



Tax Efficiency

- Tax Loss Harvesting
- Muni vs. Corporate Bonds
- Strategic Tax
- Asset Location
- Tax Deferred/Corporate 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 strategically reviewing our clients' portfolios in advance of the new investment taxes scheduled in 2013. 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 or corporate finance professional.

Next Quarter: Cash Flow Planning

Greetings! We hope you are enjoying the fall season and Buckeye football and trust you will relish time with friends and family over the upcoming holidays.

Best Wishes – The Beacon Hill Team

Quarterly Market Review: Q3 - 2012

Domestic equities confounded anyone worried about a possible repeat of August 2011 and reached year-to-date highs in mid-September. The Dow hit a level not seen since December 2007, while the S&P 500's quarterly gain left it up more than 14% for all of 2012. The Nasdaq has done even better, gaining more than 6% in Q3, and almost 20% so far this year. The Russell 2000 was in third place for the year despite being edged out during the quarter by the Global Dow, which trailed domestic equities year-to-date despite last quarter's nearly 5% advance.

The 10-year Treasury bond yield hit a new low in late July as demand pushed prices up; however, it edged back upward a bit by the end of the quarter. After spiking close to ^{\$}100 in mid-September, oil prices fell back to end the quarter at ^{\$}92 a barrel, more than 8% higher than at the end of June. Gold moved steadily upward, gaining more than 10% for the quarter and ending at roughly ^{\$}1,775 an ounce. Meanwhile, the dollar hit ^{\$}84 in July against a basket of six foreign currencies, then gave up more than 5% to end the quarter at roughly ^{\$}79.



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| Market/Index | 2011 Close | As of 9/28 | Monthly Change | Quarterly Change | YTD Change |
|--------------------|------------|------------|----------------|------------------|------------|
| DJIA | 12217.56 | 13437.13 | 2.65% | 4.32% | 9.98% |
| NASDAQ | 2605.15 | 3116.23 | 1.61% | 6.17% | 19.62% |
| S&P 500 | 1257.60 | 1440.67 | 2.42% | 5.76% | 14.56% |
| Russell 2000 | 740.92 | 837.45 | 3.12% | 4.88% | 13.03% |
| Global Dow | 1801.60 | 1921.70 | 2.77% | 4.92% | 6.67% |
| 10-year Treasuries | 1.89% | 1.65% | 8 bps | -2 bps | -24 bps |

**Equities data reflect price changes, not total return.*



Quarterly Economic Perspective

- It was Spain's turn to become the focus of concerns about eurozone financial stability as interest rates briefly topped 7% once again. Investors were relieved when a German court cleared the way for implementation of the eurozone's bailout fund. However, by the end of the quarter, protests against fresh austerity measures and tax increases coupled with worry about a potential downgrade of Spain's credit rating weighed on global equities.
- U.S. manufacturing data was mixed. Hurricane Isaac helped cut the Fed's measure of industrial production by 1.7%, and a sharp drop in orders for commercial aircraft helped take durable goods orders down by 13.2% in August. Meanwhile, the Commerce Department said retail sales in August were 4.7% higher than a year ago, while the Bureau of Labor Statistics' yearly snapshot of consumer expenditures showed the first yearly increase in consumer spending in three years.
- The Federal Open Market Committee launched QE3, a new \$40 billion bond-buying program that represents the third round of quantitative easing designed to help stimulate the economy, and set no time frame for the purchases to end. The Fed also said it now anticipates keeping its target interest rate at its current low level until mid-2015.
- There was some encouraging news in the housing market. The S&P/Case-Shiller index of home prices saw three straight months of increases during the quarter, and by quarter's end were at their highest level in nearly two years. Meanwhile, the National Association of Realtors® said home resales were 9.3% higher than a year ago. And although sales of new single-family homes fell 0.3% during August, the Commerce Department said they were still almost 28% higher than the previous August, and the median home price of \$256,900 was the highest it's been since March 2007. Finally, housing starts were almost 30% higher than a year earlier.
- U.S. economic growth continued to slow; the Commerce Department said gross domestic product rose only 1.3% in the second quarter compared to Q1's 2% rate. Meanwhile, the Bureau of Labor Statistics said the unemployment rate remained stalled at 8.1% in August as increases in corporate jobs were partly offset by cuts in government payrolls.
- In China--the world's third largest economy behind the United States and the eurozone--economic growth continued to slow in the second quarter, hitting a three-year low of 7.6%. While robust by U.S. standards, it's still a far cry from the 11.9% seen at the beginning of 2010.

