Client 1st ADVISORY GROUP
REGISTERED INVESTMENT ADVISOR

The Navigator

Winter 2013

Client 1st Notes

Welcome Our New Partners!

Craig Phillips, CFP® , AIF®
CEO/Managing Partner

Michelle Mabry, CFP® , AIF®
President/ Managing Partner

Dave Stieh
COO/Partner

Client 1st Advisory Group is the proud result of the merger of Client 1st Advisors of Clearwater, FL and Wealth Management Consultants of Hattiesburg, MS. Effective January 1, 2013, the combination of these firms broadens the diverse wealth management services we provide our clients. The partners of Client 1st Advisory Group are Craig Phillips, Michelle Mabry and Dave Stieh, who together bring a synergistic wealth of leadership and experience to the table.

The purpose of the merger is to offer greater and more cost-effective investment solutions to our clients in an expanded geographic scope, while at the same time providing a level of highly responsive service that is second to none. The merger allows us to maximize resources so that we, as advisors, can focus on what we do best... guiding our clients with sound and trusted financial advice. Further, we are proud to operate in a fiduciary role free from conflicts of interest involved in investment product sales.

Dr. and Lori Speckmann
With Maasai Warriors

Take a Copy of the Navigator on Your Next Vacation! Each quarter we will award a $100 Bonefish Grill/Outback gift certificate to the client who sends in the best picture of themselves on vacation. To be eligible, you must be holding a copy of ***The Navigator***. This quarter's winners are Dr. and Lori Speckmann, Oldsmar, FL who sent in this photo from Amboseli National Park, Kenya, Africa on their epic around the world journey! We continue to receive quite a few pictures each quarter and if yours was not selected it may be included in a future *Navigator.*

***The Next Quarterly Introduction Events*!** Our next Introduction Events will be held at both locations on Thursday, March 21st. We will be hosting dinner parties for all referrals and their "referees" to welcome new members to the Client 1st family in style!

***Our* "*Second Opinion Service*"** is available to anyone who may wish to have a fiduciary professional review their portfolio in these volatile times. We will take them through our Discovery process to determine if their portfolio is appropriate in respect to their goals and

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objectives and if they are taking on more risk than necessary. There is no obligation and if we determine they they are in good shape with their current provider, we will let them know that as well.

Client 1st's new website is up and running. The new web address is: www.c1ag.com. Please check it out! Also, we have new email addresses. Look under the Biography tab for each individual email address.

The Fallacy of Predictions

By Michelle Mabry, CFP®, AIF®

One of the more interesting myths in the investment world is that large financial institutions, with their access to mountains of data pored over by teams of staff economists, can determine where the markets are going and profit accordingly. Gullible investors believe this even though, every year, we can go back to the confident predictions of brokerage firm leaders and leading hedge fund managers and see a hard-to-explain gulf between expectation and reality.

This past 12 months, the broad U.S. markets delivered roughly a 16% return, depending on which of the indices you're measuring--a good year by any standard. So let's jump into a time machine and see whether the brokerage firms were telling us to go all-in on stocks and take full advantage of this nice little bull market run.

They weren't. Adam Parker, who serves as the U.S. equity strategist for the mighty Morgan Stanley organization, boldly predicted that the S&P 500 index would fall 7.2% in 2012. He recently said that he underestimated the impact of central bank stimulus.

Credit Suisse's "strategist" Andrew Garthwaite, Wells Fargo "strategist" Gina Martin Adams and Bank of America/Merrill Lynch "strategist" Savita Subramanian forecast essentially flat returns for U.S. equities,

David Kostin of Goldman Sachs, meanwhile, predicted that the S&P 500 would drop 25% in the midst of a Euro collapse, and boldly predicted that Europe's sovereign debt crisis would worsen "almost daily." John Paulson, founder of what may be the most famous global hedge fund, based in NY, told clients in April that he was wagering heavily against European sovereign bonds. UBS economist Jonathan Golub forecast struggling equities in the face of European recession.

In fact, the Eurozone became practically the epicenter of bad Wall Street predictions; crafty traders watched in dismay as Greek bonds surged in value in 2012, and the Euro itself strengthened about 9.4% from its July 24 low against the dollar. Germany's DAX Index managed to survive the predicted freefall by returning 29% to investors who ignored their brokers and stayed the course in Europe. The most dire predictions came from Citigroup economist Willem Buiter in London, who told reporters last February that there was a 50% chance Greece would leave the euro within 18 months. In May, he raised the risk to 75%, and cited a 90% chance of departure in July--and said he was assuming that there would be an exit by January 1.

