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FINANCIAL SERVICES

YOUR FINANCIAL FUTURE

Your Guide to Life Planning

January 2012

"Making a positive impact on as many lives as I can." Please contact me if you have friends and family who would enjoy receiving this newsletter!

Steven Feiertag, CFP®
Feiertag Financial Services
2107 Reston Circle
Royal Palm Bch, FL 33411
800-252-4276
Fax: 561-333-0721
steven.feiertag@lpl.com
www.stevenfeiertag.com

In This Issue

January 2012 Greeting from Feiertag Financial Services

The holiday season and transition to a new year prompts us to reflect upon all of the things that we are thankful for, and look forward with optimism to new opportunities. During this special time of year, please know that I truly appreciate your business and your continued trust. Thank you.

It is no surprise that economic conditions over the past few years have created unique challenges for managing wealth and pursuing financial and investment goals. Many investors are seeking guidance that emphasizes caution and protection as our nation slowly works through what we hope will be a strong, steady recovery. Regardless of what economic and market changes may occur, I will continue to work with you to take the steps necessary to address your changing priorities and help you pursue your long-term goals. Please don't hesitate to contact me any time you have questions, or if there is anything I can do to further satisfy your needs.

Many of you have stopped the habit of contributing each year to your Roth IRA's. That likely is a mistake. Please call our office to see if you qualify to make a 2011 Roth IRA contribution. If you are still working and meet the IRA income guidelines for contributing to a Roth IRA, now is a good time to think about funding your Roth IRA for 2011. You have until April 17, 2012 to make your 2011 Roth IRA contribution. Many of our clients have Roth IRA's in place; it is very easy to mail in a check or set up an automatic monthly investment option on your account. Please call to get more information.

I look forward throughout 2012 to helping you clarify your financial picture, sort through the complexity of choices, and make strategic, well-planned decisions regarding your wealth and your future. Rest assured, I will always place your needs first in that pursuit.

Feiertag Financial Services

Steven I Feiertag, CFP®

Registered Representative, LPL Financial

2107 Reston Circle

Royal Palm Beach, FL 33411

800-252-4276

steven.feiertag@LPL.com

www.steven.feiertag.com

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Understanding Your Required Minimum Distribution

If you fail to take your full RMD, the IRS may assess an excise tax of up to 50% on the amount you should have withdrawn -- and you'll still have to take the distribution.

When it comes time to start withdrawing the money you've spent a lifetime accumulating in your retirement portfolio, you want to ensure that you make the right decisions. One that the government makes for you is requiring that you withdraw at least some of your funds annually, depending on the account type.

This is known as a required minimum distribution, or RMD, and it must be taken from your non-Roth retirement accounts by April 1 each year, starting the year after you turn age 70 1/2.

An RMD is generally determined using uniform life expectancy tables that take into consideration the account owner's and/or account beneficiary's age and marital status, as well as their account balance(s) as of December 31 of the year prior to the distribution year.

Here are some important considerations for those entering the "distribution phase" of their investing lives.

- **You can pick the account(s) you withdraw from ...** If you have more than one of the same type of retirement account -- such as multiple traditional IRAs -- you can either take individual RMDs from each account or aggregate your total account values and withdraw this amount from one account. As long as your total RMD value is withdrawn, you will have satisfied the IRS requirement.
- … **Unless they are two different types of accounts.** If you own more than one type of account, such as an IRA and an employer-sponsored plan account, you'll need to calculate your RMD for both types of accounts separately and take the proper amount from each.
- **You may be able to defer if you're still working.** If you are still employed at age 70 1/2, you may be able to defer taking RMDs from your employer-sponsored plan until after you retire. You'll need to check with your employer to see if this applies to you.
- **The penalties can be severe for failing to comply.** If you fail to take your full RMD, the IRS may assess an excise tax of up to 50% on the amount you should have withdrawn -- and you'll still have to take the distribution.
- **Taxes are still due upon withdrawal.** You will probably face a full or partial tax bite for your distributions, depending on whether your traditional IRA was funded with nondeductible contributions. Note also that the amount you are required to withdraw may bump you up into a higher tax bracket.
- **You can donate your RMDs to charity.** IRA owners can donate up to $100,000 of their annual distributions to qualified charities and have it count toward their RMD. If you've inherited an IRA, these donations are allowable as long as you are over age 70 1/2.
- **Roth accounts are exempt.** If you own a Roth IRA or Roth 401(k), you don't need to take an RMD. However, note that any distributions taken from a Roth do not count toward your RMD amount and that restrictions apply to the beneficiaries of inherited Roth accounts.

