STRATEGIC Wealth Advisors

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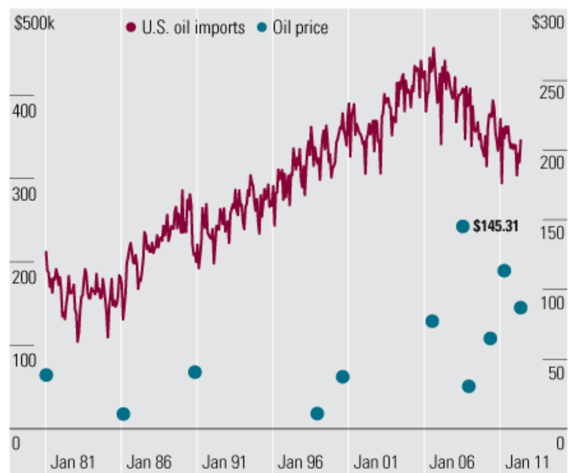
The Politics of Oil

With prices reaching $4 at the pump, the oil problem will probably be a major factor during the 2012 election season. In March 2012, the White House published a report showing how U.S. oil imports have dropped from 57% of total consumption in 2008 to 45% in 2011, a powerful argument for when president Obama needs to defend his energy policy.

In fact, oil imports (measured in thousands of barrels) have been dropping since 2006, but prices continued to climb, reaching a high of $145.31 per barrel in 2008. A more important question that comes to mind is whether the decline in imports is indeed due to more efficient domestic production or simply to decreasing demand caused by escalating prices.

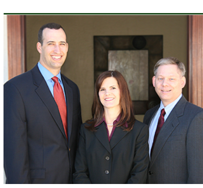
U.S. Oil Price and Import Trends



This is for illustrative purposes only and not indicative of any investment. Past performance is no guarantee of future results. Report cited: "The Blueprint for a Secure Energy Future: Progress Report," March 2012, The White House, Washington, D.C.

Oil prices: West Texas Intermediate Crude in U.S. dollars per barrel. U.S. oil import data from the U.S. Energy Information Administration.

What's Happening at SWA



The SWA Team

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As we enter into the last quarter of 2012, the team at SWA has a few year-end planning reminders.

(1) If you have a traditional IRA and are age 70 ½ or more, you are required to take an "RMD" (Required Minimum Distribution) by December 31st. Anyone who has an Inherited IRA may also be required to take an RMD. (Note, for our advisory clients, we are managing the RMD process.)

(2) If you are eligible for an employer sponsored retirement plan (such as a 401k or 403b), consider maxing out your contributions by year-end. Individuals under age 50 can contribute up to $17,000. Those age 50 or older by 12/31 can contribute up to $22,500. Check with your employer or send SWA your most recent paystub to see if you need to modify your contributions for the remainder of the year.

The Team at SWA remains available to answer any questions you may have regarding these or other planning strategies.

Monthly Market Commentary

Although several bellwether stocks, such as Intel, Texas Instruments, FedEx, Norfolk Southern, and Caterpillar announced earnings warnings, investors mostly shrugged-off weaker fundamentals and placed their hopes on growth through coordinated easing. Investors were not disappointed, as additional quantitative easing (QE3) was announced on September 13th. Riots in Spain caused markets to react negatively, durable goods orders took a dive because of airline orders, and income and consumption numbers were hit hard by a quick spike in inflation rates. However, year-over-year data for almost every report continued to look a lot better than the volatile month-to-month statistics.

GDP: Second quarter real GDP growth was unexpectedly revised downward in September to 1.3%, after initially being revised upward to 1.7% from 1.5% in August. Adjustments were across the board, which included a slowdown in personal consumption, inventory growth, and negative net exports.

Employment: The recent jobs report revealed a surprise drop in the unemployment rate to 7.8%, down from 8.1% in August. In September, 114,000 jobs were added, but more importantly, the job numbers were revised substantially higher for July (+40,000 jobs) and August (+46,000 jobs). These revisions are likely to produce meaningful increases in both personal income and consumption growth.

Housing: Housing data was mixed as house prices rose but pending home sales seemed lighter than expected. The Case-Shiller 20 City Index rose 1.2% sequentially and is now 7% to 8% above lows reached this spring. The relatively consistent improvement in prices over the past few months should help the appraisal process that has kept many pending homes that went under contract from actually closing. Consistent price increases, along with near-record low mortgage rates and skyrocketing rents, could push potential buyers off the fence.

