



Quarterly

BEACON HILL INVESTMENT ADVISORY

Fall 2011

A Review of the Markets

It was a roller-coaster quarter for equities, as weeks and even days when the Dow swung several hundred points in both directions seemed to become commonplace. By the end, the volatility had cost the Dow almost 15% since its April high. The small caps of the Russell 2000 suffered the most; by the end of the quarter the index had lost roughly a quarter of its value since April, putting it in bear-market territory. The S&P 500 lost 17% in the same time, while the Nasdaq has declined almost 16% since April. The Global Dow continued to slump under the weight of concerns about the global impact of Eurozone debt problems.

The deficit/debt ceiling debacle was eventually overshadowed by debt issues abroad. Despite Standard and Poor's downgrade of the U.S. credit rating, demand from nervous investors sent Treasuries soaring, pushing yields on the 10-year note below 2% to levels not seen in decades. Gold benefitted from the anxiety for a while, hitting a new record just under \$1,900 an ounce before plummeting below \$1,700 in September as the dollar strengthened against the euro. After surpassing \$100 a barrel, oil prices dropped back to around \$80 on fears of the potential for renewed global recession. Other commodities also were hit at quarter's end.

Upcoming Event:

Drive Sales with Social Media
Thursday, October 20th
12:00 PM – 1:15 PM

Featured Speaker: Paige Barrow,
Greencrest

- Develop a deeper understanding of social media
- Understand the impact it has on your business
- Use available tools to create an online presence

Find more information at
www.BOSSworkshops.com



Market/Index	2010 Close	As of 3/31	End of Quarter	Quarterly Change	YTD Change
DJIA	11577.51	12414.34	10913.38	-12.09%	-5.74%
NASDAQ	2652.87	2773.52	2415.40	-12.91%	-8.95%
S&P 500	1257.64	1320.64	1131.42	-14.33%	-10.04%
Russell 2000	783.65	827.43	644.16	-22.15%	-17.880%
Global Dow	2087.44	2134.29	1725.68	-19.15%	-17.33%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	3.30%	3.18%	1.92%	-126 bps	-138 bps

Quarterly Economic Perspective

- The world continued to worry about the possibility of global contagion from European debt problems. European leaders agreed to a second bailout for Greece, though individual member nations must agree to participate. However, problems began spreading to the larger economies of Spain and Italy, which saw their borrowing costs rise as investors feared that the European Financial Stability Facility wouldn't be able to bail them out. Despite Greece's attempts to balance its budget, at the end of the quarter it was still unclear whether the new measures would enable the country to qualify for its October round of assistance.
- The final estimate of U.S. economic growth during the second quarter was 1.3%. That's slightly higher than the Bureau of Economic Analysis's previous 1% estimate, and an improvement from Q1's 0.4%.
- Unemployment remained stalled at 9.1%, according to the Bureau of Labor Statistics.
- Citing concerns about "significant downside risks to the economic outlook," the Federal Reserve announced it will sell \$400 billion worth of short-term bonds in its portfolio and buy an equal amount of longer maturities. The plan, which echoes a 1960s maneuver called Operation Twist, also will involve reinvesting principal payments on the Fed's agency debt holdings in agency mortgage-backed securities.
- The last-minute resolution of the debt ceiling debate couldn't prevent Standard & Poor's downgrade of the U.S. credit rating (and ratings of various agencies linked to the federal government) from an impeccable AAA to AA+. Two other ratings agencies are watching to see what further measures are taken to tackle the deficit, including proposals from a "supercommittee" charged with finding at least \$1.2 trillion in additional deficit reduction.

Source: Forefield Inc.

401(k) Corner - Increasing Employee Savings

Why?

1. Those with a healthier retirement plan are more "present" while working, increasing efficiency.
2. Larger balances per employee allow fixed costs (administrative, audit, etc.) to be spread over a larger asset base, creating cost savings for everyone.

How?

1. Communication- Stress the importance of retirement savings. Employees don't know that the rule of thumb is a 15% contribution to be able to replace 50% of their income at retirement unless you tell them; repeatedly. Face to face is best.

