great, you think, but it's better than the 0.85% offered by a five-year Treasury note.*

But that 1.5% is the CD's nominal rate of return; it doesn't account for inflation or taxes. If you're taxed at the 28% federal income tax rate, roughly 0.42% of that 1.5% will be gobbled up by federal taxes on the interest. Okay, you say, that still leaves an interest rate of 1.08%; at least you're earning something.

However, you've also got to consider the purchasing power of the interest that the CD pays. Even though inflation is relatively low today, it can still affect your purchasing power, especially over time. Consumer prices have gone up by roughly 1% over the past year.** Adjust your 1.08% after-tax return for inflation, and suddenly you're barely breaking even on your investment.

What's left after the impact of inflation and taxes is called your real return, because that's what you're really earning in actual purchasing power. If the nominal return on an investment is low enough, the real return can actually be negative, depending on your tax bracket and the inflation rate over time. Though this hypothetical example doesn't represent the performance of any actual investment, it illustrates the importance of understanding what you're really earning.

In some cases, the security an investment offers may be important enough that you're essentially willing to pay someone to keep your money safe. For example, Treasury yields have sometimes been negative when people worried more about protecting their principal than about their real return. However, you should understand the cost of such a decision.

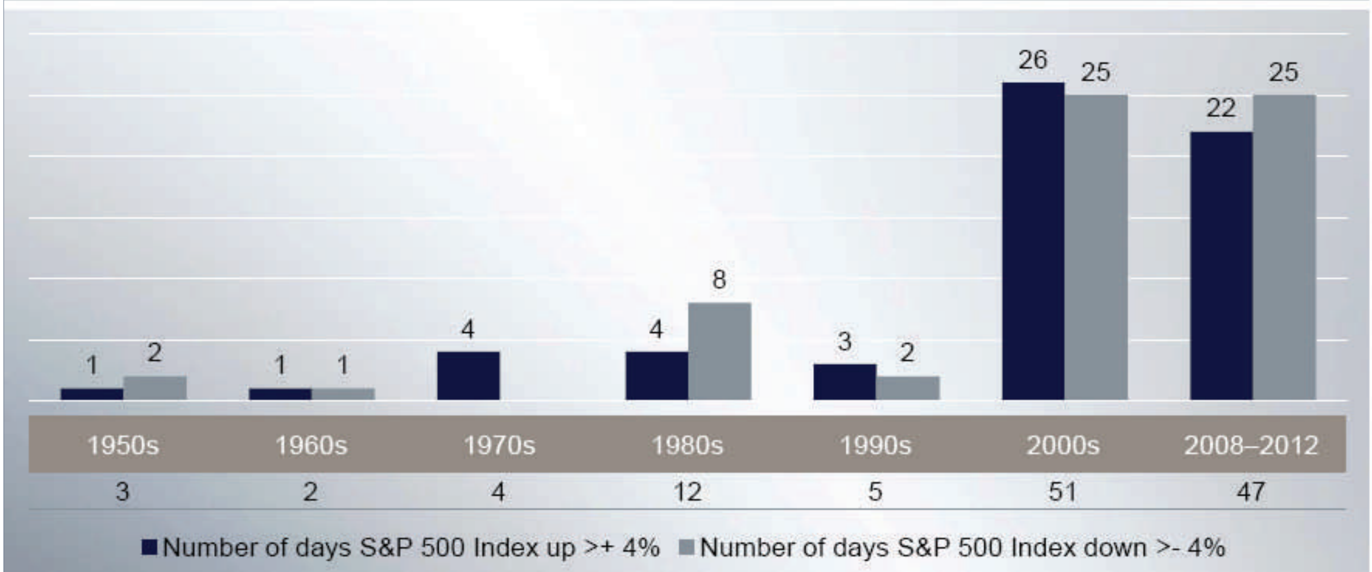
*Source: Department of the Treasury Resource Center (www.treasury.gov) as of April 2013.

**Source: Bureau of Labor Statistics, Consumer Price Index as of April 2013.

Equity Volatility Has Increased

The S&P 500 Index had more + or – 4% trading days from 2008 through 2012 (47) as the previous 58 years combined (38).

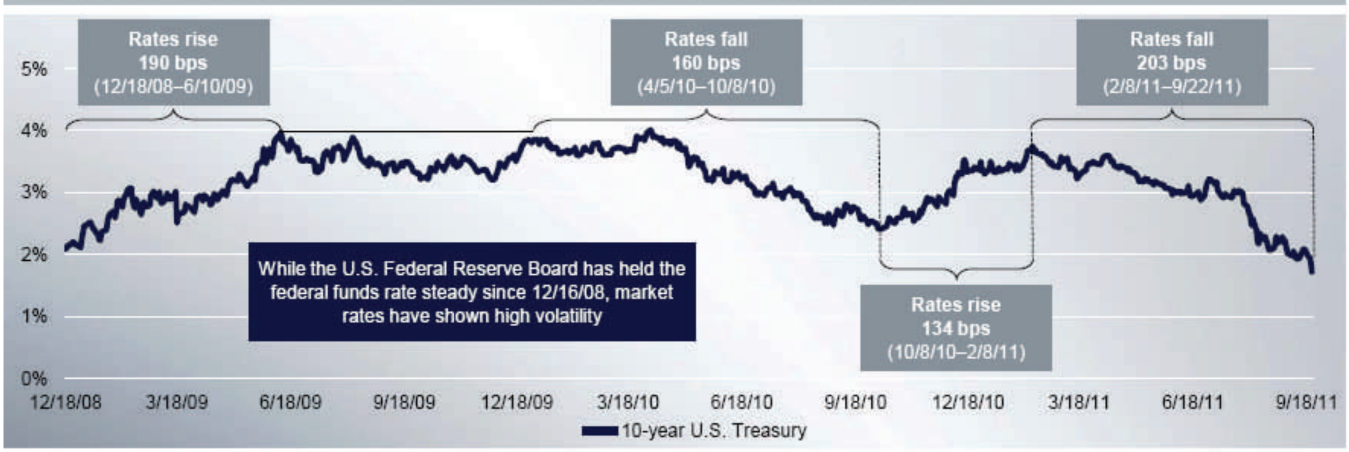
Number of days the S&P 500 index was up or down more than 4% (1950 to 2012)



