

# the Quarterly

Q2, 2012

## A Volatile Stock Market Period

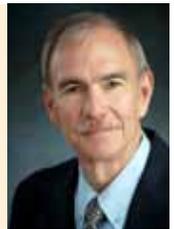
**T**he just completed second quarter was an active period for the market. The broad-based S&P 500 declined about 3%. During the period, the S&P suffered one decline of around 10%. Although this selloff caused anxiety among many investors, it is actually quite commonplace. The market on average has a 10% correction once a year. Corrections of 5% seem to occur around three times a year.

After fairly good economic growth early in the year, the pace of activity has moderated as the year progressed. This has created fears that more economic problems could develop as the rest of the year unfolds. These issues though, seemed to take a backseat to the ongoing developments in the euro zone.

The euro-area economy continues in a recession, but recent data does not signal an imminent acceleration in the pace of contraction. This is largely due to the resilience of the German economy, which is critical going forward. It has now been about two and one-half years since the crisis in the euro zone first emerged. Although there continues to be a lot of “noise” surrounding the state of affairs there, it does seem like the crisis has shifted from being an imminent disaster to being a chronic problem.

This is largely due to a more coordinated effort among the European Central Bank and other financial entities. Interest rates have been

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lowered to promote economic growth, and a \$100 billion bank funding facility is being put in place to improve liquidity for the troubled Spanish banking system. Furthermore, Greece has received substantial monetary assistance and the results of their recent election seem to indicate that they will likely remain a member of the European Union for now.

The ongoing turmoil in the euro zone will likely be with us for some time and its impact on the world-wide economy is serious. However, the Euro crisis hasn't stopped the economic recovery in the U.S. Although our economic growth has moderated some, a new growth engine is starting to emerge. The troubled housing industry is finally starting to emerge from the abyss of the last several years. Both new housing starts and new building permits are showing good growth. If these trends continue, the housing sector might be capable of offsetting a large part of any decline in export growth that might develop from the continuing recession in the euro area.

In spite of the concern about some slowing in the U.S. economy and the uncertainties in

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### Inside this issue...

- Learn the Lingo ..... pg 2
- “Face” the Challenge ..... pg 2
- Kansas Tax Law Changes ... pg 3
- New Online Social Security Statements ..... pg 4
- Save the Date ..... pg 4

## Learn the Lingo

### CFP®

The Certified Financial Planner™ designation is a professional certification mark for financial planners conferred by the Certified Board of Standards. To receive authorization to use the designation, the candidate must meet education, examination, experience and ethics requirements. The CFP® designation is recognized as the standard of excellence in Personal Financial Planning.

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A Registered Investment Adviser is a firm that is in the business of giving advice about securities. These firms must register with the Securities and Exchange Commission (smaller RIA's are required to register with the state securities agency where they have their principal place of business). Registered Investment Advisers must adhere to a fiduciary standard of care which requires advisers to act and serve a client's best interests with the intent to eliminate, or at least to expose, all potential conflicts of interest.

## A Volatile Stock Market Period... *continued from page 1*

the euro area, the outlook for the market is really quite positive. Stocks on many valuation measures are quite attractive. The S&P 500 is expected to earn around \$100/share this year and the index is priced around the 1300 level. This makes its price/earnings ratio 13. Historically, when the index has sold around this 13 ratio, stock market returns for the next two years have been good. Measures of investor psychology show a great deal of negative senti-

ment. Above-average market returns have generally occurred when investor sentiment has been this cautious. Falling energy prices may act as a tax break for the U.S. consumer and be an economic stimulus. Stocks have become attractive relative to fixed income options as the yield on 10-year Treasury bonds has reached an all-time low of 1.5%. The dividend yield on the S&P 500 is now higher than 10-year Treasury yield for the first time in 50 years.

## “Face” the Challenge

**O**n May 18, 2012 Facebook launched its sale of stock for ownership in the company to the general public. There is always a lot of media attention when a company like this undertakes an initial public offering (IPO). For the business, it means a way to expand and raise capital. For individuals, it means a chance to share in the ownership (and profits) of a successful company.

