



# QUARTERLY NEWS RELEASE

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## Introduction

Welcome to 2012! In this edition we comment about the year that was, 2011, the year to come, 2012, about our management of your investment portfolios, about estate planning, social security and tax planning for this year. This edition of our News Release is rather lengthy, for two reasons. Given the volatility of the equity markets during 2011 and our cautious optimism coming into 2012, we are providing a bit more commentary than is typical. Also, the final 2 pages contain selected tax information to assist you with your planning this year.

Throughout 2011, many of you have kindly provided feedback about this publication. We wish to express our gratitude for your comments, both complimentary and constructive. We continually strive to produce something for you that is informative, timely and reasonably well put together. Your feedback helps us gauge our progress towards this important goal, so please share with us what is helpful and what may be improved.

## 2011 Year in Review

During 2011, the US equity markets did not trade on fundamentals. Domestic political issues, followed by international events, and the economies of Europe and certain emerging markets drove behavior. Retail investors, professional traders and institutions alike were kept perpetually off balance and defensive. Some of the main issues were:

- Earthquake in Japan
- Significant increase in oil prices in the first half of the year
- Regime change in Egypt and Libya
- Europe debt crisis – Greece most recently, but Ireland, Italy, Spain....
- US Congress bickering over the federal budget and debt ceiling, resulting in a downgrade of US sovereign debt by S&P (shortly thereafter followed by a Justice Department investigation of S&P for the role it played in the housing crisis – but of course these are unrelated)
- Fears about a double-dip recession in the US: rising unemployment being the primary concern

While making a recent presentation, one analyst displayed a chart of the price performance of the S&P 500 for 2011, which as illustrated below, ended where it began; over the top of his chart was interposed something like a “post-it” note that read: “Flat The Hard Way.” Another analyst, when defending the poor performance of his firm’s proprietary exchange-traded-fund, applied the clever moniker “mosquito market” to 2011, meaning, he went on to explain: “up, down and sideways so fast that no trading methodology could keep up.” Both quips are pretty accurate and reflective of the tumultuous year that was.

Yet if seeking a silver lining, it’s this. In spite of it all, the broad domestic market indices didn’t “jump the shark”, to quote a Happy Days reference, meaning coming to an ignominious end. Rather, corporations continued to improve their balance sheets, and profits reached record levels. US companies are sitting on mountains of cash and are relatively healthy today, compared to 2008.

Benchmark	12/31/2010	12/31/2011	% Gain / Loss
S&P 500	1,257.64	1,257.60	Even
Dow Jones Industrial Average	11,577.51	12,217.56	+5.5%
Russell 2000 Index	78.24	73.75	-5.7%
MSCI EAFE Index	58.22	49.53	-14.9%
IShares Barclays Aggregate Bond Index	105.75	110.25	+4.2%
SPDR Barclays Capital 1-3 Month T-Bill	45.85	45.83	Even

Note: Benchmark information is for illustrative purposes only. Indexes are unmanaged and cannot be invested in directly and their performance does not reflect the deduction of fees or commissions or reinvestment of dividends. This information is obtained from sources believed to be reliable; however, its accuracy cannot be guaranteed.

## Looking forward to 2012

Was 2011 prologue or will it be different this year? Based on the consensus of analysts' opinions and based on positive domestic economic data, we approach this year cautiously optimistic.

### Employment

Specifically, the December jobs report seems reflective of a healing economy, with unemployment falling to 8.5%. We indicated in a recent communication that unemployment is a key factor in determining the relative strength of our economy. Even though corporate balance sheets are healthy and profits growing, until corporations are confident enough about the future to invest in people and increase output, we will remain bogged down. The December jobs report suggests a positive, sustainable trend. Lifting 2 sections from a January 6<sup>th</sup> article by columnist Daniel Gross:

*"Payroll Gains.* The headline number, a gain in 200,000 payroll jobs, is the kind of figure common in robust recoveries but that has been quite rare in the past few years. December represented the 15<sup>th</sup> straight month of job gains. While the U.S. has a long way to claw back all the jobs that were lost in the recession that began in 2008, jobs are coming back. Since February 2010, the economy has added 2.654 million jobs, and it has added 1.64 million jobs since December 2010. December's (2011) figure represents the highest number of payroll jobs in the U.S. since March 2009."

*"The conservative recovery continues.* For the last few years, the private sector, which was so aggressive in cutting jobs in 2008 and 2009, has been the engine of job growth. Meanwhile, every month, contrary to popular belief, the government has been cutting positions. In December (2011), the private sector created 212,000 jobs, while the government cut 12,000 jobs. Since it bottomed out in February 2010, at 106.772 million payroll jobs, the private sector has added 3.156 million jobs. The private sector has added 1.92 million jobs in the past 12 months, a rate of 160,000 per month. Not great, but not bad. By contrast, since April 2009, government employment has fallen by 709,000. There's been a subtle shift. In July 2009, the private sector accounted for 82.7 percent of all payroll jobs; in December 2011 it accounted for 83.3 percent. Socialism? Hardly."

