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 light of the new investment taxes. 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

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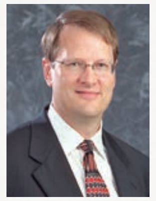
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Quarterly
BEACON HILL INVESTMENT ADVISORY
Fall 2013

Greetings!

We hope you're enjoying the beautiful autumn weather!

Best Wishes – The Beacon Hill Team

Quarterly Market Review

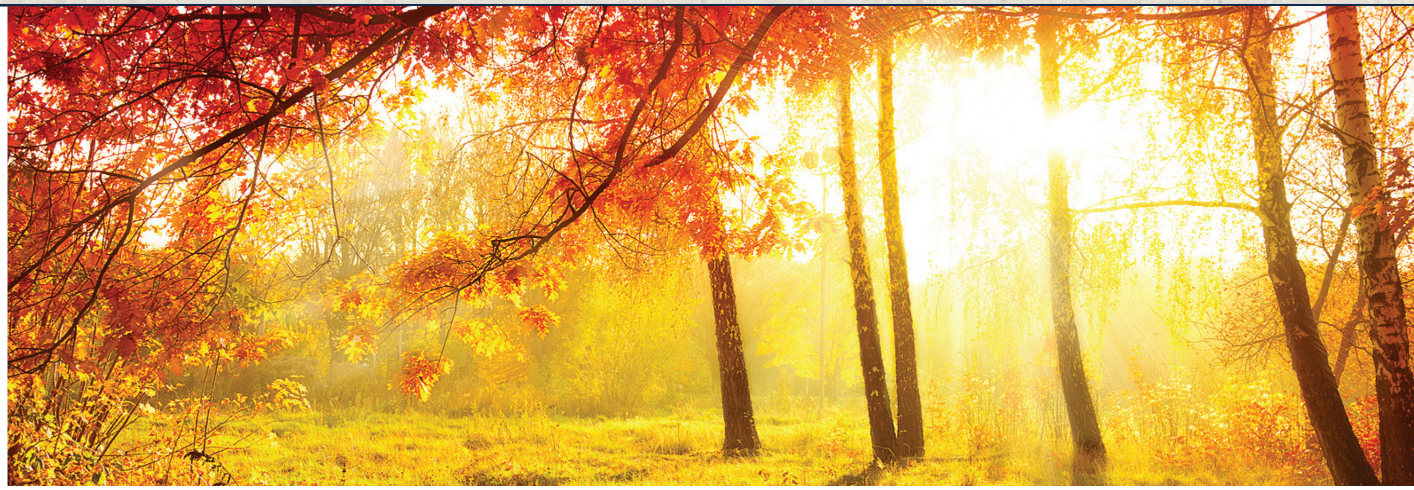
Equities confronted several threatening headwinds during Q3: Syria, potential Federal Reserve tapering, a looming government fiscal showdown, fear of contagion from the nation's largest municipal bankruptcy, and three hours of Nasdaq going dark because of technical glitches. However, stocks managed to climb the proverbial wall of worry, especially after the Fed postponed any tightening and the military threat abated, though a looming fiscal showdown began to threaten those gains at quarter's end. After an up-and-down summer, the Dow, S&P 500, and the small-cap Russell 2000 once again powered upward to fresh all-time record levels in mid-September, while the Nasdaq had the quarter's strongest performance. Finally, as the eurozone emerged from the longest recession in its history and China showed signs of manufacturing growth, the Global Dow's quarterly gains actually came close to rivaling those of the domestic market leaders and even nudged it ahead of the Dow year-to-date.

Bond markets suffered from Fed concerns. As the highly anticipated September meeting approached, the yield on the benchmark 10-year Treasury note neared 3%, a level not seen in more than two years. However, by quarter's end it had given back roughly a third of a percent; since prices tend to rise when yields fall, that allowed bond prices to recover a bit.

Fed anticipation also pushed the dollar to three-year highs against a basket of six foreign currencies. However, that rally reversed course after the Fed's announcement, costing the dollar roughly 4% for the quarter. Gold benefitted from dollar weakness, gaining roughly 6% to end near $1,330 an ounce, though it remains down roughly 20% for the year. Concern about the Middle East helped push oil prices above $100 a barrel for the first time since May 2012.

Market/Index	2012 Close	As of 9/30	Monthly Change	Quarterly Change	YTD Change*
DJIA	13104.14	15129.67	2.16%	1.47%	15.46%
NASDAQ	3019.51	3771.48	5.06%	10.82%	24.90%
S&P 500	1426.19	1681.55	2.97%	4.69%	17.91%
Russell 2000	849.35	1073.79	6.22%	9.86%	26.42%
Global Dow	1995.96	2310.26	5.85%	9.46%	15.75%
Fed. Funds	.25%	.25%	0 bps	0 bps	0 bps
10-year Treasuries	1.78%	2.64%	-14 bps	12 bps	86 bps

