

NAVIGATOR



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Office hours:

Monday through Friday
8:00 a.m. - 6:00 p.m.

Stock market holiday:

February 21st - *office closed*
President's Day

Letter from the Directors

DISCONNECTS

As advisors, right now we are dealing with several fundamental disconnects.

The first is a disconnect between investor perception and market reality. Surveys show the majority of investors are still skeptical of the stock market and remain heavily in cash. Yet from the market low in March of 2009 through year-end 2010, the S&P 500 advanced more than 84%. Our clients generally did a good bit better. Though the market on December 31, 2010 remained 19% below its closing high of October 2007, our median client portfolio was down less than 5%.

There is a second disconnect, between this robust market rebound and what remains an anemic and disappointing economic recovery. Corporate profits and share prices are up, but economic growth remains unusually slow for this point in a recovery, and new jobs are scarce.

All of this occurs in the context of the structural disconnect between our government's commitments and the tax resources available to fund them. This disconnect (our current account deficit) is almost 10% of GDP today, but will get

much larger in coming years as the baby boom generation moves further into retirement, especially if healthcare costs continue to increase without check.

These high budget deficits are one of the central complaints leading to the final disconnect, which is the growing gulf between the governing class and the governed. Last year voter approval of Congress hit an all-time low.

Repairing the disconnects between government's resources and its obligations, and between the political class and the citizens, is the vital work of this generation of elected leaders, both in America and in the other Western democracies.

Our job is simpler but not easy. It is to connect the dots between risk and reward; between fundamental economic value and often irrational market prices.

As always, we are grateful for your support.

For the firm,

James S. Hemphill

THE MARKETS *at a Glance (ending December 31, 2010)*

INDEX	ANNUALIZED RETURN		
	One Year	Five Year	Ten Year
Dow Jones Industrial Average	13.9%	4.3%	3.1%
Standard & Poor's 500 Stock Index	15.1%	2.3%	1.4%
Morgan Stanley Europe, Australasia, and Far East Index (EAFE)	8.2%	2.9%	3.9%
Barclays Capital Aggregate Bond Index	6.6%	5.8%	5.8%
Barclays Capital Municipal Bond Index	2.4%	4.1%	4.8%
Six Month Treasury Bill	0.4%	3.0%	2.8%
Inflation (Consumer Price Index)	1.5%	2.2%	2.3%

Inclusion of these indices is for illustrative purposes only. Keep in mind that individuals cannot invest in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investors' results may vary. Past performance does not guarantee future results.

7 Strategies to

PROTECT AND GROW YOUR MONEY

Strategies from our *Annual Wealth Management Conference* in May 2010, presented by Marvin Barron, Managing Director and Jim Hemphill, Chief Investment Strategist.

- 1. Sell anything that's stupidly priced.**
- 2. Reduce portfolio risk.** In a low-return environment, a total loss in one part of the portfolio can't be recovered with high returns elsewhere.
- 3. Manage tax liability across time.** Taxes on earned income, capital gains, dividends and estates are all scheduled to increase after 2012.
- 4. Turn off CNBC, Fox Business News and other sensationalized short-term market commentary.** To stay informed, we recommend more measured sources such as *The Economist* magazine.
- 5. Keep political opinions and investment decisions separate.** Don't take investment advice from Glenn Beck. Ditto Paul Krugman.
- 6. Own real things.** We believe there are only four "real" things in which you should invest serious money: stocks, bonds, real estate and cash.
- 7. Know what you have.** We are often surprised by the number of successful people who don't know their net worth plus or minus \$1 million.

For more from Jim and Marvin's discussion about the market, view the presentation, *Dark Clouds and Silver Linings: Protecting Wealth in Uncertain Times* on the TGS website at: tgsfinancial.com/webinars/Appleford2010/index.htm

*Buyer Beware***ALL ANNUITIES ARE NOT CREATED EQUAL**

by Vincent R. Barbera, CFP® | Financial Advisor

A new class of combined investment/insurance contracts is making a big splash. To the consumer who has been beaten up by the volatility of the market over the last couple of years, a product promising guaranteed returns sounds like sweet music. We have concerns about the appropriateness, the marketing and (in certain cases) the safety of some of these contracts. Let's start by clarifying some terms:

Immediate annuities, where you exchange cash for a stream of future monthly income payments, are among the safest financial vehicles around. We believe they can be an excellent choice for retired individuals who are looking for safe and predictable income.

