I believe successful investors must remain patient, disciplined, and diversified through all economic cycles, especially during downturns. My firm helps manage the investments and behavioral attributes families need to pursue their goals. I trust this newsletter will help provide perspective and information as your family plans for the future.

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THE Financial Standard

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A New Year, a New Asset Allocation?

The last 12 months offered up another round of uncertainty for the economy and the investment markets and may well have shifted your asset allocation off its intended course.[1] As the calendar turns to 2013, now is the perfect time to review your portfolio allocations and make adjustments, as needed, to stay on track with your long-term goals.

The Semantics of Asset Allocation[2]

All portfolios start with a strategic, or "default," asset allocation. Your default allocation represents the percentage of your money you have invested in each of the major asset classes—stocks, bonds and cash.[3] A default allocation should stay static through time and should not be determined by market events.

By comparison, a target, or "tactical," asset allocation reflects temporary leanings toward one asset class or another based on short-term market movements. It is important to emphasize that tactical asset allocation is not the same thing as market timing. A tactical allocation adjustment is a form of fine-tuning a default asset allocation and is often done in response to broader market trends. Such measured alterations to a default allocation may be left in place for weeks, months or even years as environmental conditions warrant.

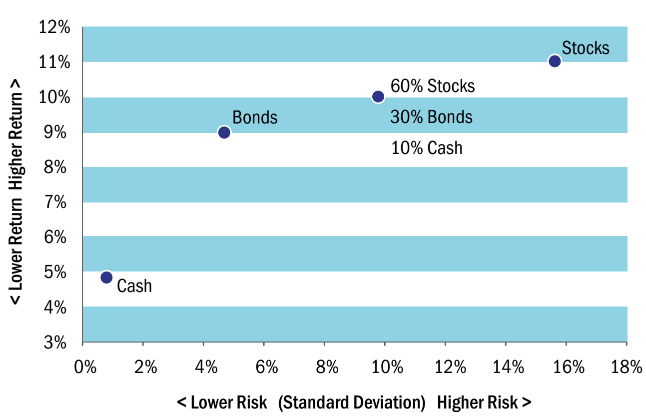
Putting the Process to Work—Evergreen Truths

The process of setting a default asset allocation can be supported by the following evergreen investing truths:

Truth #1: Historically, stocks have outperformed other asset classes, with greater risk.

Since 1950, stocks have outperformed bonds in 83% of all 10-year periods, while bonds have outperformed cash in 53% of all 10-year periods.[4] Similarly, standard deviation, which measures the instability of returns of various asset classes from year to year, has been relatively stable over time. Since 1950, standard deviation has averaged 0.8% for cash, 5.1% for bonds and 14.6% for stocks (ranked in order from least to most risky).[4] Based on this information, one can derive a reasonable estimate of an asset's risk in the future, although past performance cannot guarantee future results.

A Closer Look at Risk and Return (30 Years Ended December 31, 2011)[5]



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The Taxing Truth About Heathcare Reform

Attention high-income taxpayers: A new tax on investment income included as part of the healthcare reform law of 2010 is scheduled to take effect this month.

Specifically, a 3.8% surtax will be assessed on single taxpayers whose modified adjusted gross income (MAGI) exceeds $200,000 and on married couples filing joint tax returns whose income exceeds $250,000.

Net Investment Income Defined

Under the rule, net investment income includes interest, dividends, annuities, royalties and rents, unless such income is obtained through the ordinary course of business. It also includes the net gain from the sale of property. Notably, this includes the taxable gain on the sale of a primary residence (in excess of the $250,000 per person exclusion allowed for sellers who meet IRS requirements).[1,2]

What is not included in the new tax? Interest earned on tax-exempt securities or on distributions from IRAs and other qualified retirement plans, such as 401(k)s, 403(b)s and 457 plans.[3]

Tax-Smart Moves for Investors

If you are among those who will be affected by the new tax, these strategies may help to mitigate your exposure.

Maximize contributions to qualified retirement plans. Contributions to employer-sponsored plans reduce current taxable income, and distributions from such plans are not considered net investment income for the purposes of the new 3.8% tax. If you are retired, look for ways to maximize your income from IRAs or qualified retirement plans. If you are still in the workforce and have access to an employer-sponsored plan, contributing as much as you can every year may provide future tax savings.

Consider converting to a Roth IRA. If you have a traditional IRA, consider converting it to a Roth IRA. Unlike traditional IRAs, qualified distributions from Roth IRAs are not taken into account when analyzing the income thresholds for the surtax, nor are the distributions considered net investment income. Keep in mind that income taxes on the converted amount are due at the time of conversion, so be sure to factor in your ability to pay the tax owed as a result of the conversion.

