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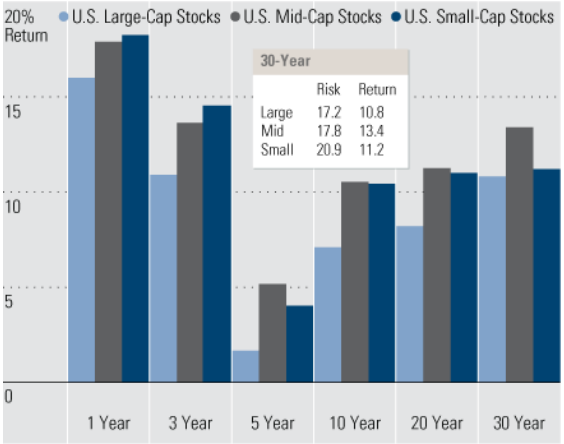
A Quick Look at Mid-Cap Stocks

Investors often hear about large- and small-cap stocks, but what about mid-caps? A quick look at large-, mid-, and small-cap stock performance over various time periods shows that investors may want to consider U.S. mid-cap stocks for their portfolio.

Mid-cap stocks offered the highest compound annual returns in four out of the six time periods analyzed, and were relatively close (in terms of return) with small stocks in two other time periods. In terms of risk, the data shows that mid-cap stocks had a 30-year annualized risk of 17.8%, which was lower than the 20.9% risk of small stocks and only slightly higher than the 17.2% risk of large stocks.

Talk to your financial advisor to see if there is potentially a place for mid-cap stocks in your portfolio allocation.

Annualized Stock Performance as of December 2012



Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. Diversification does not eliminate the risk of experiencing investment losses. U.S. large stocks are represented by the Standard and Poor's 500®, which is an unmanaged group of securities and considered to be representative of the U.S. stock market in general, U.S. mid-cap stocks by the S&P MidCap 400®, and U.S. small stocks by the Ibbotson® Small Company Stock Index. Returns and principal invested in stocks are not guaranteed. Furthermore, small stocks are more volatile than large stocks and are subject to significant price fluctuations, business risks, and are thinly traded. Risk and return are measured by standard deviation and compound annual return, respectively. Standard deviation measures the fluctuation of returns around the arithmetic average return of the investment. The higher the standard deviation, the greater the variability (and thus risk) of the investment returns.

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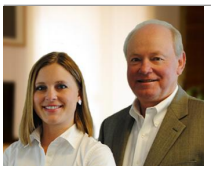

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Chambers Financial Group

Chambers Financial Group is a comprehensive financial services firm that was founded in 1984 with the goal of assisting our clientele with a holistic financial view in mind. We integrate many of the financial areas in your life, including investment planning, portfolio management, retirement planning, estate and tax planning.

We are an independent family practice dedicated to providing objective, responsible financial planning assistance to a broad range of clients. Our objective is to help our clients live the life they wish to, both now and in the future. Our clients' success is our success.

We believe in building long-term relationships with our clients. We believe in the value of building trust and confidence with long range plans to achieve your financial goals. We give unbiased, honest advice and believe patience along with discipline is crucial in the achievement of defined investment goals.

How Are Variable Annuities Different When Held in a Qualified Account?

There are some basic differences when a VA is held inside a qualified account, meaning an IRA (traditional or Roth) or employer plan.

Contract Titling Difference: A non-qualified contract can be held by two owners or a trust, whereas a VA held in a qualified account must have an individual owner who is also named as the annuitant. (Note that on the Lifetime GMWB, joint spousal coverage can be achieved on an individual retirement account.)

Product Differences: Often, a VA contract or benefit held in a qualified account has a different issue age. For example, one lifetime income rider must be purchased by age 77 when held in a qualified account, versus age 80 in a non-qualified account. In a few cases, fees and expenses are different. One variable annuity contract charges an extra 20 basis points when held in a qualified account. One carrier waives the annual account fee for qualified accounts with a minimum balance of $20,000. In one case, the VA product itself was designed exclusively as a qualified contract. For one carrier, an owner of a qualified contract has the option to terminate a living benefit, whereas non-qualified contracts cannot terminate a benefit once elected. Select carriers increase the withdrawal percentage to equal the RMD. Other living benefits treat RMDs favorably.

Tax Treatment—Different IRS limits on contributions: Non-qualified VAs do not have IRS restrictions on annual contributions, while qualified VAs are limited by the $5,000 annual contribution ceiling. 1) RMD requirements: Qualified VAs need to start required minimum withdrawals at age 70 ½ (except if the VA is held in a Roth IRA). Non-qualified contracts do not have RMD requirements. 2) RMD calculation is different: When calculating the RMD, the carrier factors in the present value of any enhanced death benefit and living benefit. As a result, RMDs can seriously erode account value. 3) Treatment of annuity payments: There is no exclusion ratio on payouts from a qualified VA, since no taxes have been paid on any of the investment principal. So 100% of the withdrawals are taxed as ordinary income. 4) Acceptance of rollovers: Proceeds from a qualified plan rollover are eligible to be rolled over directly to a qualified VA without taxation. Conversely, qualified plan rollovers cannot be placed in a non-qualified VA contract without taxes being owed.

Advisor Tips: When a variable annuity is held in a qualified account, name the owner and the annuitant as the same person. Once the owner passes away, the death benefit will pay to the primary beneficiary. When a living benefit is held inside a qualified account, an RMD may erode the account value quicker unless the rider is "RMD friendly," meaning an RMD above the allowable withdrawal percentage is not considered an excess withdrawal. Be aware of how an RMD affects the benefit base, especially when using a GMIB rider, most of which have no special treatment of RMD withdrawals. Look for "RMD friendly" living benefits.

