PREMIER FINANCIAL PLANNING, INC.
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A Registered Investment Advisor

1st Quarter 2013 Commentary | *April 2013*

Indices Hit All Time Highs: After flirting with an all-time high for three weeks, the S&P 500 index posted its best closing level in history on 3/28/13 (the last trading day of the quarter). The DJIA has also surpassed previous levels. History shows that after reaching all-time highs, volatility can be higher-than-normal.

March 31, 2013 Benchmark Returns	
2013	**1st Quarter**
Large-Cap US Indices	
Dow Jones Industrial	11.93%
Standard & Poor's 500	10.03%
NASDAQ Composite	8.21%
Russell 1000 Growth	9.54%
Russell 1000 Value	12.31%
Small-Cap Indices	
Russell 2000 Growth	13.21%
Russell 2000 Value	11.63%
Large Cap International Indices	
MSCI EAFE (Local Currency)	8.89%
MSCI EAFE (US Currency)	5.13%
Fixed Income Indices	
Barclay's Cap Aggregate Bond	-0.12%
Citigroup World Govt. Bond	-3.82%
Real Estate Indices	
Dow Jones US Select REIT	7.04%

* *Index performance is provided as a benchmark only. The performance of your individual portfolio will vary from that of any one index. Past performance of an index is never a guarantee of future results.*

How Does a Low Interest Rate Environment Affect Bond Holdings? I have had several clients ask me this question, along with whether we may be headed for a "bond bubble". I've decided to share my thoughts on this topic in this quarter's commentary.

Let's start with a simplified explanation of how bonds work. A bond is a fixed income investment that lends money in return for a stated interest rate. Every bond has a date when it is due (its maturity date). An example of a common fixed income instrument is your home mortgage or a CD. Bonds are traded (bought and sold) just like stocks. If a bond's stated interest rate is higher than current interest rates (available on new bonds), that bond could be sold at a "premium" (or for more) than its current "par" (or face) value. If a bond's rate is lower than current rates, its current value is discounted. By discounting the value, the effective yield on the bond (the stated interest payments) increases, thus bringing the bond's yield closer to current interest rates. Thus, in a rising interest rate environment, older bonds with lower interest rates are not as attractive as newer bonds with higher interest rates. Thus, a holder of a bond may see its current value go down. However, the original yield on the bond remains the same. Thus if you hold the bond to maturity, you would not lose any principal but your return is lower than bonds with a higher interest rate. In a declining interest rate environment, older bonds are more valuable as they hold higher interest rates. Thus we saw excellent returns on bonds in 2008 and 2009 – when interest rates declined to assist with the recession. Now we are all hearing about a "bond bubble" as we know that eventually interest rates will return to higher, historical values and we will thus see a decline in values on existing bonds that have lower rates.

Almost all of our fixed income holdings are in bond mutual funds, not in outright bonds. Because of this, the inherent volatility of bonds (much like stock) is reduced since each fund holds many, many bonds. Bond mutual funds have ongoing cash inflows that allow them to buy new bonds. Because of this, the value and yields on bond mutual funds are able to gradually follow interest rates as they climb in value. Thus bond funds will slowly follow a rising interest rate environment. Just like stock funds, we evaluate our bond funds based on performance, risk and asset class, among other factors. The asset class is based on the type of bond and its maturity. We are not holders of long-term bonds and we only have limited, if any "junk" or "high-yield" (riskier) bond holdings. Our bonds are mainly high quality short- and intermediate-term bonds, with allocations to corporate, government, mortgage-backed and global bond asset classes. Bonds are inherently less risky than stocks and tangible investments, and follow cash equivalents as a conservative investment choice. *We continue to believe that high quality, diversified bond holdings are a critical component to any investment portfolio*. While a temporary decline in bond values will certainly occur when interest rates do rise, we believe those holdings will return to par values in the near term. With the higher volatility inherent with equity investments, bond holdings remain a cornerstone of every investment strategy.

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Financial Life Planning Tip

Social Security Statements Now Available Online: You can now access your social security information (future benefits report, instant benefit verification letter (for loan applications, etc), payment history and earnings record) online. You can also update your mailing address and start or change direct deposit information online. An online account can be established by anyone 18 years or older by going to www.socialsecurity.gov/myaccount. Once you have established an account (including user name and password), access is granted within 24 hours after answering some random questions.

Enclosed Investment Reports

1st Quarter 2013 Reporting:

- *Aggregate Overview; Current Value, Asset Allocation and Performance; summarized by Portfolio and Combined Portfolios, as applicable*
- *Holdings Analysis by Account; summarized by Asset, Account and Asset Allocation*
- *Statement of Fees* for the 2nd Quarter 2013 (based on 03/31/13 values)
- *Disclosure Statement*

Please remember that this investment reporting is for informational purposes only and you should also refer to the investment statements you receive from your brokerage custodian.

As always, we appreciate your continued confidence and trust. Should you have any questions or concerns, please contact us.

Best regards,

Patricia C Patterson

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