Invest in municipal bonds. Consider an investment in tax-exempt municipal bonds. Income from municipals is not considered net investment income for the purposes of the 3.8% tax, nor is it considered part of your MAGI.[4]

Consider life insurance policies. Investors may look to insurance products (aside from annuities) to avoid the new tax. The buildup of life insurance cash surrender value is not subject to the new 3.8% tax, nor are life insurance proceeds that are excluded from income tax.[1]

The tax implications of investments are complex, change rapidly and differ from person to person. You should contact your tax professional and/or financial advisor to discuss your personal situation.

The 3.8% Tax at a Glance	Modified Adjusted Gross Income	Net Investment Income
Interest, dividends, annuities, royalties, rents (non-active business)	>$200,000 (single) >$250,000 (couples)	Taxed
Tax-exempt interest	Excluded	Exempt
Capital gains on sale of primary residence (in excess of IRS $250,000 exclusion)	Included	Taxed
Distributions from traditional IRAs and other retirement accounts (401(k)s, 403(b)s, etc.)	Included	Exempt
Distributions from Roth IRAs and other retirement accounts (401(k)s), 403(b)s, etc.)	Excluded	Exempt

This information is not intended to be tax advice and should not be treated as such.

[1]Source: The American Institute of CPAs (AICPA).

[2]Source: The Internal Revenue Service.

[3]Distributions from traditional IRAs and qualified retirement plans are exempt from the surtax, but they are taken into account for MAGI purposes and therefore may raise overall income above the threshold amount, thus triggering the surtax on other investment income.

[4]Municipal bonds are subject to availability and change in price. They are also subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax, and capital gains to the federal capital gains tax. State and local taxes may also apply.

The assumptions made are based on the proposed 2013 budget and tax provisions, which, as of publication date, had yet to be approved by Congress and are subject to change.

Planning for a Child With Special Needs

According to government statistics, more than 11 million children in the United States have special healthcare needs, including developmental disabilities, mental health disorders and physical disabilities.[1] For the millions of families affected, estate planning goes well beyond the traditional goals of wealth preservation and tax management to include provisions for the future care, custody and financial support of their special needs child.

As a first step, it is crucial to establish a clear understanding of the nature and extent of the child's needs, functional skill level and long-term prognosis. This helps in laying the groundwork for realistic long-term planning. A critical point to keep in mind is that a special needs child is likely to be financially dependent on others for his or her lifetime. So it is essential to create as much long-term financial security as possible.

Structuring a Plan

A special needs plan is unique in that it must be designed to protect and provide for the unique needs of the child while also preserving, to the extent possible, his or her eligibility for public needs-based benefits such as Supplemental Security Income (SSI), Social Security Disability Income (SSDI) and/or Medicaid. Current laws allow special needs planning to incorporate all available resources—both private and public—to provide fully for the needs of the child. Achieving this dual objective requires maintaining a delicate balance and vigilant oversight.

For instance, it is generally not advisable to give or bequeath assets, such as investment accounts, life insurance policies, annuities or pensions to a special needs child outright. Any gift or inheritance is likely to disqualify the child from needs-based programs.

The Special Needs Trust—A Flexible Solution

A special needs trust is the recommended planning technique for addressing special needs concerns. Such a trust should be designed to supplement rather than replace the support provided by governmental programs and to ensure that the child's needs continue to be met after the parents have passed away. Particular care must be taken when drafting and administering the trust to prevent the child from being disqualified from the government programs mentioned above. A trust can also be helpful in managing complex tax issues. For instance, using an irrevocable life insurance trust as a special needs trust is a tax-efficient way to provide for a child after the parents are gone.

Selecting a Trustee

Choosing a trustee is a critical part of the planning process. The trustee should have financial expertise (or be willing to hire an advisor with such expertise) and also be sensitive to the child's unique needs. One good solution may be to name co-trustees—a close family member and a corporate trustee, such as a bank or trust company. This helps ensure that assets will be properly managed and that the personal needs of the child will be advocated for and met.

Lastly, keep in mind that special needs planning requires the input of a range of professionals with specialized expertise and experience. In addition to a financial advisor, your planning team should include an estate planning attorney with expertise in special needs planning, an accountant, the appropriate social workers/case managers, siblings and, if practical, the child in question. Working with you, your team can create a plan that provides quality lifetime care for your loved one.