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



Quarterly Economic Snapshot

- Contrary to speculation that the Federal Reserve would begin tapering its economic support in September, the Fed's monetary policy committee postponed any reduction in its $85 billion monthly bond purchases. The committee said it wants more evidence that the economy is strong enough to survive potential threats from higher mortgage rates and fiscal wrangling in Washington.
- U.S. economic growth accelerated in the second quarter; the 2.5% annualized growth rate was more than double Q1's 1.1%. The Bureau of Economic Analysis said the primary contributors to the increase were higher consumer spending, improved exports, larger business investments in buildings and inventories, and more residential construction. After falling 0.1% in Q1, after-tax corporate profits rose almost 3.5% during Q2 and were up 6.4% from Q2 2012.
- The unemployment rate fell to 7.3%, its lowest level since December 2008. However, the news was not entirely good; the Bureau of Labor Statistics said that though the economy added an average of more than 148,000 jobs between June and August, that was lower than the roughly 182,000 new jobs created in Q2 or the 207,000 monthly average of Q1. Also, part of the decline in the unemployment rate was the result of roughly 1.4 million people leaving the labor force.*
- The housing market showed signs of being affected by higher mortgage rates as mortgage lender Freddie Mac said the rate for a 30-year fixed-rate loan hit a two-year high of 4.58% in August. Though that was still relatively low from a historical perspective, sales of both new and existing homes had begun to cool by the end of the quarter. However, both were still much stronger than a year earlier; the National Association of Realtors® said home resales hit their highest level in more than six years, and new home sales were up 12.4% over the last 12 months. Housing starts also saw gains, ending the quarter 19% ahead of the same time last year, though building permits showed signs of weakness.
- U.S. industrial production was up 2.7% from a year earlier, according to the Federal Reserve, and the Institute for Supply Management said its gauges of both manufacturing and services industries hit multiyear highs. However, after rising in July to their highest level since 1992, durable goods orders showed signs of slowing as businesses cut spending on capital equipment after five straight months of increases.
- Inflation remained well within the range the Federal Reserve considers acceptable. According to the Bureau of Labor Statistics, after picking up slightly during the summer, consumer inflation moderated to end the quarter at a 1.5% annual rate, while the annual wholesale inflation rate for the last 12 months was slightly lower at 1.4%. Strong car sales were a major contributor to an increase in retail sales, which saw their fifth straight monthly increase in August, and by the end of the quarter, both personal incomes and inflation-adjusted consumer spending had risen every month since January.
- Detroit became the largest U.S. municipality ever to file for bankruptcy, while Verizon's sale of $49 billion of bonds set a record for the largest single sale of corporate debt in U.S. history.
- After an 18-month recession–the longest in its almost 15-year history–the eurozone's economy finally saw some improvement, growing 0.3% in Q2. The European Central Bank now sees the eurozone contracting slightly less in 2013 (-0.4%) than previously forecast. Also, German Chancellor Angela Merkel's reelection effectively reinforced continued support for weaker eurozone members. Meanwhile, data on China's economy was mixed; government figures showed a rebound in manufacturing while the equivalent of the Fed's "beige book" report suggested that the economy might be starting to slow..

Source: Broadridge

Plan Now for a Year-End Investment Review

You might not enjoy sitting down to do year-end investment planning, but at least this fall you can make plans with greater certainty. For the last three years, investment planning has meant trying to anticipate possible changes in tax law; for tax year 2013 and beyond, you know for sure how income, capital gains, and qualifying dividends will be taxed. That gives you an opportunity to fine-tune your long-term planning, or to develop a plan if you've postponed doing so. Here are some factors to keep in mind as the year winds down.

Consider harvesting your losses

With tax rates settled, the question of whether to sell losing positions to generate capital losses that can potentially be used to offset capital gains or $3,000 of your ordinary income becomes a much more straightforward decision. That process is known as harvesting tax losses, and it could prove especially worth considering this year. The first half of the year produced strong gains for U.S. equities; even a mediocre second half could still have the potential to leave you with a higher tax bill than you had anticipated.

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 your broker to use a different method, such as LIFO (last in, first out) or highest in, first out.

Interest rates: bane or blessing?

The Federal Reserve has said that if the economy continues to recover at its expected pace, it could raise its target Fed funds rate sometime in 2014. However, investors have been anticipating such an increase since early summer, when many bond mutual funds began seeing strong outflows from investors concerned that a rate increase could hurt the value of their holdings. As any consumer knows, lower demand for a product often means lower prices. And since bond prices move in the opposite direction from bond yields, yields on a variety of fixed-income investments have begun to rise. However, there also could be a silver lining for some investors. Higher yields could provide welcome relief for individuals who rely on their investments for income and have suffered from rock-bottom yields.

The Fed has said any rate decisions will depend on future economic data. However, now might be a good time to assess the value of any fixed-income investments you hold, and make sure you understand how your portfolio might respond to a future that could include higher interest rates. Many investors' asset allocation strategies were likely developed when conditions generally favored bonds, as they have for much of the last 20 years. Though asset allocation alone can't guarantee a profit or prevent the possibility of loss, make sure your asset allocation is still appropriate for your circumstances as well as the current investing climate. And don't forget that other financial assets can be affected by potential future interest rate changes as well.

Calculating cost basis for fixed-income investments

The IRS had originally planned to require brokers to begin reporting the cost basis for any sales of bonds and options this year, as it already does for stocks and mutual funds. It has now postponed implementation of the requirements for bonds until January 1, 2014 to give financial institutions more time to test their reporting systems. However, don't throw away your old records yet, especially if you're considering selling any of your bond holdings. The cost basis reporting requirements will apply only to bond purchases and options granted or acquired on or after January 1, 2014, so you'll still be responsible for calculating your cost basis for any bonds or options acquired before that date.

Source: Broadridge