

T H E

N A V I G A T O R

A NEWSLETTER FROM



TGS FINANCIAL ADVISORS

When I was in college, I thought, “I was born too late. Everything has already happened. And I missed the show.” The big idea that saturated every semester was a 1992 essay by Francis Fukayama called “The End of History.” Not only was I late for the party — even worse, apparently there wouldn’t be another one.

This was very depressing. I was nineteen years old, and I remember feeling like I’d somehow already failed. I’d missed out on the civil rights movement, the fall of Communism and the Internet go-go years. This last one hurt the most, because I’d been sooooo close. In fact, I might not be writing this if I’d only followed through with my plans to create a personal website for all things Marvin L. Barron (www.mlb.com)¹. I’d be rich. Even better, I’d be involved.

Yet, here was Fukayama telling us to all go home. Thanks for showing up, but you’re late. Our forefathers already figured out all the big stuff. Democracy won. The Internet made it inevitable. Go home and wait for your flying car.

Ten years later, I don’t have a flying car.

What I do have is a whole decade of evidence to suggest that history is not really over. It suggests that the big questions – How do we organize a society? – has not really been solved. It suggests that the Washington Consensus (unrestrained markets + representative democracy + cheap money) may be more of a preface than a conclusion to history’s guidebook. It suggests that we still have work to do.

And it is something I find most comforting.

After all, for hundreds of years we have been wrestling with these problems, and in the process we improved our

economic lives immeasurably. I don’t think progress and prosperity require us to first answer the big questions. I think they are what happens when we ask them.

It is a messy process. It is sometimes violent (the Arab Spring). It is sometimes organic (the Tea Party). And it sometimes results in eternal committee meetings (the Euro-Debt Crisis).

And yet, progress does happen. It’s just that sometimes it is scary when we see it up close.

There’s a lot going on, I’ll give you that. Markets and newsfeeds feel like the Chinese curse: “May you live in interesting times.”

But “interesting times” is how we got here. And “interesting times” is how we’ll grow.

At least, that’s what I have to believe. Because what could be worse than building a society with a million historians, most of whom have nothing much to do?

For the firm,

Marvin L. Barron III, CFP®
Managing Director

¹Look it up.

Understanding The Dalbar Report

– by Phillip Deerwester –

We love information. We believe that one of the best ways to ensure that we stay on top of our increasingly unpredictable market is to stay well informed.

But there's a problem: not all information is designed to help us make wise decisions. Financial journalism is a massive and growing industry. Blogs and newsletters spring up every day, many touting the latest schemes designed to part you from your savings in exciting new ways. Even the more reputable media outlets tend to stimulate panic and euphoria, causing otherwise reasonable people to make emotional and irrational decisions.

We've learned to separate news from hype and information from advertising. More importantly, we base our investment decisions on more than just headlines and hot trends. Our systematic approach to managing your money avoids the influences that have trapped so many other investors and advisors over the last few years.

How do we know we're making the right decisions? The Dalbar *Quantitative Analysis of Investor Behavior* helps us understand the investment decisions of the average investor – and the effects of these decisions on the average investor's portfolio.

What is the Dalbar Report?

Dalbar, Inc. is a market research firm that focuses on the financial services industry. Since 1994, its annual *Quantitative Analysis of Investor Behavior* has studied investor behavior by analyzing the flow of money into and out of mutual funds. Based on this information, Dalbar creates an average investor portfolio and compares it with common benchmarks.

According to the report, the key difference — between average investors and investors who use more systematic strategies — is timing. The average length of time that investors spend invested in a given fund is around 3-4 years. Since the average market cycle spans around seven years, this means investors tend to sell out or change strategies halfway through. The results of this miscalculation?

Long-term returns for average equity mutual fund investors have consistently trailed the S&P 500 by between 5-11% per year since the report was first published. Average fixed income and asset allocation investors have fared no better. Over a one-year time frame, a 5% difference is a painful shortfall; over a lifetime, it is an irrevocable gap.