Although infrequent, we are asked by clients about whether an IPO of a new stock is something they should “get in on”. However, along with the hype, come challenges for the individual investor. To begin the process of an IPO, the company will hire one or more investment banking firms to underwrite and set up the offering, and determine a market value for the shares. The underwriter also finds investors. The large majority of IPO shares are allocated in large blocks to institutional investors, company insiders, or the underwriters who can reserve advance orders for preferred investors. However, the truth is, for the individual investor it can actually be difficult to purchase the IPO shares, or place orders on the first day. This became painfully evident with the Facebook offering where trading actually had to be halted, and investors suffered confusion as to whether orders had filled.

The difficulty in pricing an IPO has been documented in various studies. If an issue is

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underpriced, it could be questioned whether an artificially low price was set to help generate interest in the stock to initial investors, only to see the stock be resold or ‘flipped’ with a quick price spike when it hits the open market. Also, the company may be missing out on money they could have raised if the price is too low. If the issue is overpriced, it may be difficult to sell shares of the stock and then investors may subsequently question its value.

Again, the appeal (and price) of the IPO may be reacting more to hype than actual economic factors. Going forward, the stock is traded on the secondary market between investors like any other stock. History has shown there are scenarios where a stock continues to rise to significant levels (Google), or may decline significantly as well (Groupon). As witnessed over the past month, the price decline on the Facebook stock has resulted in disappointment for many. As of the end of June the price was slightly over \$31 per share compared to the \$38 per share offering price. Time will tell whether this investment lives up to its hype.

# Kansas Tax Law Changes

Large tax cuts will take effect for Kansans starting with the 2013 tax year. There has been much discussion over the effect of these tax cuts on the financial health of the state. The debate on that issue will continue on into the new year. However, these changes can have a large impact on planning and we have reviewed the provisions so we can incorporate them into our strategies. Below is a summary of SOME of the changes. This is not a complete list but they are the items we believe have potential to impact the majority of our clients. We will be watching for additional guidance on these changes as more becomes available. As always, feel free to contact our office with specific questions about your situation.

**Barbara Heller**  
Senior Financial Planner



	2012	2013 and beyond
Tax Brackets	Three: 3.45%, 6.25%, 6.45%	Two: 3.0%, 4.9%
Non-wage business income: sole proprietorships, business entities, and farming	Taxed as ordinary income	Exempt from taxes
Standard deduction	HOH: \$4,500 MFJ: \$6,000	HOH: \$9,000 MFJ: \$9,000
Deduction of long-term care insurance premiums	Allowed	Disallowed
Deduction of certain 'above-the-line' business expenses: • ½ self-employment tax • Contributions to SEP, SIMPLE, and qualified plans • Self-employed health insurance deduction	Allowed	Disallowed

These are summaries of the new tax legislation.

For specifics, you should refer to actual legislation language for HB 2117

([http://www.kslegislature.org/li/b2011\\_12/measure/documents/hb2117\\_enrolled.pdf](http://www.kslegislature.org/li/b2011_12/measure/documents/hb2117_enrolled.pdf))

# New Online Social Security Statements

**H**ave you been to the Social Security Administration website lately? If not, you may want to pay a visit. In the midst of a rather monotone webpage lies a bright orange button with the word “NEW” printed on it. This button is a result of the agency announcing that workers 18 and older can now go to [www.ssa.gov](http://www.ssa.gov) and create a secure account in order to see their information. The new online statements feature provides eligible workers with access to their Social Security earnings and benefit information.

Until last year, the agency mailed annual paper statements which showed benefits a worker could collect at different retirement ages. In stopping the mailings, the Social Security Administration saved an estimated \$70 million a year. In February 2012, Social Security resumed mailing paper statements

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to workers age 60 and older if they are not already receiving Social Security benefits. Now with the new online feature, younger workers are able to view their statements again, albeit in electronic form. Later this year, the agency plans to mail paper statements to workers in the year they reach age 25.

So, if you haven't already, I would recommend checking out this new online feature. Better yet, make it part of an annual practice to review your statement and check for errors. Sounds like a fun new birthday tradition to me!

## SAVE THE DATE!

### Economic and Investment Seminar

The markets had a rocky second quarter in 2012. Come hear what Clayton Financial thinks about the future and the impact on your portfolio. Also, if time allows we will have a discussion on the portable healthcare act.

**Presenter:** Randy Clayton, CFP®

**Times:** **Aug. 21, 2012**  
2:00 pm only  
**Aug. 22, 2012**  
2:00 pm only  
**Aug. 23, 2012**  
2:00 pm & 6:00 pm

**Place:** Clayton Financial Services Office,  
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