Source: Broadridge

Year-End Investment Planning and the Fiscal Cliffhanger

Investment planning at the end of 2012 revisits issues that have complicated the planning process for the last two years--tax cut extensions and spending cuts designed to reduce the U.S. budget deficit. Uncertainty about both and whether they will lead to what's been called a "fiscal cliff" in 2013 is likely to affect year-end investment planning yet again.

Despite the uncertainties--or perhaps because of them--it might be worth starting early to look at various "what-if" scenarios in case you need to make last-minute changes to your portfolio. Even though you may not be sure of exactly what will happen in 2013, here are some factors to keep in mind as you plot your year-end strategy.

Review timing of your investment sales

As of January 1, tax brackets are scheduled to return to their pre-2001 levels. That means the current six tax brackets (10%, 15%, 25%, 28%, 33%, and 35%) are scheduled to become five (15%, 28%, 31%, 36%, and 39.6%). Also, absent further changes, the maximum tax rate on long-term capital gains, currently at 15%, will increase to 20% (10% for those in the 15% tax bracket); those in the 10% or 15% marginal income tax bracket, who now pay a 0% rate on capital gains, will lose that special rate. Finally, qualified dividends, now taxed at a maximum of 15%, will once again be taxed at ordinary income tax rates.

Another factor for high-income individuals in 2013 is a new 3.8% Medicare contribution tax on some or all of the net investment income of individuals with a modified adjusted gross income over \$200,000 (\$250,000 for married couples filing jointly, and \$125,000 for couples filing separately).

Ordinarily, higher rates in 2013 might suggest taking profits in an investment before those higher rates go into effect. However, the November election could affect the scheduled expiration date of those tax cuts, or even whether they expire at all. As a result, it's especially important this year not to let tax considerations be the sole factor in any investment decision. If you're uncertain about a sale, remember that another way to minimize capital gains taxes is to harvest investment losses that may offset gains.

Consider the potential economic impact of 2013

The nonpartisan Congressional Budget Office has warned that the tax increases and the roughly \$109 billion in spending cuts could hamper an already sluggish economic recovery. Also, a 2% reduction in the Social Security portion of the payroll tax is scheduled to expire in January, leaving consumers with less to spend. Though there has already been talk about revisiting the spending cuts and tax cut expirations, you might want to consider how your portfolio might be affected.

Some companies are highly sensitive to economic cycles; others offer products and services that people need regardless of how the economy is doing and generally suffer less from a downturn (though any industry or company can have its own challenges). Also, the spending cuts could disproportionately affect some specific industries, such as defense, and companies that rely heavily on government contracts.

Interest rates and European instability

Partly because of the Federal Reserve's monetary policy and partly because of the European debt situation, interest rates have been at historic lows in recent months. This has meant higher prices for U.S. Treasury bonds, because bond yields move in the opposite direction from bond prices. However, investors who have relied on Treasuries for income and now want to roll over the proceeds of maturing bonds might be disappointed with available rates, which the Federal Reserve expects to remain low well into 2014. If that's the case for you, you may need to explore supplemental sources of investment income, or reexamine your Treasury holdings to see whether they now represent too much of your portfolio.

Even if you decide to wait and see what happens at year-end, planning for multiple scenarios now could help improve any last-minute decisions.

Source: Broadridge

Beacon Hill does not provide tax or legal advice. The information presented here is not specific to any individual's personal circumstances. These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable.

401(k) Corner Last Disclosure for 404(A)!

At this point you've already conducted and disseminated your participant disclosures for your 401(k)/403(b) Plan that were required under ERISA section 404(a) (general information and a comparative chart of any Designated Investment Alternatives). This quarter, "participants must receive statement... showing the dollar amount of the plan-related fees and expenses (whether "administrative" or "individual") actually charged to or deducted from their individual accounts, along with a description of the services for which the charge or deduction was made."¹ (This disclosure is required no later than November 14, 2012)

We have been very busy helping plan sponsors benchmark and analyze to ensure their plan is competitive which fulfills the purpose of the DOL passing these rules. Please do not hesitate to contact us if you would like us to review your plan!

1. <http://www.dol.gov/ebsa/newsroom/404a.html>