Variable annuities are regulated as securities. We have concerns about the use of variable annuities as the sole or primary vehicle to build funds for retirement, and we have not invested new client funds in a variable annuity in a decade, but we do know several smart and ethical advisors who include variable annuities as part of their accumulation plans.

Equity indexed annuities (sometimes called *fixed indexed annuities*), despite their link to the stock market, are not regulated as securities. Their guarantees are secured only by the general funds of the insurance company. They combine different types of benefits (market-linked growth, guaranteed principal, lifetime income) in ways very difficult to understand. Why are they sold so aggressively? Because they pay higher commissions than almost any other financial product — as much as 12% of the dollars invested.

We are not yet persuaded that it is a good idea to combine something insurance companies have done well for centuries (project mortality outcomes and pay lifetime income) with something they have done badly for only a few years (predict market risks and manage portfolio volatility). As *Chief Investment Strategist* Jim Hemphill

says, “Think of AIG’s credit-default swaps unit in London, which got risk wrong by two orders of magnitude, lost \$150 billion, and almost crippled the world financial system.”

If there’s one thing that we should have learned over the past two years, it is that we should be skeptical of any claim of a high-return, risk-free investment. There is always a risk-reward relationship. In order to achieve a higher rate of return, you have to be willing to incur greater risk.

If you’re considering an investment product that promises guaranteed returns with no downside risk, please bring it to our attention. We are here to help you make decisions that will benefit your financial well-being. *We believe that there are meaningful options available depending on your specific situation and need. However, as we’ve said again and again, in the current market environment there is an enormous amount of noise.*

Signs of a potentially deceptive practice or product. Beware if a salesperson:¹

- Encourages you to borrow money or cash in retirement funds to invest.
- Pressures you to invest immediately.
- Promises quick profits.
- Says that the disclosure documents required by federal law are just a formality.
- Sends materials with typos or misspellings, or materials that are not printed on letterhead.
- Uses words or statements such as: “guarantee,” “high return,” “limited offer,” or “safe as a CD.”

¹ Consumer Action website (www.consumeraction.gov)

Summary of new tax legislation

TAX RELIEF, UNEMPLOYMENT INSURANCE REAUTHORIZATION, AND JOB CREATION ACT OF 2010

The recently enacted *Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010* is a mouthful that has gotten a lot of press recently.

Here are some of the key elements of the Act:

An extension of the Bush-era tax cuts (through 2012)

- The maximum tax rate for dividends and long-term capital gains remains at 15%.
- The itemized deduction and personal exemption phase outs based on income limitations have been repealed through 2012. Ending restrictions on itemized deductions may be of special benefit to high-income earners.

Estate, Gift and Generation Skipping Transfer Tax modifications (through 2012)

- The Federal estate tax repeal has been extended through 2012. The maximum estate, gift and generation skipping transfer tax is 35%, down from 45% in 2009 and what would have been 55% in 2011.
- The Federal estate exemption (the amount you can transfer to others at death) remains \$5 million through 2012. In 2013, unless Congress again changes the law, the exemption amount will be reduced to \$1 million.
- The gift tax exemption, the amount you can gift without being taxed, increases to \$5 million for 2011 and 2012. It was \$1 million in 2010.

Alternative Minimum Tax (AMT) Patch (through 2011)

- For 2010, the exemption amounts increase to \$47,450 (\$72,450 married filing jointly).
- For 2011, the exemption amounts increase to \$48,450 (\$74,450 married filing jointly).

- The patch also allows nonrefundable personal credits against the AMT.