Manufacturing: New orders for durable goods were down a whopping 13%. A major air industry show in July often causes a huge boom for airline orders in that month, followed by a collapse in August. If volatile categories such as airliner orders and other transportation equipment are ignored, new orders were down a modest 1.6% in August. Morningstar economists believe that while the export news looked particularly bleak, a combination of ramp-up in jetliner productions from Boeing and continued improvements in the auto industry (auto sales hit a new recovery high in September) should prevent a rout of the manufacturing industry in the U.S.

Quarter-end insights: The initial fears at the end of the second quarter that the U.S. would be pulled back into a recession because of slowdowns in Europe and China, has not come to pass. Markets were surprisingly strong in the third quarter, mainly from actions by central banks around the world that drove markets higher. Although the housing recovery has been improving for most of 2012, it has yet to have any significant impact on overall economic activity since residential housing only represents 2% to 3% of GDP. This excludes spending that typically follows home purchases, such as new furniture and landscaping. Morningstar sector analysts' quarter-end outlook highlighted lackluster fundamentals that showed no definitive signs of either a collapse or a boom. During the third quarter, cyclical and more economically sensitive stocks generally did well while more staid industries, such as utilities, generally underperformed the market. There is also concern of a stronger dollar undercutting sales growth with a general fear that the higher dollar may likely depress margins in the months ahead. High margins and conservative capital spending have resulted in higher levels of cash at major corporations, which is finding its way into the mergers and acquisitions space. Much of the merger and acquisition activity as well as general corporate growth stories continue to be built around emerging-markets growth, despite near-term pressures in some of those markets.

Retirement Investing Q&A

Q: Under current law, at what age can you begin receiving Social Security benefits?

A: The earliest age at which you can begin receiving Social Security benefits is 62. However, you will receive a reduced benefit if you retire before your full retirement age.

Q: What are some big mistakes that people make concerning their retirement?

A: Not contributing to an IRA, a 401(k), or both is probably the single biggest mistake that is made. 45% of current retirees utilize their personal savings for retirement income; 62% of current workers anticipate personal savings to play a role during retirement.

Q: What is the maximum contribution to IRAs (both regular and Roth) and 401(k) plans in 2012?

A: If you are age 49 or younger, the maximum contribution is $5,000 for both regular and Roth IRAs, and $17,000 for a 401(k) plan. If you are age 50 or more, the maximum contribution is $6,000 for both regular and Roth IRAs, and $22,500 for a 401(k) plan.

Q: Are distributions (payouts) taxed on regular IRAs, Roth IRAs, and 401(k)s?

A: The short answer is that if you got a tax break on the contribution, you will pay taxes on the subsequent distribution. Contributions to regular IRAs and 401(k)s are generally made with pre-tax dollars (pre-tax contributions reduce your taxable income for the year in which they are made), so distributions are taxed. Roth IRA contributions, however, are made with after-tax dollars, so distributions are generally not taxed.

Q: At what age can you generally begin taking distributions from an IRA or 401(k)?

A: You can begin taking distributions from your regular IRA, Roth IRA, or 401(k) plan at age 59 ½.

Q: Can you roll your 401(k) over into an IRA?

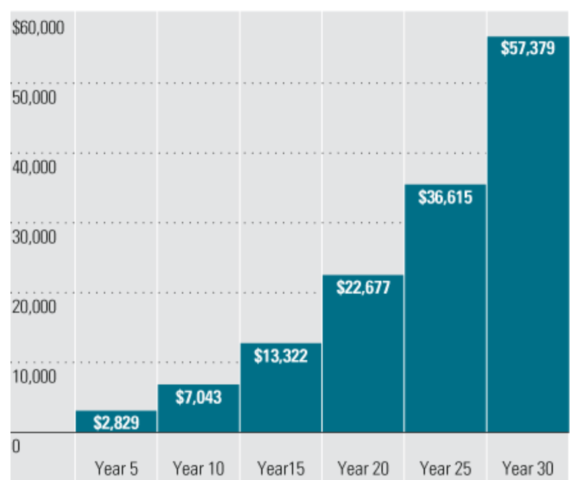
A: Yes. You can move 401(k) balances into a "rollover" IRA account without penalty. This option enables you to keep your money tax deferred, and can potentially increase your investment options, as IRAs are self-directed and 401(k) plans have investment options that are decided by the plan administrator.

Q: How can I begin saving for retirement?

A: Little changes can make huge differences. For instance, have a regular coffee ($1.75) instead of a latte ($3.50) every morning before work. Invest the savings each month ($1.75 X 22 workdays = $38.50), and you could end up with quite a hill of beans!

Sources: Employee Benefit Research Institute, 2012 Retirement Confidence Survey.

A "Latte" Savings



This is for illustrative purposes only and not indicative of any investment. The data assumes reinvestment of all income and does not account for taxes and transaction costs. The image assumes a hypothetical 8% annual return and that savings are invested at month end.