Table 1: Long-Term Returns (twenty-year trailing, annualized, in percent)¹

Year	S&P 500	Average Equity Fund Investor	Difference
1998	17.90	7.25	-10.65
1999	18.01	7.23	-10.78
2000	16.29	5.32	-10.97
2001	14.51	4.17	-10.34
2002	12.22	2.57	-9.65
2003	12.98	3.51	-9.47
2004	13.20	3.70	-9.50
2005	11.90	3.90	-8.00
2006	11.80	4.30	-7.50
2007	11.81	4.48	-7.33
2008	8.35	1.87	-6.48
2009	8.20	3.17	-5.03
2010	9.14	3.83	-5.31

Source: 2011 Dalbar *Quantitative Analysis of Investor Behavior*

¹The original analyses began in 1984, so that between 1998 and 2002, the period covered was less than 20 years. Since 2003, however, the long-term analysis has covered a 20-year time frame.

MARKETS

So why do average investors continue to buy and sell at precisely the wrong time? There are a number of possible explanations. They react to news – positive or negative – without careful analysis. They try to match the results of friends, neighbors, and even random strangers who claim to have done well with an investment. They're dazzled by seemingly unending up-trends or unnerved by repeated lows. *They fail to let a systematic, principled approach detach their emotions from their investment decisions.*

What can we learn from the this year's Report?

The 2011 *Quantitative Analysis of Investor Behavior* is the same old story – with a few surprises. Average equity investors earned 13.6% in 2010 – a decent result in historical terms, but still almost 1.5% below the S&P 500. Bond investors fared even worse, trailing the bond index by over 3.5%. Over a 20-year period, the average equity investor has earned 3.83% per year, far less than the 9.14% return of the S&P 500.

Meanwhile, for the first time in the history of the report, average stock, bond, and asset allocation investors beat

inflation over a 10-year horizon. Even more surprising, for the first time ever, an average investor's hypothetical \$10,000 equity investment has actually outperformed a hypothetical systematic \$10,000 equity investment by an annualized 0.23% over the last 20 years.

Does this mean average investors have finally learned to invest cautiously and are reaping the rewards, or that principled and systematic investing strategies have been debunked?

Not exactly. The last decade has seen extended periods of low inflation: an average of just 2.5% during the last 10 years, compared to historical averages of around 3.5%. And while it appears some investors have learned from the repeated declines and recoveries of the last several years – the average equity investor's long-term underperformance in 2010 is about half of what it was in 1998 – the consistent failure of market timing strategies to match the annual returns of the systematic investor underscores the importance of a principled approach that ignores panic and euphoria.

Use It or Lose It

Estate Planning in 2011 & 2012

- by James S. Hemphill CFP® ChFC®, CIMA | Chief Investment Strategist & Managing Director -

Our tax code is a mess, mostly because our political system is a mess. Since 2001, when President George Bush reached a compromise with Senate Democrats on his EGTTTRA tax package, our estate tax system has been a ridiculous dog's breakfast. The estate exclusion went from \$600,000 in 2001 to \$3.5 million in 2009 to unlimited in 2010, then was scheduled to decline to \$1 million in 2011, as the entire Bush tax cut regime was scheduled to "sunset" automatically.

Throughout this period of changing estate tax rates, even when the estate exclusion was briefly unlimited, the gift tax exclusion was stuck at \$1 million. So George Steinbrenner, who died in the magic year of 2010, paid no Federal estate taxes on a \$1.1 billion estate, but could have given away only \$1 million during his lifetime without paying gift taxes.

Having the gift tax exclusion different than the estate tax exclusion immensely complicates planning. Fortunately, the December 2010 compromise between President Obama and Republican Senator Jon Kyl corrected this issue. At least for now, the estate and gift tax exclusions are unified at \$5 million each.

Unfortunately (remember, our political system is a mess), the unified \$5 million exclusion is only in place through the end

of 2012. Under current law, we are scheduled to go back to a unified \$1 million estate and gift exclusion in 2013, with a marginal estate tax bracket of 55%. (See graphs 1 and 2.) Washington will be trying to sort out the post-2013 tax regime right in the middle of a Presidential election. No telling what nonsense they will come up with.