For More Information

Everything you need to know about retirement account RMDs can be found in IRS Publication 590, including the life expectancy tables you'll need to figure out your RMD amount. Your financial and tax professionals can also help you determine your RMD.

The information in this communication is not intended to be tax advice. Each individual's tax situation is different. You should consult with your tax professional to discuss your personal situation.

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Estate Planning: The Rules Change Again

While the current estate and gift tax exemptions render certain trust arrangements redundant for many, be sure to consider state tax considerations when drawing up your estate plan.

The federal government isn't making it easy for Americans to feel confident about their estate plans. In the past four years, the estate tax exemption has performed a jitterbug -- jumping from $2 million with a 45% top tax rate in 2008, disappearing completely in 2010, and ratcheting up to $5 million with a 35% top rate in 2011.

The $5 million/35% threshold will remain in place through 2012, but after that, all bets are off. The current law expires at the end of 2012, and unless Congress acts again to extend or change it, the exemption may revert down to just $1 million, while the top tax rate could rise to 55%.

Estate Taxes: A Moving Target

Year	Exemption	Top Tax Rate
2008	$2,000,000	45%
2009	$3,500,000	45%
2010	Estate tax repealed	0
2011	$5,000,000	35%
2012	$5,120,000	35%
2013	???	???

With so many changes over the years and so much uncertainty for the future, it's a good idea for anyone with an estate in excess of $1 million (both individuals and couples) to meet with financial and tax professionals to map out their estate planning needs.

Gift Tax Exemption: Act Before It's Gone?

As part of the new tax act, the gift tax exemption increased to $5 million in 2011 and was indexed for inflation to $5.12 million in 2012. Couples can transfer twice those amounts. But, as with the estate tax exemption, this "gift" is set to expire at the end of 2012.

One important item of note: While the current estate and gift tax exemptions render certain trust arrangements redundant for many, be sure to consider state tax considerations when drawing up your estate plan. Currently, nearly 20 states impose their own estate tax exemptions that can differ widely from federal law. For example, New Jersey allows an exemption of only $675,000. Be sure to check with your advisors to see if your state imposes taxes on estates and if a trust may still be applicable to your situation.

When you do meet with your estate planning professionals, you should also ensure your overall plan includes the following pieces:

- **Durable power of attorney** -- This document allows you to designate to one or more individuals access and control over your financial assets in the event you are incapacitated or unavailable.
- **Living will and health care proxy** -- A living will spells out your wishes in the event you need life-sustaining medical treatment. A health care proxy is similar to a durable power of attorney, but in this case, it allows your designee(s) to make medical decisions for you when you are unable to do so.
- **Business succession plan** -- Business owners should leave clear instructions as to the transfer of ownership of their entities upon their death or incapacitation. If you have a trust, be sure your succession plan complements your trust provisions.

The information in this article is not intended to be tax advice and may not be applicable to your situation. Please contact your tax advisor for information relevant to your own situation.

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Weekly Market Commentary | Week of January 3, 2012

Highlights

- During the last trading day of 2011, volatility drove the S&P 500 down in the final seconds to leave the Index unchanged from where it started the year and the total return at a mere 2%.
- There have been four years since WWII when the total return for the S&P 500 was roughly flat. All three of these years that preceded 2011 were followed by strong gains in the following year, averaging 38%.
- While the historical pattern suggests that a strong 2012 may follow a flat 2011, our outlook remains for an average gain of about 8-12% in 2011.

Stock Market's Flat 2011 May Suggest Booming 2012

The last trading day of 2011 seemed to be a fitting way to end the year. The S&P 500 Index remained in positive territory for the year until the last seconds of the day when a batch of sell trades produced the quick drop that left it to close at 1,257.60. This left the S&P 500 to end 2011 unchanged from the 1,257.64 closing level of 2010.

The volatility on the final day of 2011 was characteristic of a year in which the daily volatility of the S&P 500 was nearly double the average since WWII. Stocks produced gains early in the year and rose to a three-year high of 1,363.61 at the end of April, up about 9% for the year. Then the Index began a rocky decline that culminated at the beginning of October, at 1099.23, down about 12% for the year, before climbing back to where it began the year. While the Index price was unchanged in 2011, the total return for the S&P 500, which includes dividends received, was a mere 2% (chart 1).

