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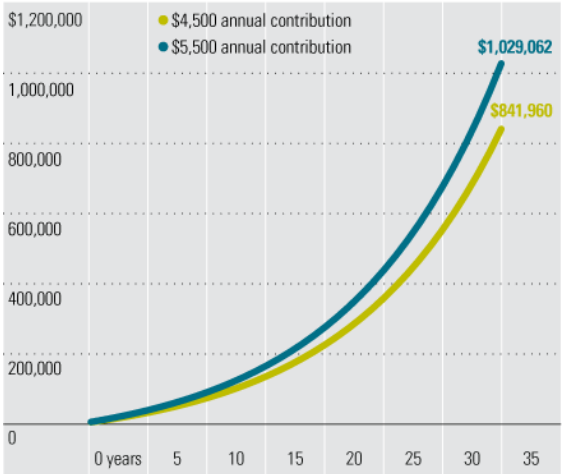
Don't Forget to Raise Your IRA Contribution

In 2013, contribution limits for both traditional and Roth IRAs (individual retirement accounts) will increase to $5,500 a year for those 49 years of age or younger. If you are 50 or older, the maximum contribution is $6,500. This limit can be split between a traditional and a Roth IRA. These annual contribution limits are imposed by the Federal Government.

The graph shows both a $4,500 and $5,500 annual contribution growing at a hypothetical 8% annual return. Notice the dramatic impact on the ending value of the portfolio. This may be a great time to re-evaluate your financial situation and increase your annual investment to your IRA. Even if you are unable to max out your contribution, any increase you can afford may help you reach your savings goals more easily in the long run.

Hypothetical Growth of Annual IRA Contribution



This is for illustrative purposes only and not indicative of any investment. Funds in a regular IRA grow tax-deferred and are taxed at ordinary income tax rates when withdrawn. Contributions to a Roth IRA are not tax-deductible, but funds grow tax-free as money withdrawn is not taxed. Penalties may apply for withdrawals prior to the age of 59 1/2.

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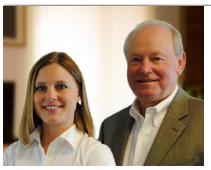

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Chambers Financial Group

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.

Dividend Income During Downturns

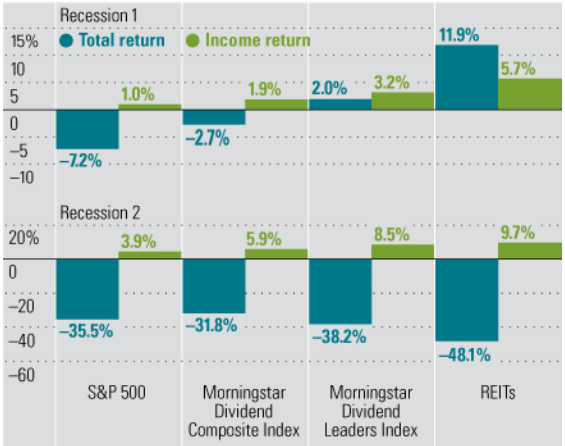
During a recession, the stock market can lose significant value. This could have a large impact on portfolio returns. Predicting the duration and extent of recessionary periods is almost impossible. During such times, income-producing investments such as dividend -paying stocks and REITs may soften losses, particularly when investors incur negative returns. This means that, if and when dividends are paid out, they have the potential to act as a cushion and are positive whether stock returns are positive or negative.

The image compares the total return and income return for the S&P 500 index, Dividend Composite index, Dividend Leaders index, and REITs for the past two recessions in 2001 and 2007. As seen in the image, dividend-paying stocks and REITs produced higher income returns relative to the S&P 500 over the given time periods (however, keep in mind that REITs are far more risky than their typical common stock counterparts). Stocks that pay dividends may serve as an income source while also providing investors with exposure to the growth potential of the stock market.

Dividends are not guaranteed and are paid at the discretion of the stock-issuing company. Diversification does not eliminate the risk of experiencing investment losses. Government bonds are guaranteed by the full faith and credit of the United States government as to the timely payment of principal and interest, while stocks and REITs are not guaranteed and have been more volatile than the other asset classes. REITs are subject to certain risks, such as risks associated with general and local economic conditions, interest rate fluctuation, credit risks, liquidity risks and corporate structure. REITs must distribute at least 90% of taxable income annually to shareholders.

The Morningstar Dividend Composite Index captures the performance of all stocks in the U.S. Market Index that have a consistent record of dividend payment and have the ability to sustain their dividend payment. Stocks in the index are weighted in proportion to the total pool of dividends available to investors. The Morningstar Dividend Leaders Index captures the performance of the 100 highest yielding stocks that have a consistent record of dividend payment and have the ability to sustain their dividend payments. Stocks in the index are weighted in proportion to the total pool of dividends available to investors. Recession data is from National Bureau of Economic Research (NBER) and defined by the periods March 2001–November 2001 and December 2007–June 2009. NBER does not define a recession in terms of two consecutive quarters of decline in real GDP. Rather, a recession is a recurring period of decline in total output, income, employment, and trade usually lasting from six months to a year and marked by widespread contractions in many sectors of the economy.