[1]Source: U.S. Department of Health and Human Services Health Resources and Services Administration, *2009-2010 National Survey of Children with Special Health Care Needs.*

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IRA Contributions on the Rise

In the past five years, IRA contributions have risen about 15% across all age groups—from those in their 20s to investors aged 70+. Roth IRAs are the clear favorite, outpacing contributions to traditional IRAs by nearly 63% since 2007. Notably, Roth IRAs are favored most by the youngest investors—with 84% of all recent IRA contributions made by investors in their 20s going to Roths—and the oldest, who made 85% of their IRA contributions to Roths.[1]

The Choice Is Yours

Which option is better for you? Each has its own specific rules and potential benefits (see table). No matter which type you choose, make the most of your IRA by opening it early and contributing to it regularly.

[1]Source: *Retirement Income Journal*, "IRA contributions increase nearly 15% since 2007: Fidelity," August 16, 2012.

[2]Deductibility of contributions may be dependent on income, tax filing status and coverage by an employer-sponsored retirement plan.

[3]Withdrawals before age 59½ may be subject to a penalty tax. Unless certain criteria are met, Roth IRA owners must be 59½ or older and have held the IRA for five years before tax-free withdrawals are permitted.

Traditional IRA	Roth IRA
May allow for qualified tax-deductible contributions.[2]	Contributions are not tax deductible.
Offers tax-deferred growth, with taxes paid upon withdrawal.[3]	Offers tax-deferred growth and qualified tax-free withdrawals.[3]
No contributions allowed after age 70½.	Contributions allowed after age 70½ if you have earned income.
Required minimum distributions must begin in the calendar year following the year you turn 70½.	Requires no distributions during your lifetime.
Allows for direct rollover of assets from an employer-sponsored retirement plan.	Allows for direct rollover of assets from an employer-sponsored retirement plan. Such rollovers are treated as a conversion, with taxes due on the proceeds. (Restrictions, limitations and fees may apply.)

A New Year, a New Asset Allocation? (Continued from page 1)

Truth #2: Holding a mix of asset classes and securities may provide you with lower risk and higher return.

Mixing investments can help you pursue returns while managing risk (see chart on page 1). In this example, the mixed portfolio of 60% stocks, 30% bonds and 10% cash averaged 10.07% during the past 30 years, with less risk than a portfolio made up exclusively of stocks.[5]

Truth #3: The optimal default allocation is based not only on market opportunities, but also on your unique objectives and risk tolerance.

Choosing the best default asset allocation is an exercise in self-assessment. What are your goal(s) for your investment dollars? How willing are you to tolerate short-term performance volatility in exchange for greater after-tax returns over the long-term? Will you need to start taking distributions from your portfolio in four years or forty? Your answers to these questions will help guide your asset allocation decisions.

Maintain Proper Portfolio Balance

Once you have a carefully crafted default asset allocation, maintain it. Review it on at least an annual basis and rebalance your target asset class weightings, as needed.[6] For instance, short-term advances (or declines) in the performance of one asset class may have thrown your default asset allocation off kilter. In this way, rebalancing is a discipline that helps to smooth the ride and keep your portfolio on target with your long-term goals.

Your financial advisor can help guide you through the very personal process of setting and maintaining an appropriate asset allocation.

[1]Asset allocation does not assure a profit or protect against a loss.

[2]The strategic asset allocation process projects a three- to five-year time period. If significant market fluctuations warrant a change, adjustments may be made sooner. Tactical portfolios are designed to be monitored over a shorter time frame to potentially take advantage of opportunities as short as a few months, weeks or even days. For these portfolios, more timely changes may allow investors to benefit from rapidly changing opportunities within the market.

[3]Investing in stocks involves risks, including loss of principal. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

[4]Performance covers the 50-year period ended September 30, 2012. Stocks are represented by the S&P 500. Bonds are represented by a composite of returns on long-term bonds (derived from yields published by the Federal Reserve), the Barclays Long-Term Government Bond index and the Barclays U.S. Aggregate index. Cash is represented by a composite of yields on 3-month Treasury bills, published by the Federal Reserve, and the Barclays 3-Month Treasury Bills index. Past performance cannot guarantee future results. Indices are unmanaged and cannot be invested into directly.

[5]Performance covers the 30-year period ended December 31, 2011. Stocks are represented by the S&P 500. Bonds are represented by the Barclays U.S. Aggregate Bond Index. Cash is represented by a composite of yields on 3-month Treasury bills, published by the Federal Reserve, and the Barclays 3-Month Treasury Bills Index. Past performance cannot guarantee future results. Indices are unmanaged and cannot be invested into directly.

[6]Rebalancing strategies may involve tax consequences, especially for non-tax-deferred accounts.

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