The examples presented herein are for informational purposes only. They are not representative of any specific annuity and do not constitute investment advice. Annuities are suitable for long-term investing, particularly retirement savings. Withdrawal of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. Investing in a variable annuity within a tax-deferred account will provide no additional tax savings and, therefore, should be considered only for other benefits that may be provided by the annuity or associated riders. Additional fees apply for living-benefit options. Investment restrictions may also apply for all living-benefit options. Violating the terms and conditions of the annuity contract may void guarantees. Read your prospectus carefully for all the fees and expenses that may apply to your variable annuity contract. It is also recommended that you consult with a financial advisor and tax advisor before purchasing an annuity.

To Trust or Not to Trust

Investors make significant efforts to maintain a disciplined saving approach throughout their lives in order to meet long-term financial goals such as retirement, saving for children's education, or passing an estate to grandchildren. Thinking about what will happen when you are no longer here is not pleasant; it is important, however, to plan how you and your spouse will pass your assets to your family.

The most important issue that arises in estate planning concerns estate taxes, which can be very high indeed. When a spouse dies, the tax law stipulates that an unlimited amount of property and money can pass to the surviving spouse free of federal estate taxes. However, when an estate is passed on to children or family members other than a spouse, federal estate taxes have to be paid on amounts exceeding $5.25 million for individuals or $10.5 million for couples (American Taxpayer Relief Act, enacted in January of 2013). The balance is subject to a 40% tax rate. For individuals or couples with estates exceeding these limits, one option is to establish a trust.

A trust is a legal entity through which you transfer control (not ownership) of your estate to a trustee (this is usually an institution or a corporate entity, such as a bank). The term "estate" generally refers to your assets—everything you own (or have certain interests in), such as real estate property, cash, securities, insurance, retirement plans, and business interests.

Let's assume that Mr. and Mrs. Smith have a $12 million estate to leave to their children. Without a trust, if Mr. Smith passes away and leaves everything to his wife, she will not have to pay any taxes. However, when she passes away and leaves the $12 million to her children, they will have to pay federal taxes on $1.5 million. With a 40% tax rate, this can mean as much as $600,000 paid in taxes.

If Mr. Smith establishes a trust before he dies, however, the situation is different. Suppose Mr. Smith, in his will, establishes a $12 million trust with his wife as the beneficiary. This means that Mrs. Smith is able to receive income from the trust for the remainder of her life and even retrieve an amount of the principal, if necessary. When Mrs. Smith passes away, the balance of the trust would be passed to the children, and—here is the most interesting part—since the trust is not considered part of Mrs. Smith's estate, it escapes (or bypasses) federal estate taxes. This is why such trusts are usually called "bypass trusts." By establishing the trust, Mr. and Mrs. Smith are able to pass to their children $600,000 that would otherwise have been paid in taxes.

Also, the marital deduction can now apply to same-sex couples after U.S. Supreme Court's 2013 decision in United States v. Windsor.

Of course, there is always the possibility that tax laws will change. In 2001, President George W. Bush signed the Economic Growth and Tax Relief Reconciliation Act, a decade-long tax act that was set to expire at the end of 2012. However, on January 2, 2013, President Obama signed the American Taxpayer Relief Act that maintained most of the "Bush-era" estate tax provisions. As a result, the estate -tax-exempt amounts were kept at the 2011 level ($5 million) and will be adjusted for inflation each year. The estate tax rate, however, was increased from 35% to 40%.

All this tax and legal jargon can be confusing and intimidating, but it is important to learn about which laws apply to you and what will happen to your estate in the event of your death. It is highly recommended that you consult a financial or legal professional to discuss your options and see if establishing a trust might be the right move for you.

The information contained herein should not be viewed as Morningstar providing investment, tax, or legal advice. Please contact your financial professional regarding such services.

Five Lessons from the Three-Year Market Rally

…now a four-year market rally, but the lessons are still relevant. 1) The turning point is not always obvious. In hindsight, it seems like it should have been dead obvious that stocks were cheap four years ago. But, because of their inability to clearly identify market bottoms, investors may be better off sticking with a strategic asset-allocation plan. 2) Don't let past performance control your portfolio. To the extent that you can, let your strategic asset-allocation framework be a key driver of where you deploy new cash. 3) To help maximize participation, make a little room for the risky stuff. Even though higher-quality stocks tend to hold up better during downturns, the opposite tends to be true during recoveries. Investors may want to maintain exposure to both types of companies: high-quality, wide-moat dividend payers and economically sensitive small- and mid-caps. 4) But there are also chicken ways to play. You don't need to pile on the risk to generate robust gains in absolute terms. Investors who have shorter time horizons or are simply more comfortable with lower-risk stocks can reasonably allocate more toward such stocks without completely ceding their upside potential. 5) There will be bumps (and buying opportunities) along the way. The movement hasn't always been upward since the market bottomed. If your portfolio is light on stocks at the outset of a rally, periodic sell-offs may provide opportunities even at a later time.

Diversification and asset allocation do not eliminate the risk of investment losses. Stocks are not guaranteed and have been more volatile than other asset classes. Small stocks are more volatile than large stocks, are subject to significant price fluctuations and business risks, and are thinly traded. This should not be considered financial planning advice. Please consult a financial professional for advice specific to your individual circumstances.

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