Returns of the S&P 500®, Dividend-Paying Stocks, and REITs



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. S&P 500 is represented by the Standard & Poor's 500®, which is an unmanaged group of securities and considered to be representative of the stock market in general. REITs are represented by the FTSE NAREIT All Equity REIT Index®. Morningstar Dividend Composite is represented by the Morningstar Dividend Composite Index, and Morningstar Dividend Leaders by the Morningstar Dividend Leaders Index. Income return and total return are represented by the compound annual return over the given time period.

IRA Dos and Don'ts

Do

Think of the IRA as a way to take control of your finances amid an unpredictable market: You know that old saying about having the wisdom to know what you can and can't control? Well, you can't control the market's ups and downs, but you certainly can make sure that your investments are as good as they can be, that your investment costs are low, and that you're taking advantage of every tax-sheltered opportunity available, such as contributing to an IRA.

Bear in mind your overall asset-allocation plan: Size up your whole portfolio's stock/bond/cash mix and take note of any big sector or style biases; also note any gaping holes in your portfolio. You can also compare your portfolio with a target-date fund designed for someone in your age range. If you find that you need to add to your holdings in a certain asset class or investment style, your IRA is a logical place to start.

Use an IRA calculator: These tools (make sure they are on a trusted and reputable Web site) can help you identify the IRA type that you're eligible to contribute to and will allow you to maximize your return once taxes are factored into the equation. Moreover, they can provide valuable guidance in determining whether converting from a traditional IRA to a Roth makes sense.

Don’t

Forget about your spouse: Married couples that include a working and non-working spouse can maximize their after-tax results by setting up IRAs for both individuals. A so-called spousal IRA is an option as long as you file a joint return and the working spouse has earned enough qualifying income (be aware of limitations) to fund both his or her own IRA and that of the spouse.

Assume that you need a lot of cash on hand to invest in an IRA: A strategy, called dollar-cost averaging, is a systematic way of investing equal dollar amounts at predetermined times. It allows an investor to purchase more shares of an asset when the price is low, and fewer shares when the price is high. It also makes an IRA a more-affordable option if you don't have the full contribution amount on hand.

Assume that you don't need to contribute to an IRA if you already contribute to a 401(k): If you're maxing out your 401(k), you should consider an IRA as well because IRAs can help you diversify the tax treatment of your retirement assets. For example, if you're contributing the max to your 401(k), you'll owe taxes on a considerable amount of assets when you retire and begin tapping the assets. Withdrawals on Roth IRA assets, meanwhile, will be tax-free. By hedging your bets among the two vehicles, you have less riding on a wager about whether tax rates will be higher or lower in the future; you also maximize your tax-deferred savings.

Shelter investments with tax benefits inside an IRA: IRAs already offer tax-deferred (or in the case of a Roth, tax-free) compounding, so there's no need to stash tax-advantaged instruments like municipal bonds within them. Save those for your taxable accounts and consider IRAs only after you've maxed out your tax-sheltered options.

Be sure to consult with a financial advisor or tax professional for the latest rules and regulations. Stocks are not guaranteed and have been more volatile than bonds. Municipal bonds may be subject to the alternative minimum tax and state/local taxes, and federal taxes apply to any capital gains distributions. 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.

Money Market Fund Basics

When you invest for the long haul, whether to fund retirement or your child's college education, you should also keep a cash reserve to meet short-term demands and handle emergencies. In addition to your basic savings or checking accounts, money market mutual funds can be a great place to park that cash reserve. Money market funds invest in short-term, high-quality debt, and are among the most conservative funds available. They invest in bonds issued by extremely stable debtors, such as the U.S. government, and large, financially sound companies.

Money market funds typically pay a percentage point more than money market accounts from banks. You'd get even less interest if you put your cash in a checking or savings account. Keep in mind, though, that unlike consumer bank accounts, money market funds are not insured by the Federal Deposit Insurance Corporation (FDIC). However, they are regulated by the United States Securities and Exchange Commission (SEC), which enforces strict limits on the types of investments these funds can make. Consequently, it is unusual for a fund to take a hit to its principal, but, like with any other investment vehicle, it is still possible to lose money. When choosing a money market fund, be sure to bargain hunt: Low-expense funds have an edge that's hard to beat. Also, be sure to find a package that works for you. In general, money market funds have low minimum investment requirements and may offer limited check-writing privileges, but these characteristics vary widely from fund to fund.

Investors should read the prospectus and carefully consider a fund's investment objectives, risks, fees, and expenses before investing. Money market funds are portfolios that invest in short-term money market securities in order to provide a level of current income that is consistent with the preservation of capital.

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