Education tax extensions (through 2011)

- Above-the-line deductions have been extended for qualified tuition and related expenses. Above-the-line refers to deductions that are subtracted from your income *before* the adjusted gross income is calculated. These type of deductions may provide a significant tax benefit.
- *Coverdell Accounts* and the definition of education expenses have been expanded.
- The *American Opportunity Tax Credit* for tuition expenses has been extended for up to \$2,500. The maximum income limits to qualify are \$80,000 for single filers and \$160,000 for those filing jointly.

Additional "tax extenders" (through 2011)

- Tax-free distributions of up to \$100,000 from individual retirement plans for charitable purposes
- Deduction of state and local general sales taxes
- An extension of the credit for energy-efficiency improvements to the home. The credit is now capped at 10% or \$500 of the installed cost.

Many of the changes expire either before or at the end of 2012, so timing is an important factor. There are many tax planning opportunities and tax administration issues that can impact your income and your estate. Over the year we will review your specific situation and coordinate with your accountant to take advantage of these tax updates where appropriate.

TGS Financial Advisors is not an accountant and no portion of this newsletter article should be construed as accounting advice.

TGS proactive to meet new SEC regulations

UPCOMING CLIENT AUDIT

In the wake of the infamous Bernie Madoff scandal, the Securities and Exchange Commission (SEC) has formalized new regulations that apply to all Registered Investment Advisors (RIAs). *An RIA, TGS is in full support of the SEC's proactive policy to help protect clients and their assets from any form of investment fraud.*

As part of the SEC's new regulations, advisors are required to hire a qualified outside accounting firm to perform an audit of all client funds that may be considered in custody of TGS. The goal of the audit is to ensure that the money that we say is in a client's accounts actually exists.

We have retained the accounting firm of Marcum LLP of Bala Cynwyd, PA, to perform an audit of our client accounts. As part of the audit process, professionals from Marcum will be in contact with a randomly selected group of TGS clients. They will ask those clients to confirm basic information about their accounts.

We have been informed by Marcum that they will tell us in advance which client accounts they will audit.

Once we know who will be contacted, we will let those clients know. *We urge you to cooperate fully with Marcum's accounting professionals and to answer their questions to the best of your knowledge.*

2010 Tax Advice

It is our strong recommendation that you wait to file your 2010 taxes until you receive all potential amended 1099s in order to avoid potential complications.

Amended 1099s may arrive as late as March.

TGS Managing Director David Burd has been named

ONE OF THE BEST FINANCIAL ADVISORS FOR DOCTORS

by *Medical Economics* magazine
November 5, 2010 issue



Goings on About Town

On September 11, 2010, TGS client Larry Kricka powerlifted his way to a world championship title in the men's 198-lb age 60-64 amateur class.

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TGS had much to be grateful for in December, including two new additions to the TGS family:

On December 1st, Vincent and Jill Barbera welcomed their second son, Hayden Roy. Their oldest son, Logan, loves his new role as big brother. Hayden was born at 2:25 a.m. at Bryn Mawr hospital. He weighed 7.1 lbs.

Two days later on December 3rd, Svetlana, Denis and their five-year old daughter, Alexandra Kovacevic welcomed a new addition to the family, Eric.

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Chief Investment Strategist, Jim Hemphill was quoted in the *Philadelphia Inquirer* article, "Vanguard Making Headway in Expanding ETF Field" by Harold Brubaker.

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Follow TGS Financial Advisors on Facebook and LinkedIn for up to date communications and commentary.

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.

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Book Recommendation

Comeback America

Turning the Country Around and Restoring Fiscal Responsibility

by David Walker

Comeback America by David Walker, provides a detailed blueprint for dealing with our nation's structural deficits and economic malfunction. Walker brings the perspective of a Certified Public Accountant (CPA), the government's former top auditor, and now the President and CEO of the Peter G. Peterson Foundation, where he works full-time to raise public awareness regarding the mounting debt burden being imposed on future generations.

Comeback America is Walter's manifesto, an engaging critique and argument about untangling the messy knot that we as a country are in.

Whether you're interested in learning more about potential solutions to our nation's financial challenges or are just looking for some intellectual entertainment to help you get through the winter months, this is on the top of our *must read* list.