All this uncertainty creates urgency about considering ways to use the \$5 million gift exclusion today. Graph 3 illustrates the following example. Imagine you have a \$20 million estate. If you and your spouse give away half by the end of next year, and die January 1, 2013, your estate will (under current law), be taxed on \$10 million at a 55% marginal estate tax rate; your estate will pay \$5.5 million in Federal taxes, and your heirs will net \$14.5 million. If you don't make any gifts and die in early 2013, with the exclusion reduced to \$1 million per taxpayer, you will have an \$18 million taxable estate at 55%; your estate will pay \$9.9 million in estate taxes and your heirs end up with \$10.1 million².

Is passing nearly \$4.5 million more wealth to your heirs instead of Uncle Sam worth doing some planning today? Does the Pope wear a funny hat?

Chart 1: Unified Estate & Gift Exclusion

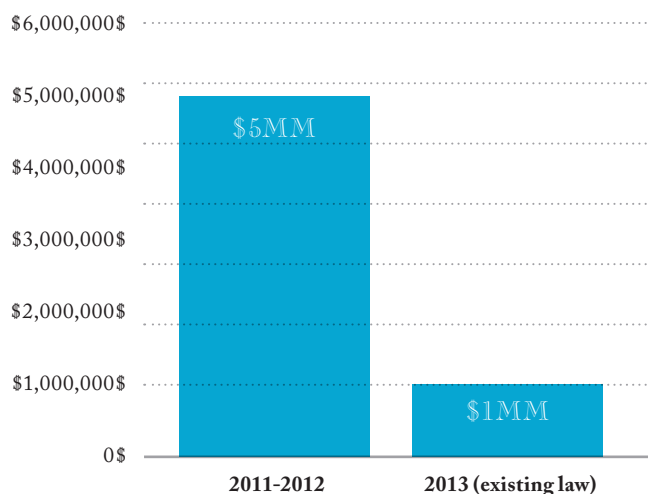
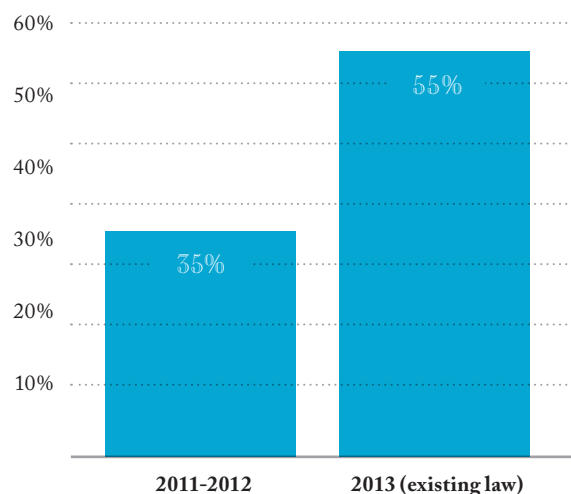


Chart 2: Marginal Estate Tax Rate



¹This example assumes a husband and wife with joint assets totaling \$20 million. It also assumes the \$5 million exclusion "sunset" in 2013, as currently scheduled. Of course, nobody knows what Congress and the President will do over the next fifteen months.

²Assumes no action by Congress, and annual exclusions expire as scheduled.

Many estate attorneys we've consulted regard the \$5 million planning opportunity as a "use it or lose it" proposition. If you take advantage, you are unlikely to be worse off, tax-wise, than if you stand pat, and you are very possibly going to be much better off. (At least, your heirs will be.)

We believe that any individual with a taxable estate above \$1 million, or a couple with a taxable estate over \$2 million, should at least engage the issue of whether to give some assets away today. We are working closely with estate planning attorneys on gifting strategies to be put in place before the end of next year. The current very low interest rates make certain planning strategies, such as Charitable Lead Trusts, especially interesting.

