Quarterly
BEACON HILL INVESTMENT ADVISORY
Winter 2013

Happy New Year! The beginning of a new year allows for reflection on the past and optimism for the future. We wish you continued prosperity in 2013!

Best Wishes – The Beacon Hill Team

Annual Market Review: 2012

Resilience in the face of adversity seemed to be the theme for 2012. Hurricanes that shuttered Wall Street for two days and cut oil production, the threat of a "Grexit" from the euro, Europe's record unemployment and second recession in four years, Chinese growth that hit a three-year low, and uncertainty about elections here and abroad--such formidable obstacles slowed the progress of the global economy but didn't bring it to its knees.

Debt-related news out of Europe continued to play a major role in global bond and equities markets. Despite cracks in the French/German alliance, the eurozone finally appeared more willing to take joint action to enforce fiscal discipline. In exchange for fresh austerity measures, Greece got a reprieve on its debt reduction deadline. Despite growth that went from explosive to merely robust, China chose new leaders for the next decade who are considered to favor existing policies. In the United States, strong U.S. corporate earnings had begun by year's end to show the toll taken by a slowing global economy. Solid if not robust economic growth, an improving housing market, lower unemployment, and low inflation all had to contend with concerns worldwide about the fiscal cliff.

However, that resilience could be tested in 2013. Though a last-minute bargain averted a full-scale plunge off the fiscal cliff, headwinds could pick up if Washington can't reach an agreement (again) on the debt ceiling and spending cuts still scheduled to begin in 2013.

Market/Index	2011 Close	As of 9/28	As of 12/31	Q4 Change*	2012 Change*
DJIA	12217.56	13437.13	13104.14	-2.48%	7.26%
NASDAQ	2605.15	3116.23	3019.51	-3.10%	15.91%
S&P 500	1257.60	1440.67	1426.19	-1.01%	13.41%
Russell 2000	740.92	837.45	849.35	1.42%	14.63%
Global Dow	1801.60	1921.70	1995.96	3.86%	10.78%
10-year Treasuries	1.89%	1.65%	1.78%	13 bps	-11 bps

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

2012 Snapshot

The Markets

- **Equities:** Though equities certainly experienced some volatility during the year, the stomach-churning declines of 2011 gave way to 2012's more moderate fluctuations and dramatically improved performance. Optimism about the prospects for an economic recovery powered equities to year-to-date highs in the fall that lost ground in the fourth quarter as the path to a detour around the fiscal cliff seemed rockier. Helped (and eventually hampered) by some key tech bellwethers, the Nasdaq's Q1 gain of almost 19% helped it set the pace for the domestic indices for much of the year and generally remain above its 2007 high. The Russell also powered back from 2011's loss, while the Dow--the strongest of the five indices in 2011--took a back seat last year. It was even outperformed by the Global Dow, which benefitted in the year's second half as Europe managed to avoid disaster. And the S&P 500's 13.4% gain for the year was a definite improvement over the 0.0% of the year before.
- **Bonds:** Rock-bottom Treasury yields somehow managed to drop even further as the 10-year bond briefly hit a record low of roughly 1.43% in July. Treasuries, corporates, munis, junk, internationals--bonds benefitted across the board from investor demand and the Fed's stepped-up quantitative easing efforts. Investors who continued to pull money out of stock funds put much of it into bonds, reassured that higher interest rates were at least a couple of years away from affecting bond prices.
- **Oil:** After starting 2012 at roughly $103 a barrel and remaining above $100 through the first four months, oil prices reversed the previous year's upward trajectory. Despite a slight bump in August/September, mounting concerns about a slowing global economy took oil to $85 a barrel before a year-end rally nudged it back up to end the year at roughly $93 a barrel.
- **Currencies:** After a spring surge pushed the U.S. dollar to the year's high against a basket of six currencies in June, the greenback lost 7.5% over the next three months before rebounding to end 2012 only slightly lower than where it started. Despite a couple of dips, the euro strengthened against the dollar, gaining roughly 2% over the year to end at roughly $1.32.
- **Gold/silver:** After plummeting almost 14% between late February and mid-May, gold spent the summer bouncing along on either side of $1,600 an ounce. By mid-July, a rebound had sent the price to the year's high of just under $1,800 before fading to end 2012 at $1,676. And after spiking more than 60% to a high of $48 an ounce in April, silver prices settled down, ranging between $26 and $37 for the rest of 2012 and ending at $30.

continued on next page

The Economy:

- **Unemployment:** The unemployment rate continued to meander downward, ending the year at 7.7%. Though the pace of improvement was frustratingly slow--the jobless rate didn't fall below 8% until September--the employment picture was still better than December 2011's 8.5%. However, the Fed has forecast only minimal improvement in that figure during 2013, and has promised to keep interest rates low until unemployment hits 6.5%.
- **GDP:** Despite a little spring slump, by the third quarter the U.S. economy was growing at an annualized 3.1%--more than double Q2's 1.3% and the fastest growth of 2012--and Q3 corporate after-tax profits were 3.2% ahead of the same time a year earlier. However, there were signs that growth had begun to taper off in the fourth quarter as anxiety about elections and the fiscal cliff mounted.
- **Inflation:** Modest improvements in the economy had little impact on prices at either the consumer or wholesale level. By November, annual consumer inflation was only 1.8%--well within the level the Fed considers acceptable and lower than 2011's 3%. The 1.5% increase in wholesale costs was slightly better, and was far more moderate than 2011's 4.7% wholesale price jump. Consumer spending and retail sales both showed gains for the year, though holiday shopping was reportedly slower than anticipated.
- **Housing:** While not completely healed, the housing market showed signs that a sustainable recovery was under way. By year's end, sales of new homes had hit their highest level since April 2012 and were 15.3% higher than a year ago, while home resales had their ninth straight month of gains. Home prices were up an average of 4.3% from a year earlier, while housing starts, construction spending, and building permits all had strung together several consecutive months of improvement.

Source: Broadridge

401(k) Corner: *Fiscal Cliff emboldens Roth 401(k)!*

While directly contributing to a Roth account through a 401(k) has been available for the past few years, a silver lining in the Fiscal Cliff legislation[1] allows all 401(k) participants to convert their conventional 401(k) balances to Roth balances. We could use some good news and planning techniques, too, as taxes are going up for most Americans.

For high earners, the power of tax deferral becomes more powerful due to the 25% increase on their investments' taxation; marginal income taxes moving from 35% to 43.4% (39.6% plus Obamacare's 3.8% Medicare Surtax).

The silver lining is buried deep on page 152 of the Act; noted Section 902[1]:

"Amounts in applicable retirement plans may be transferred to designated Roth accounts without distribution…the plan may allow an individual to elect to have the plan transfer any amount not otherwise distributable under the plan to a designated Roth account maintained for the benefit of the individual".

What does this mean for you?

Previously, you were only allowed to convert your 401(k) to a Roth if you were otherwise eligible to take a distribution (i.e. over age 59.5) and the plan allowed for it. However, now you'll be able to convert from pre-tax to after-tax dollars whenever you feel is the right once your plan has adopted the Roth feature. This opens many doors from a retirement planning perspective.

Why is Congress allowing this?

Put simply, it's a way for them to bring future tax revenues forward to pay for today's debts. When you convert your 401(k) to a Roth, you pay taxes today on the converted amount rather than paying taxes in the future.

Great, let's get started!

No so fast. The language passed Congress and was signed by the President; however, it will take time for the U.S. Treasury to issue guidance on the blocking and tackling before this becomes a reality for the rest of us. As well, your plan will likely need amended to allow for the new. If you are a Plan Administrator, it would be wise to contact your advisors to understand how you can prepare…employees will likely request Roth 401(k) as part of your overall benefit structure.

Lastly, consult your tax advisor and financial planner before converting your 401(k) to a Roth. While the notion of "not paying taxes ever again" on your Roth 401(k) sounds appealing, it's prudent to put pen to paper to see if the math works to your benefit.

1. http://www.gpo.gov/fdsys/pkg/BILLS-112hr8eas/pdf/BILLS-112hr8eas.pdf

Cash Flow and Retirement

Retirement and College Planning

Liability-driven Investments

Qualified Retirement Plans

This Quarter: Cash Flow Planning

This quarter's activity, planning for future cash flow needs, can be a powerful tool in preparing for your future. With a proper roadmap, we find that anxiety decreases and allows you to focus your efforts. Cash flow planning can address future needs ranging from retirement plan contributions, withdrawals, college expenses, personal or business liabilities. Though planning requires an initial time commitment from the client, future adjustments are easily made to allow for dynamic planning.

Next Quarter: Estate & Legacy

Upcoming Event

Investment Strategy for 2013 – Taxes change everything!
Clint Edgington, CFA

More at: **www.BOSSworkshops.com**

BEACON HILL
INVESTMENT ADVISORY
84 South Fourth Street
Columbus, OH 43215


Clint Edgington, CFA


Mark Fissel, CFP®


William Shorthill, CFP®