The December report from the US Department of Labor may be found here: [www.bls.gov/news.release/pdf/empsit.pdf](http://www.bls.gov/news.release/pdf/empsit.pdf)

### US Equity Markets

Analysts believe the US stock market will achieve total returns of from 6-8% on average, to as much as 15%+ from the most optimistic. These gains, they believe, will be achieved mostly from growth in corporate earnings, secondarily from an increase in the multiple of earnings that investors will allow (translating into increased share prices) and finally from dividends.

More on the issue of earnings multiples, the following is an excerpt from a CNBC article published on 1/23/12: "U.S. stock are trading at their cheapest levels since at least 1990, according to such commonly used valuations as price-to-earnings and price-to-book ratios as well as dividend yield, Bespoke Investment Group says." And later in the article: "To start 2012, the benchmark had an earnings multiple of 13, the lowest since 1990 and below the 80-year average of 15, according to Bespoke. It would take a move back to 1,484 to get the benchmark back to this long-term mean P/E."

There's absolutely no way to know what will happen, but the optimists cite the following to support their prognostications: 1) growth in jobs, 2) the investing public tired of earning nothing on fixed income and coming back into the market, 3) assumptions about an increase in domestic GDP in 2012, 4) that given assumptions about recession in the Eurozone and slowing growth in China, the US markets will be the best place to be, "like owning the best house in a bad neighborhood", one analyst stated, and 5) the devils that disrupted the markets, by surprise, during 2011 are largely known and understood.

Counterbalancing this optimism are those who expect losses of around 7%. The most pessimistic analyst (clearly an outlier but not without legitimate concerns) believes the stock market is going to experience as much as a 50% loss in 2012 based on his study of national demographics. His view is that the population is reaching a point when masses of people will become newly voluntarily retired – and when this happens, this segment of the population will reduce spending leading to significantly lower corporate profits and ultimately lower equity share prices.

Our view aligns with the optimists with one caveat, related to point five above. It's true that the markets seem to have a better understanding of the causes and current implications of the surprises that "caused" such significant volatility last year. But by definition, surprises can't be predicted. Should we experience no new natural disasters, international geopolitical confrontations, massive corporate/banking corruption or "game changers" this year, then the market cycle may well continue unimpeded.

## **Portfolio Management**

During the second half of 2011, we reduced risk across the board with a 15% downward adjustment of equity exposure including a further reduction in international equity exposure. International exposure is now at the lowest levels we've maintained in years. Our strategy is to observe developments both at home and abroad, particularly in Europe and China, and to watch for signs of resolutions leading to recognizable and sustainable trends before making any changes to the current allocation models.

In a recent news release, we discussed replacing an equity fund within accounts at Charles Schwab & Co. Our Investment Policy Committee has concluded its research and deliberations and for most accounts, completed the sale of 100% of the Pioneer Cullen Value Fund. We will complete the liquidation of the remaining positions when those accounts are no longer subject to short term redemption fees (imposed by the custodian when dollars in a fund have been held for less than 90 days). We will be purchasing the new fund, SunAmerica Focused Dividend Strategy (FDSAX) during the first part of 2012.

We are currently working through our due diligence on one or more additional investments intended specifically to reduce overall portfolio volatility and that historically have tended to not move in tandem with US stocks. Industry terminology would say "less correlated."

## **Estate Planning**

2011 felt to us like an unusual year. We experienced the passing of some of our own relatives and friends, including our clients, with greater frequency than in past years, and in some cases, we lost people we cared about quite by surprise. At times we simply observed and at times, we played a minor supporting role in the settlement of the affairs of our own families and clients.

With these recent experiences fresh in our memories, we kindly and enthusiastically encourage you, our cherished clients, to examine your own estate planning. If your documents have not been reviewed and updated in some time, if you feel your plan may be, in any way, incomplete, or indeed, if your plan is not documented and legally executed (amounting practically to no plan at all), then please contact your PIM representative.

As a reminder, some of the key documents comprising an estate plan are as follows:

- Current, properly executed Will
- Living Will
- Health Care Power of Attorney
- Financial Power of Attorney
- Community Property Agreement
- Trusts

Additional considerations are: 1) make certain that beneficiary designations (retirement plans, life insurance etc) are current and accurate, 2) property titling (ownership, co-ownership etc), and 3) brokerage and bank account titling (ownership, co-ownership etc).

It is natural to be somewhat apprehensive about the estate planning process. While we don't pretend to know how you all think and feel, there are two primary concerns that, in our experience, often prevent estate planning from even being started. The first is fear of the process itself; dealing with attorneys and the costs of preparing and executing a proper estate plan. The last is a natural desire to avoid a serious conversation about our own mortality.

So why do it? We believe there are two overarching reasons. 1) The only way to be assured that your estate will ultimately benefit those you intend is to specify exactly who gets what, exactly when and under specifically which (if any) conditions. 2) The people who matter most to you will experience sorrow and grief upon your passing. The absence of a current and comprehensive plan can add a tremendous amount of stress, and possibly personal out-of-pocket expense, to an already sad situation. A proper estate plan, communicated in advance to those being granted responsibility, can go a long way towards eliminating uncertainty, confusion and may quite possibly reduce cost.

