PREMIER FINANCIAL PLANNING, INC.
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A Registered Investment Advisor

2nd Quarter 2012 Commentary | *July 2012*

The Seesaw Action Continues: Following a great 1st quarter, volatility returned to the markets in the month of May. Fortunately, the seesaw swung in the other direction for part of June which allowed us to recover from what would have been a larger dip. While we incurred small losses during the 2nd quarter, please note that our year-to-date 6-month returns continue to be strong.

June 30, 2012 Benchmark Returns	
2012	**2nd Quarter**
Large-Cap US Indices	
Dow Jones Industrial	-1.85%
Standard & Poor's 500	-3.29%
NASDAQ Composite	-5.06%
Russell 1000 Growth	-4.02%
Russell 1000 Value	-2.20%
Small-Cap Indices	
Russell 2000 Growth	-3.94%
Russell 2000 Value	-3.01%
Large Cap International Indices	
MSCI EAFE (Local Currency)	-6.69%
MSCI EAFE (US Currency)	-7.13%
Fixed Income Indices	
Barclay's Cap Aggregate Bond	2.06%
Citigroup World Govt. Bond	0.20%
Real Estate Indices	
Dow Jones US Select REIT	3.75%

** 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.*

What is the "Fiscal Cliff"?

In recent months, a new phrase has entered the national lexicon, a phrase that is likely to reverberate with increasing intensity in the months ahead. That phrase is "fiscal cliff". The "fiscal cliff" refers to the abrupt slowdown in the economy that could occur in 2013 if taxes rise and government spending falls as currently scheduled. The fiscal cliff has a number of components. Among them are:

- **Expiration of the Bush tax cuts.** The Bush tax cuts—the lower tax rates in effect for the past decade—are scheduled to expire at the end of 2012. Republicans believe the Bush tax cuts should be extended for all taxpayers. Democrats believe they should be extended only for middle and lower income families. President Obama has said he will veto any further extension of the Bush tax cuts for upper income families.
- **Expiration of the payroll tax cut.** In 2010, to secure the President's assent to a two-year extension of the Bush tax cuts, the Republicans agreed to reduce the employee Social Security tax rate in 2011 from 6.2% to 4.2%. Subsequently, the Republicans grudgingly agreed to extend this lower Social Security tax rate through 2012 as well. Another extension of the payroll tax cut is unlikely.
- **New health care reform taxes.** To help finance the health care reform law, Congress approved a new tax on investment income to take effect in 2013. Beginning next year, to the extent a family's overall income is above $250,000 ($200,000 for individual taxpayers), taxable investment income—e.g., interest, dividends, capital gains, rents—*will be subject to an additional tax of 3.8%.* This additional tax will not apply to amounts withdrawn from qualified retirement plans and IRAs. Since the Supreme Court did not strike down this part of the health care reform law, the additional tax on investment income will begin in 2013.
- **Spending cuts.** The compromise reached last August to increase the national debt ceiling (thereby allowing the United States to avoid defaulting on Treasury securities) calls for cuts in discretionary government spending of $2.1 trillion over ten years, including about $1 trillion of defense cuts. The bulk of these cuts are slated to begin in 2013.

Congress need not pass a single piece of tax legislation in 2012 for the tax increases and spending cuts outlined above to take effect in 2013. They will happen by default. If Congress fails to stop the implementation of these provisions, the higher taxes and lower spending could cause a slowdown in the economy in 2013. In the current tumultuous campaign environment, Congress is unlikely to pass any significant legislation before Election Day. Thus, the fate of the tax increases and spending cuts will be decided, if at all, by a "lame duck" Congress convening between Thanksgiving and Christmas in 2012. The hope is that, standing on the edge of the fiscal cliff, the parties will negotiate a compromise during the lame duck session. The most likely candidate for compromise is the pending expiration of the Bush tax cuts.

30535 Star Haven Drive, Valley Center, CA 92082 760.751.2397 • *fax* 760.749.6807

Is It Time to Reevaluate your Investment Strategy? If the turmoil in the markets is making it harder for you to sleep at night and the media's "news du jour" is creating knots in your stomach, it might be time to reevaluate your current asset allocation model. If you believe you might wish to take things a bit more conservatively or you wish to increase cash reserves, please let us know. We can send you a questionnaire to re-answer to see whether your attitude towards risk has truly changed or, if you so direct, we can change your investment strategy to a more conservative asset allocation model.

Estate Planning Tip

Just a reminder that as time passes by, we should take the time to review and evaluate our estate planning documents. Are your documents in order and do they continue to reflect your wishes? Do you need to update your successor trustees or the individuals you have appointed to assist you under your financial or health power of attorney if you become incapacitated for any reason? Are the titles to your outside investments correct and are beneficiary designations accurate?

Enclosed Investment Reports

2nd Quarter 2012 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 3rd Quarter 2012 (based on 06/30/12 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.

Firm Announcement

Please join me as I congratulate Jim Patterson for successfully passing the first of his CFP® tests! Good going, Jim!

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

Best regards,

Patricia C Patterson

Patricia C. Patterson, CFP®, CMFC®