4665 Cornell Road, Suite 160
Cincinnati, OH 45241
Phone 513.984.6696
Fax 513.984.9270
www.fmgonline.com

Financial Management Group
Economic & Investment Outlook 2013

Equities returned strong, positive performance for 2012, albeit volatile, as we accurately forecasted at the start of the year. Accordingly, investment portfolios were properly positioned to capture this growth. Our outlook for equities worldwide in 2013 remains positive

We are pleased to inform you that our Economic & Investment Outlooks for 2012 played out with precision throughout the year. The chart of indexes below reflects the ending results for the major asset class categories:

Index	4th Quarter	YTD	3 year	10 year	20 year	Description
S&P 500 Index	-0.38%	16.00%	10.87%	7.10%	8.22%	Large-Cap Stocks
Russell 1000 Growth	-1.32%	15.26%	11.35%	7.52%	7.12%	Large-Cap Growth Stocks
Russell 1000 Value	1.52%	17.51%	10.86%	7.38%	9.08%	Large-Cap Value Stocks
Russell 2000 Growth	0.45%	14.56%	12.82%	9.80%	6.15%	Small-Cap Growth Stocks
Russell 2000 Value	3.22%	18.05%	11.57%	9.50%	10.18%	Small-Cap Value Stocks
MSCI - EAFE	6.60%	17.90%	4.04%	8.70%	6.48%	International Stocks
MSCI – Emerging Market	5.61%	18.63%	4.98%	16.88%	8.82%	Emerging Market Stocks
Barclay's Aggregate Bond Index	0.22%	4.22%	6.19%	5.18%	6.34%	Domestic Bonds
All returns are annualized as of December 31, 2012.						

It was beneficial for our clients that the strongest performances occurred in the equity categories, which we tactically overweighted within their investment portfolios. Moreover, the bond holdings in the fixed income allocations of the portfolios beneficially outperformed the bond indexes.

The above chart of indexes also significantly shows that positive equity performances are derived in the long run despite interim periods of unsettling volatility. This serves as a reminder to remain focused on the longer-term investment horizon and to stay emotionally detached from shorter-term downward movements typically accompanied by disturbing political maneuvering and media noise.

For 2013, we forecast the U.S. and global economies to continue gradual improvement with correspondingly positive results for equities worldwide

The fiscal and monetary policies implemented by the central governments worldwide will determine the relative volatility and equity performance outcomes for this year. Therefore, the policy decision-making must be closely monitored and interpreted with respect to how the investment environment might react.

For example, the U.S. fiscal compromise to avert falling off the "cliff" primarily addressed tax side of the ledger, but did little to address longer-term fiscal imbalances being caused by entitlement program spending that must be cut in order to reduce the deficit.

Immediate fiscal challenges facing Congress in the first quarter include the need to raise the nation's debt ceiling and how to reallocate the presently mandated *across-the-board* budget cuts totaling $1.2 trillion over 10 years. Politicians playing uncompromising political games will not be tolerated by either the electorate or the economy and, therefore, we believe resolving compromise will be achieved.

A further reason for our optimism about the U.S. economy is that the housing market appears to be beginning a recovery and its prolonged drag upon the economy has bottomed out. The excess housing inventory is dwindling and the population growth is outpacing new construction. Home prices are low and stabilized. Interest rates remain low and it is cheaper to buy than to rent, a dynamic to continue until excess inventories are worked off.

We have positioned investment portfolios to capture the momentum of strong international equity performances which we forecast to continue in 2013

International equities provided the best performance returns in 2012 and our tactically overweighted allocations for this asset class benefited the portfolios. An overweighted exposure will be maintained in 2013 because the prospects for economic and investment growth remain attractive, particularly for the emerging markets. With rapidly expanding consumer populations manifesting in the emerging market countries, these economies and investment opportunities are poised for exceptional growth. Moreover, as is the case for U.S. equities, the price valuations for international equities are fundamentally low.

Also of significance, even the European crisis has become relatively more stabilized now that the monetary policy of the Eurozone's Central Bank has become more committed to saving the Euro, and is now generating solutions beyond fiscal austerity measures that severely restricted prospects for European economic recovery and growth.