## **Social Security**

The US Social Security Administration announced an increase in Social Security Benefits of 3.6%, which is the first cost of living adjustment since 2009. Details may be found here: <http://www.ssa.gov/pressoffice/pr/2012cola-pr.html>

## **Tax Planning for 2012**

While most of us think about taxes more at this time of year than at any other, this is a time for measuring and preparing to realize 2011 tax planning results. When that process concludes, the next order of business will be tax planning for 2012. The following are some select, we hope useful tax rates, schedules and contribution limits for 2012. These may serve as a guideline, but only as a guideline. Please contact your Tax Professional for more detailed planning session.

Note: for the following, we do not include “head of household”, which is a separate classification with separate rates, deductions and exemptions. Head of household may include single parents, adults caring for elderly parents or others expending financial resources in the care of others. If you believe you qualify for this classification please contact your tax professional.

**Ordinary Income Tax Rates (Single, Married Filing Jointly and Qualified Widower)**

*Married Filing Jointly or Qualified Widower*

<u>Income Range</u>	<u>Tax Amount</u>	<u>Plus</u>	<u>Of Amount Over</u>
\$17,400 or Less	10%	0	N/A
\$17,401 - \$70,700	\$1,740 +	15%	\$17,400
\$70,701 - \$142,700	\$9,735 +	25%	\$70,700
\$142,701 - \$217,450	\$27,735 +	28%	\$142,700
\$217,451 - \$388,350	\$48,665 +	33%	\$217,450
More than \$388,350	\$105,062 +	35%	\$388,350

*Single Taxpayer*

<u>Income Range</u>	<u>Tax Amount</u>	<u>Plus</u>	<u>Of Amount Over</u>
\$8,700 or Less	10%	0	N/A
\$8,701 - \$35,350	\$870 +	15%	\$8,700
\$35,351 - \$85,650	\$4,867.50 +	25%	\$35,350
\$85,651 - \$178,650	\$17,442.50 +	28%	\$85,650
\$178,651 - \$388,350	\$43,482.50 +	33%	\$178,650
More than \$388,350	\$112,683.50 +	35%	\$388,350

**Deductions and Exemptions (Single, Married Filing Jointly and Qualified Widower)**

*Standard Deductions*

	<u>Standard Annual Deduction</u>	<u>Additional (Age 65+ or blind)</u>
Married Filing Jointly or Qualified Widower	\$11,900	\$1,450
Single or Married Filing Separately	\$5,950	\$1,450

*Personal Exemptions*

Filing Status:	Any	\$3,800
No Phase-Out for 2012		

**Taxation of Social Security:** Base Amount of Modified AGI for Social Security to be taxable, and rates

	<u>50% Taxable</u>	<u>85% Taxable</u>
Married Filing Jointly	\$32,000 - \$44,000	More than \$44,000
Single	\$25,000 - \$34,000	More than \$34,000

**Social Security Earnings Limits Before Benefits are Reduced:** Relates to employment earnings while taking Social Security Retirement Benefits

Age Limits

Earnings Limit

Under Full Retirement Age	\$14,640: after which SS Benefits are reduced by \$1 for every \$2 of earnings
Year of Full Retirement Age	\$38,880: after which SS Benefits are reduced by \$1 for every \$3 of earnings; only includes earnings prior to the month during which you reach full retirement age
After Reaching Full Retirement Age	No earnings limits

NOTE: if you were born in 1946 or 1947, your Full Retirement Age is 66.

**Maximum Compensation Subject to FICA Tax:** (Federal Insurance Contributions Act)

Social Security (OASDI) Max	\$110,100.00
Medicare (HI) Max	No Limit

**Estate and Gift Taxes**

Estate and Gift Tax Rate	Max Rate:	35%
Exclusion Amount (Lifetime and Testamentary Gifts)	Per Person:	\$5,120,000
Annual Gift Exclusion	To Any Person:	\$13,000

**Disclaimer:** The above provided tax rates and information are limited in scope and incomplete in explanation. This information was obtained from sources believed to be reliable. However, the accuracy of this information cannot be guaranteed. It is intended only to provide a general framework and starting point for tax planning for 2012. Please consult your tax professional for a more focused and detailed discussion of your unique circumstances. If you do not have a current relationship with a tax professional and wish to consider one, please contact your PIM Representative for a referral.

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**Thank You**

This is the time of year when we think about the people in our lives. We allow ourselves a pause, however brief, to think about how lucky we all are. We express our appreciation and gratitude to our loved ones and those we serve and who serve us. PIM has been in business for over 25 years, dedicated to working on behalf of our clients to create the highest possible level of financial security and peace of mind. But we wouldn't be here without you.

From all of us to all of you, a heartfelt thanks for your trust in PIM.

As always, should you have any questions about this News Release or anything else that touches the sphere of your financial life, please contact your PIM representative.