Risk Calibration for Retiree Portfolios

Managing risk during retirement has changed a lot during the past few decades. In the past, retirees enjoyed the luxury of much higher interest rates as well as pensions, which meant they could lower their equity holdings during retirement. For today's retirees, however, staying invested in low-return assets is a luxury they may not be able to afford. Instead, they should keep their eyes on the following risks.

Longevity: Longevity risk is the risk of outliving your assets. Given a long portfolio life span, retirees need more growth from their portfolios than cash and bonds can afford. Holding stocks is important for growth; however, the question remains: what's the right amount? In addition to considering a higher equity weighting, pre-retirees and retirees can also consider options such as deferring Social Security, working longer or part-time, and decreasing in-retirement spending, particularly after market downturns.

Long-Term Care: A year in a private room in a nursing facility now averages $78,000, according to a Genworth survey*, and long-term care in urban settings can be far more costly than that. If you are concerned that long-term care could eat away your retirement nest egg, you may want to consider purchasing a long-term care insurance policy. These policies are pricey, particularly if you buy one with an inflation component and/or if you're over 65, but they can provide invaluable peace of mind, too.

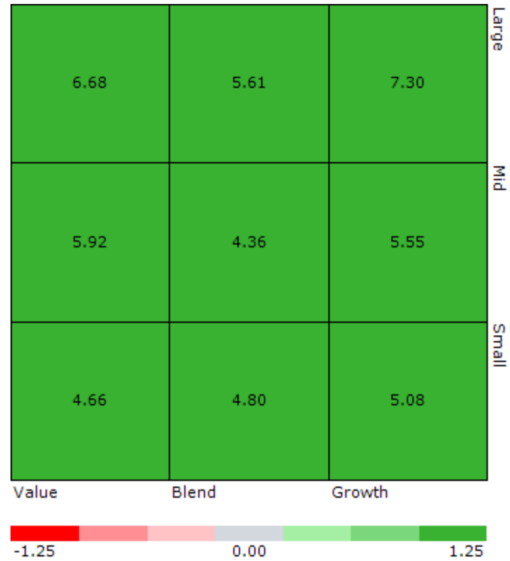
Inflation: Retirees living off of their investments don't receive cost-of-living adjustments (except for their Social Security and possibly their pension income), so inflation can readily translate into declining purchasing power and a reduced standard of living. Treasury Inflation-Protected Securities (TIPS) are the most direct way to hedge against an unexpected increase in inflation, providing an adjustment to an investor's principal to keep pace with inflation. Stocks are another, indirect way to guard your portfolio against the threat of inflation. They have the potential for higher returns than bonds, and inflation will take a smaller bite out of your future purchasing power. Owning companies with a demonstrated history of dividend growth is another way to help offset the effects of inflation on your portfolio.

Higher Taxes: Massive government spending and unfunded liabilities could translate into higher taxes across the board. Investors may be able to reduce tax liabilities by including tax-loss selling, Roth conversions, and municipal bonds. Roth 401(k)s and IRAs are also good options for tax-conscious investors seeking at least some tax-free treatment of their retirement assets.

*Report cited: "Genworth 2012 Cost of Care Survey, Home Care Providers, Adult Day Health Care Facilities, Assisted Living Facilities and Nursing Homes," April 2012.

Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the U.S. government as to the timely payment of principal and interest, while stocks are not guaranteed and have been more volatile than other asset classes. Dividends are not guaranteed and are paid solely at a company's discretion. Municipal bonds may be subject to the alternative minimum tax (AMT) and state or local taxes, and federal taxes would apply to any capital gains distributions. TIPS are subject to risks which include, but are not limited to, liquidity risk, credit risk, income risk, and interest-rate risk. Funds in a traditional IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free, and can be withdrawn tax free if assets are held for five years. A 10% federal tax penalty may apply for withdrawals prior to age 59 1/2. Please consult with a financial or tax professional for advice specific to your situation. Insurance guarantees are based on the claims paying ability of the insurance company.

Quarterly Market Barometer



3 Month, ending September 30, 2012. The U.S. Market returned 6.19% (YTD 16.12%).

The Morningstar Market Barometer provides a visualization of the performance of various stock market indexes. The color scale (red for losses and green for gains) allows you to assess which areas of the market performed strongly and which areas showed weakness for the time period analyzed. The nine-square grid represents stocks classified by size (vertical axis) and style (horizontal axis). There are three investment styles for each size category: small, mid and large. Two of the three style categories are "value" and "growth" while the central column represents the core style (neither value nor growth characteristics dominate). Large-caps account for the top 70% of the capitalization; mid-caps represent the next 20%; and small-caps represent the balance.

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