This type of planning can be complex, and we strongly recommend starting discussions as soon as possible. We are happy to work with your existing estate planning attorney to address these issues, or to refer you to a qualified attorney with the appropriate expertise.

UPCOMING EVENT

November 16

Building Capital for Retirement (CE for CPAs)
Presented by: James S. Hemphill, CFP® ChFC®, CIMA

View and register for events:
www.tgsfinancial.com/events.btm

PAST EVENTS

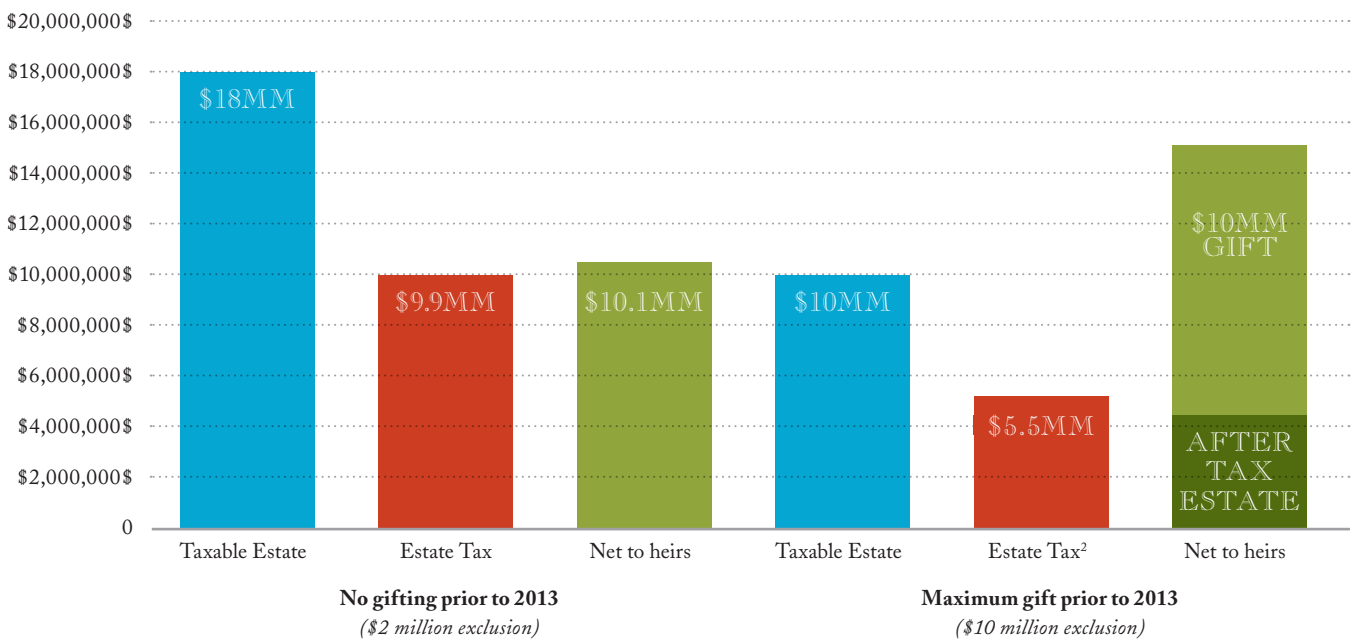
September 6 & 7

TGS Financial Advisors held two *Market Update* events at our office to discuss the recent market volatility, the firm's perspective and our latest portfolio strategies.

September 13

TGS Financial Advisors and law firm Hamburg, Rubin, Mullin, Maxwell & Lupin held a joint event, *Keeping It: A Discussion on Protecting One's Assets*, specifically as it applies to small business owners and doctors.

Chart 3: Potential Benefit of Gifting



Client Q&A

Do you think that those of us who are approaching retirement will be able to successfully manage the financial problems we incur as a result of the “structural economic challenges, great economic uncertainty and the probability of volatile stock, bond and currency markets”?

- by James S. Hemphill CFP® ChFC®, CIMA | Chief Investment Strategist & Managing Director -

The challenges facing near-term retirees, and those already retired, are both economic and psychological.