We expect U.S. fixed income performances to yield poor results and not be a viable source for meeting personal income requirements

The outlook for fixed income and cash alternatives is dismal. The money concentrated in these vehicles will become increasingly risky and frustrating for seekers of income. As a result, we foresee fixed income investors shifting towards the more attractive equity alternatives, typically at a time when it is less-than-ideal for making the shift. In essence, there is currently an inherent pent-up demand for equities which we believe will further increase the upward price movements to benefit existing equity investors. Most likely at that time, we will be tactically rebalancing portfolios for the purpose of locking in equity gains.

With inflation and interest rates now at historic lows, it is only a matter of when, not if, domestic fixed income results become impacted by gradually increasing inflation and upward trending interest rates. Accordingly, we intend to continue our tactical underweighting of bond holdings in the portfolios. Furthermore, our policy for bonds will be to continue maintaining relatively short maturities and durations in order to protect against principal losses which can occur as interest rates increase.

We further reduce the interest rate and principal risks of fixed income assets within the portfolios by including foreign bond funds. Moreover, by having debt exposure to a variety of foreign economic scenarios, we are able to improve yields.

We regard investment management to be only one of the many tools we utilize to provide our clients comprehensive, value-enhancing wealth accumulation and preservation

We design customized investment portfolios in tandem with comprehensive financial planning strategies to meet the specific goals and objectives of each client relationship. A typical FMG client portfolio is structured to be relatively risk-adverse through broad diversification, as well as to grow by having prudent exposure globally to equities. Because inflation and interest rates are low, equities offer a better opportunity for meeting current income requirements and staying ahead of cost-of-living increases, without spectacular returns being required.

Fixed income and cash alternatives cannot be relied upon for producing an adequate income stream and providing appreciation to portfolio value. Instead, we manage these investments to serve as a stabilizing portfolio anchor, as a funding mechanism for rebalancing opportunities, and for meeting more immediate living expense requirements.

The fiscal compromise was a partial step back from the "cliff" and averted for the near-term a potential regression to a recessionary economic environment, and removed some areas of financial and tax planning uncertainty

The following summarizes some of the tax issues made certain for financial planning purposes by the fiscal compromise:

Income tax rates

All prior tax rates remain in effect except the top 39.6% tax is reinstituted for high income earners with taxable income:

- Above $400,000 for single taxpayers
- Above $450,000 for married couples filing jointly
- Above $225,000 for married couples filing separately

Long-term capital gains and dividends

- A 20% rate will now apply for taxpayers in the 39.6% tax bracket
- A rate of zero is retained for taxpayers in the 10% and 15% brackets
- All other taxpayers maintain their 15% rate

Alternative Minimum Tax (AMT)

A permanent patch is retroactively in place for 2012 and beyond designed to shield middle-class taxpayers who were previously subject to an onerous AMT.

Itemized deductions and personal exemptions

A phase out of itemized deductions will be implemented for:

- Single taxpayers earning over $250,000
- Married couples earning over $300,000

Payroll tax

The payroll tax will increase 2% for *everyone*. This will decrease discretionary consumer spending requiring the U.S. economy to grow in other areas in order to offset the negative impact

Estate and gift taxes

The estate and gift tax exclusion of $5 million has been retained and will be indexed for inflation ($5.12 million in 2012). The top tax rate will increase from 35% to 40%

Because we are now able to address with more certainty how to incorporate these relevant tax laws into our tax reduction planning strategies, we intend to maximize most beneficially the new tax laws for clients.

We are available to discuss further with you our Economic & Investment Outlook for 2013 as it relates to your investment portfolio and meeting your financial planning goals and objectives.

Best regards,

Financial Management Group Investment Policy Committee

FMG Investment Policy Committee

Brett Wilder, CFP®
Chief Executive Officer

Dave Wilder, CFP®, MST, CTFA, CEPA
Chief Investment Officer & Senior Advisor

Rob Lemmons, CFP®, CPA, AIF®
Director of Financial Planning & Senior Advisor

Jon Andre, CFP®
Investment Advisor

Rob Siegmann, MBA
Chief Operating Officer & Senior Advisor

Many people are considering changes in their current financial management status. Founded 24 years ago, FMG has an experienced staff of professionals who are available to advise new clients seeking the comprehensive financial planning and investment advisory services that we offer as an independently-owned firm and provide on a fee-only basis. Our firm is positioned to grow and the most important resource for us is satisfied clients and professionals who are willing to introduce others to us. We offer with no charge or obligation an introductory, get-acquainted consultation to determine if and how we might be able to assist others with our services. For additional information, please view our Internet websites www.fmgonline.com and www.quietmillionaire.com or telephone us at 513-984-6696.