2. Plan Design- Make the path of least resistance the one that is best for employees through;
 - a. Automatic Enrollment- Make the employee "opt out" rather than "opt in". Make the amount contributed meaningful.
 - b. Automatic Escalation- This increases the amount contributed over time.
 - c. Pre-Commitment mechanisms- Employees commit in advance to allocating future raises towards more retirement savings.
 - d. Match

For more detailed information, see the National Bureau of Economic Research's recent study, How to increase 401(k) saving. <http://www.nber.org/aginghealth/fall02/401kSaving.html>



Year-End Investment Planning: The Clock is Ticking

Investment planning at the end of 2010 was complicated by uncertainty over whether existing tax rates would be extended. This year, it's the congressional "supercommittee" charged with tackling the country's deficit financing problem that's the source of uncertainty. Even though you may not be sure how the committee's work might ultimately affect you, here are some factors to keep in mind as you plot your year-end strategy.

Harvest tax losses if appropriate

If you plan to harvest losses to offset capital gains, you may want to think about the cost basis of those shares. To maximize your losses for tax purposes, you would sell shares that have lost the most, which would enable you to offset more gains. Unless you specify which shares of stock are to be sold, your broker will typically treat them as sold based on the FIFO (first in, first out) method, meaning that the first shares bought are considered to be the first shares sold. However, you can designate specific shares as the ones sold or direct the broker to use a different method, such as LIFO (last in, first out) or highest in, first out. You can also use a standing order or instruction to specify that a particular method is to be used.

As of this year, brokers must report to the Internal Revenue Service your cost basis for the sale of any shares of stock bought after January 1, 2011. That will make it even more important to make sure when preparing your tax returns that your cost basis records for such sales are accurate and agree with those of your broker. If you decide to specify stock shares in order to determine your cost basis, you must do so by the settlement date (typically, three days after execution of the trade) in order for your broker's records for the stock sale to be accurate.

Mutual funds, dividend reinvestment plans, bonds, and other securities eventually also will be subject to the same mandatory cost basis reporting requirement.

Don't procrastinate on tax break for small business stock

If you plan to invest in a qualifying small business, you may want to do so by December 31. That's because 100% of any capital gains on the sale of qualified small business stock issued after September 27, 2010, and before January 1, 2012, can be excluded from your taxable income. (The exclusion is scheduled to revert to 50% next year.)

To claim the 100% exclusion, you must have acquired the stock at original issue (with some exceptions for stock acquired as an inheritance or gift). Also, the business must satisfy certain requirements, and you must hold the stock for at least five years. There are limits on the total amount of gain that is eligible for the exclusion. There also may be special considerations if you roll over the gain from the sale of your stock to another qualified small business stock, or if you receive qualified stock as part of your deferred compensation plan. Don't hesitate to get expert help with your specific situation.

Consider the potential impact of higher interest rates

Interest rates have been at historic lows in recent years, but as the economy continues to heal, that won't always be the case. The Federal Reserve Board has said that raising interest rates won't be its first step in reducing the support it has given the monetary system. However, at some point, interest rates are likely to begin moving up again. When that happens--and there's no way to know for sure when that might be--bond prices will begin to feel the impact. As bond yields begin to rise, bond prices will begin to tumble, since prices move in the opposite direction from bond yields.

Don't let payroll tax increase derail long-term plans

If you've benefitted from the 2% reduction in workers' Social Security taxes in 2011, congratulations! However, be aware that the provision is scheduled to expire at the end of this year. If you've been saving or investing that money, your long-term plans will benefit if you can figure out how to replace that source of funding for your investment efforts.

Business Wealth Management Process™

Tax Efficiency

Tax Loss Harvesting

Muni vs. Corporate Bonds

Strategic Tax

Asset Location

Tax Deferred/Corp
Retirement options

This Quarter: Tax Efficiency

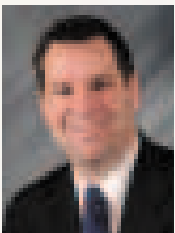
This quarter's topic, planning for tax efficiency, is both important and timely given a December 31st deadline to take action. In addition to the items listed, we are analyzing Roth conversions initiated last year to see if recharacterizing (undoing) would be beneficial to our clients. Of course, we always take this time of year to optimize portfolio gains and losses to decrease tax liabilities. We work best alongside your CPA.

Next Quarter: Cash Flow Planning

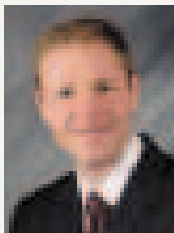


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