The principal economic challenge is a low-return, high-volatility investment landscape. The long bull market that began in 1982 ended in early 2000. Since then we’ve had a low-return decade bookended by two brutal stock market crashes. At current prices, we project long-term returns on the stock market will be 4% to 7%, and bonds will be lucky not to lose money.

The psychological challenge is managing our heads, given the level of uncertainty in the real economy, the financial markets and the political landscape. When high volatility is added to low returns, it seems downright unfair. Perhaps we should move to cash and wait for calmer and more predictable markets?

We think not. In a low-return environment, the cost of buying psychological comfort by selling in a bad market is likely to be irrecoverable. Miss a 30% market recovery and you’ve missed five years of growth.

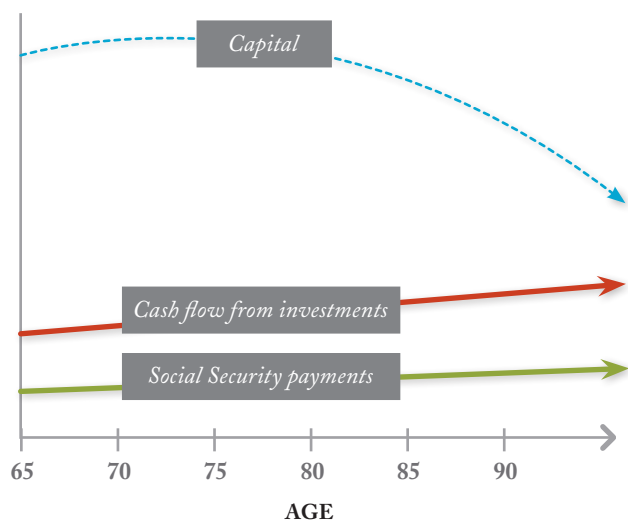
If we can’t go to cash and wait for better times, what should we do?

Think long-term, and run the numbers. Since the early 1980s, the core of our advisory business has been helping clients to save money for retirement and maintain cash flow afterward. Over the last thirty years, the tools we use to calculate retirement scenarios have improved dramatically.

When we run projections on retirement, we use conservative assumptions about market returns and volatility. We will help you to set realistic goals, track your progress toward those goals and report back to you regularly and transparently. *With returns lower and volatility higher, you will need to save more or spend less to make your retirement plan work.*

The market may be frustrating and frightening, but we have confidence in our numbers, our methodology and our ability to manage money. If you manage your cash flow responsibly and stay the course with our investment strategy, we believe you can remain confident in your lifetime financial security.

An example of a sustainable retirement cash flow scenario



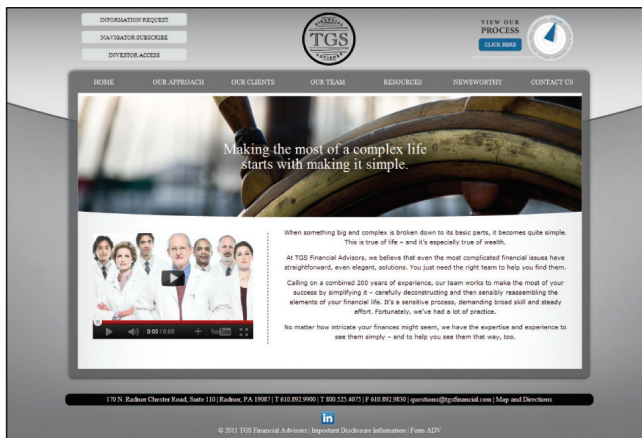
With returns lower and volatility higher, you will need to save more or spend less to make your retirement plan work.

TGS Financial Advisors' Website Updated

The firm is excited to announce the launch of our newly updated website. The site provides information about:

- Our investment and planning approach
- Who we work with
- Updated team profiles (and pictures)
- Links to all of our publications by topic
- Firm news and events (online registration)
- *Plus more*

The firm's updated website:
www.tgsfinancial.com



NEW Jim's Blog: *The Glass Half Full*

We're also very happy to announce the launch of Jim Hemphill's blog, *The Glass Half Full*. Updated weekly, the blog captures *Chief Investment Strategist* Jim Hemphill's thoughts on market conditions, politics & the economy, recent events, travel and wine.