This reflects a stall in what had been a powerful two-year winning streak for the stock market as it rebounded most of the way back from a closing low of 676.53 to the peak of 1565.15 that preceded the financial crisis.

1 S&P 500 Total Return in 2011

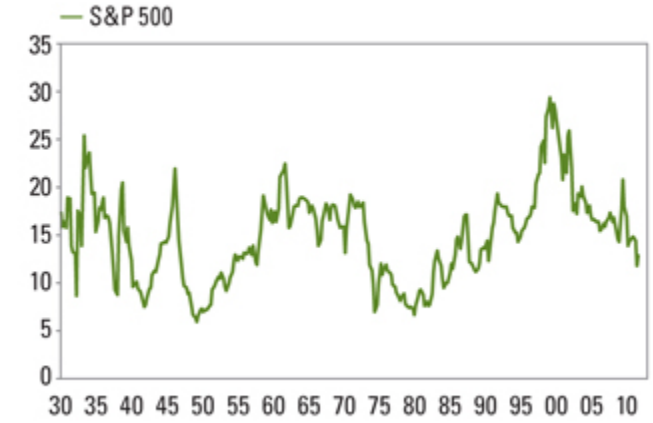
Source: LPL Financial, Bloomberg data 12/31/11

Does the pattern of performance exhibited by stocks in 2011 bode ill for 2012? Not historically, as the last time we saw a year with similar performance was 1994. Similar to 2011, in 1994:

- The S&P 500 was basically unchanged for the year with a total return of 1.32%
- Earnings for S&P 500 companies grew at a double-digit rate
- Defensive sectors, such as Consumer Staples and Health Care outperformed

While things may have looked bleak in 1994, it turned out to be far from the end of the business cycle.In fact, 1994 turned out to be the set up for the strongest five-year run in history for stocks as valuations soared,starting with a 38% total return in 1995.Recall that as of the end of 1994, the price-to-earnings ratio measured on the past four quarters of earnings, had fallen below average (chart 2) and was setting up for a surge in valuations in the years ahead.

2 S&P 500 Price-To-Earnings Ratio

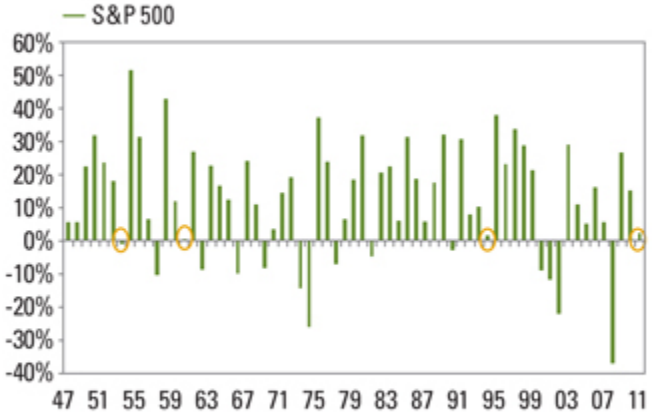


Source: LPL Financial, Bloomberg data, Thomson Financial data 12/31/11

Moreover, valuations, as measured by the forward price-to-earnings ratio on the consensus forecast for the next four quarters of earnings, had dropped to 12.4 as of the end of 1994. This is a similar level to today's 11.7.

Looking back further, we can see that in total there have been four years since WWII when the total return for the S&P 500 was basically flat: 1953, 1960, 1994, and 2011. All three of these years that preceded 2011 were followed by strong gains in the following year, averaging 38%.

3 S&P 500 Total Return Roughly Flat in Four Years Since WWII



Source: LPL Financial, Bloomberg data 12/31/11

The S&P 500 is an unmanaged index, which cannot be invested into directly. Past performance is no guarantee of future results.

While the historical pattern suggests that a strong 2012 may follow a flat 2011, our outlook remains for an average gain for the S&P 500 of about 8-12% in 2011, as detailed in our *2012 Outlook* publication. We see these gains supported by a slight improvement in valuations and mid-to-high single-digit earnings growth as the pessimistic outlook for profits reflected in the markets rise to converge with a slide in the lofty expectations for earnings projected by Wall Street analysts.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance reference is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The economic forecasts set forth in the presentation may not develop as predicted and there can be no guarantee that

strategies promoted will be successful.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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