Source: Morningstar

Interest-Rate Volatility Remains Elevated

Fixed-income asset classes during recent interest-rate environments (12/18/08–9/22/11)



Name	Rising	Falling
Floating-rate loans	11.53%	–0.51%
Short-term bonds	0.95%	1.86%
Intermediate-term bonds	–3.50%	11.93%
Long-term bonds	–8.33%	20.21%

Source: Morningstar

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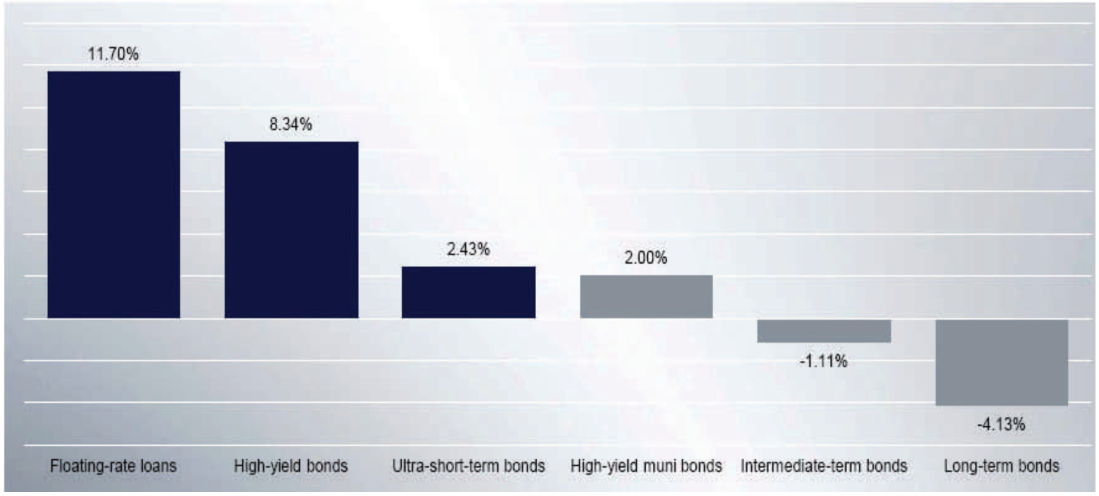
Total Return of Asset Classes When Interest Rates Have Risen 1% or More



Source: Morningstar

Why You Need a Power of Attorney and Medical Directive

It's late at night and you're waiting for your husband to arrive home from a business trip. Suddenly the phone rings and the voice on the other end informs you that your husband was in a terrible car accident and has been rushed to the hospital. You arrive to find several doctors awaiting permission to operate on your unconscious husband. They ask if he has a medical directive that authorizes someone, preferably you, to make health-care decisions on your husband's behalf.

A few days pass and your husband survives the accident, but he's going to be laid up for several weeks or months. Household bills need to be paid, but the primary source of income is your husband's business and you're not named on any of the business bank accounts. The bank representative asks whether your husband has a durable power of attorney naming you as his agent for financial matters.

These are everyday examples that highlight the importance of a medical directive and a durable power of attorney. Without these documents in place, you and your family could face personal and financial disaster.

What is a medical directive?

A medical directive lets others know what medical treatment you would want, and allows someone to make medical decisions for you, in the event you can't express your wishes yourself. There are two basic types of advanced medical directives--a durable power of attorney for health care and a living will--which generally vary by state. So be sure your documents comply with the laws of your state of residence.

A durable power of attorney for health care (known as a health-care proxy in some states) allows you to appoint a representative (health-care agent) to make medical decisions for you if you are unable to do so yourself. You can appoint almost anyone as your agent (as long as they are of legal age, usually age 18 or older). You decide how much power your representative will or won't have.

A living will allows you to approve or decline certain types of medical care, even if you will die as a result of that choice. In most states, living wills take effect only under certain circumstances, such as terminal injury or illness. Typically, a living will can be used to decline medical treatment that "serves only to postpone the moment of death." In those states that do not authorize living wills, you may still want to have one to serve as an expression of your wishes.

What is a durable power of attorney?

A durable power of attorney (DPOA) can help protect your property in the event you become physically unable or mentally incompetent to handle financial matters. If no one is ready to look after your financial affairs, your property may be wasted, abused, or lost. A DPOA allows you to authorize someone else to act on your behalf, so he or she can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

A DPOA may be effective immediately (this may be appropriate if you face a serious operation or illness), or it may only become effective upon the occurrence of an event, such as your incapacity (sometimes referred to as a springing power of attorney).

Caution: *A springing power of attorney is not permitted in some states, so you'll want to check with an attorney for its availability in your state.*

Additional things to consider

When creating either a DPOA or medical directive such as a durable power of attorney for health care (HPOA), it is important that you choose an appropriate agent. While you may select the same person to serve as agent in both documents, you are not compelled to do so. And be sure the person you select as agent is aware of that fact. Also, let them know where you keep these documents (you may want to give a copy of your HPOA to your agent and primary care physician as well).

Once you have these documents, review them periodically to be sure they still accomplish what you intend them to do.