Subscribe to *The Glass Half Full* to receive updates when new posts are added.

Jim's blog: *The Glass Half Full*:
www.jimbemphill.wordpress.com



The Firm Welcomes Peter Mai



Peter joined the firm in August of 2011 as an *Accounts Administrator*. He is responsible for opening new accounts, transferring in assets, and all other aspects of client service.

Peter attended American University in Washington D.C. where he majored in History and minored in Justice, Law and Society. He began his professional career working on Capitol Hill as Deputy Director of the international arm of the Republican National Committee. During his tenure at the RNC, Peter was directly involved with the overseas

ballot issue during the 2000 U.S. Presidential Election, and had the opportunity to travel overseas extensively. Upon relocating to New Jersey, Peter found a niche in developing affordable housing communities for one of the leading developers in the country. Fueled by this passion for helping the community, Peter ultimately went into law enforcement and served in Camden County.

Peter is married to Alma, who attended Parsons The New School for Design in New York City and was a member of Urban Outfitters, Inc.'s Creative Design Department. They have three children, Luna, Cielo and Belén. They live in Haddon Township, New Jersey, where Peter enjoys reading, playing "tea-time" with his daughters and training in martial arts.

Goings On About Town

On October 1st, Vincent & Jill Barbera participated in *The International Philadelphia Dragon Boat Festival* race on team Everyhome. Their team won the gold medal in their division in support of Operation Homefront.

www.philadragonboatfestival.com
www.operationhomefront.net

On September 25th, David Burd and Jim Hemphill completed the MS 150 City to Shore ride. The weather was cool and cloudy. David once again completed the century (100-mile ride). Jim, less than five months after suffering a complete rupture of his Achilles tendon, finished the 75-mile ride. Thanks to your generous support the TGS team raised over \$4,200 to benefit the Multiple Sclerosis Society.

www.bikepac.nationalmssociety.org

In September, Vincent Barbera attended the annual *Financial Planning Association Conference* in San Diego, CA.
www.fpa.org

TGS Financial Advisors was proud to support the **Pennsylvania Academy of the Fine Arts (PAFA)** and the **Women's Board** as a sponsor of the *19th Annual US Artists American Fine Art Show and Sale*. The show and sale ran from September 23rd through the 25th and featured over 2,000 works of American art from nearly 40 of the country's most prestigious dealers. www.pafa.org

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by TGS Financial Advisors) or any non-investment related content (financial planning, estate planning, insurance, etc.), made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from TGS Financial Advisors. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. A copy of our current written disclosure statement discussing our advisory services and fees is available for review upon request.

Please remember to contact TGS Financial Advisors if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Please also advise us if you would like to impose, add or modify any reasonable restrictions to our investment advisory services. TGS is neither an attorney nor accountant and no portion of the newsletter content should be construed as legal or accounting advice.

Book Recommendations

The Rational Optimist How Prosperity Evolves

by Matt Ridley

Reviewed by Jim Hemphill

You would not know it from watching the news or listening to talk radio, but there is much to be optimistic about.

Zoologist, capitalist and prize-winning author Matt Ridley challenges today's pessimistic outlook by examining the history of human progress. He notes that human beings are the only primates who do not always react to contact with a strange tribe with violence. What sets *homo sapiens sapiens*, our species, apart from other primates, and from other now-extinct human species like Neanderthals, is trade — the voluntary exchange of goods in a mutually beneficial manner. No other animal has ever been observed to engage in trade. Yet humans have traded with each other for more than 50,000 years.

My most rewarding insight from reading Ridley's book was the understanding that human progress and growing wealth are not unlikely accidents, nor are they mechanical contrivances, requiring some complex, precisely-calibrated government policy to promote. Rather, wealth and progress are the natural outcome of our most essential nature as human beings.

Highly recommended.

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