2012 is not an isolated incident; in fact, last year a company called CXO Advisory Group--which tracks more than 60 market "gurus" (the company's term)--calculated that the average Wall Street expert forecaster had been accurate only 48% of the time over the long term. Translated, that means that a coin flip is a slightly more accurate predictor of the future than the experts you see on cable's financial TV channels.

But of course this is the season when, once again, the experts, economists and visionaries put on their gypsy shawls, get out their crystal balls, and tell you with calm certainty where the markets are going in 2013. You are about to be deluged with confident predictions from Wall Street, along with Money Magazine telling you "the smart place to put your money now," and once again it will all sound believable. Perhaps the best advice is to imagine, as these gurus come on the tube, that they are wearing tall, floppy wizard hats with a bright crescent moon inscribed on the front.

Or you can turn off the TV and pull out a more reliable guide to the future: any one of the coins in your pocket that happens to have a head and a tail.

Sources:

http://www.businessinsider.com/top-equity-strategists-forecast-2012-2011-12#goldman-sachs-1250-2

http://www.fa-mag.com/news/almost-all-wall-street-got-2012-wrong-12998.html

Looking Back....Looking Ahead

By Craig Phillips, CFP®, AIF®

Many of you reading this will be surprised to discover that 2012 was a great year to be an investor. Amid the unhappy headlines, anxiety over America's finances, a highly-partisan presidential election, worries about the Eurozone and the potential for recession, stocks quietly rewarded patient investors with double-digit gains.

Investors who believed the negative headlines and pulled their money out of equities into safer havens suffered accordingly. Treasury bonds are still mored in near-record low-return territory; if you lend the U.S. government money by purchasing a 2-year Treasury, your current coupon rate is 0.25% a year.

It is helpful to remember that the year started off with dire predictions and a lot of uncertainty about the prospects for the U.S. and global economies. The housing market was weak, unemployment was high, the Euro economies were in recession (or, in the case of Greece, bankrupt), and it was not hard to find blogs and even economic reports that predicted a catastrophic year. Investors who ignored the gloom and doom were rewarded with returns approximately twice as high as the historical averages.

Meanwhile, Washington policymakers finally reached a so-called "fiscal cliff" deal that seems to have pleased nobody except giddy investors on the following trading day. Among other things, it appears that our lawmakers are creeping closer to reality about how to define "the rich;" rather than $200,000 (single taxpayers) or $250,000 in adjusted gross income (joint returns), as specified in many prior proposals, "the rich" are now defined as making more than $400,000 (single) or $450,000 (joint). For taxpayers whose income falls below those thresholds, the temporary Bush-era tax cuts have been made permanent, and marginal tax rates will remain the same this year as they have been for the past two. Taxpayers who fit this new definition of "the rich" will experience a new 39.6% upper tax bracket, and pay taxes on capital gains and dividends at a 20% tax rate. (The 15% rate still applies to taxpayers below the thresholds.) In addition, the law borrows something from the Clinton era tax code: itemized deductions and the personal exemption begin phasing out for individuals with more than $250,000 in adjusted gross income, or couples with more than $300,000 AGI. At $122,501 of income beyond the threshold, personal exemptions are phased out in their entirety.

The tax bill also maintains the current $5 million estate and gift tax exemptions ($10 million for couples), but raises the tax rate for money transferred to heirs above that amount from 35% to 40%. And it offers a permanent fix to the alternative minimum tax problem by inflation-indexing the threshold (currently $78,750 for joint filers; $50,600 for individuals) at which people have to calculate their AMT, exempting all but about 5 million taxpayers from this chore now and in the future.

Also eliminated: the two percentage point reduction in the Social Security payroll tax--a stimulus measure enacted in 2010, which is likely to be the biggest impact of the legislation on most taxpayers. The payroll tax rises from 4.2% last year to 6.2% this year.

It is clear that the U.S. and global economy are still in a slow-growth recovery period, but there is some reason to be optimistic that 2013 could be a turning point in the long climb out of the Great Recession. After six years of decline, the housing market appears to have finally bottomed out in 2012. The inventory of homes on the market is down 20% or more from a year ago, and sales of existing single-family homes jumped 11% in 2012. Bank of America /Merrill Lynch economies expect at least a 3% gain from the housing sector this year, which would flip this large sector of the economy from a drag on economic growth to a boost, along the way creating con-

Market Review

The following table shows market index returns for the 4th quarter 2012:

Index	Q4	YTD	Description
S&P 500 Index	-0.4%	16.0%	Large cap stocks
Russell 2500	3.1%	17.9%	SMID stocks*
EAFE	6.6%	17.9%	Int'l stocks
Barclays US Agg	0.2%	4.2%	US govt bonds
CFB Index	-3.2%	-3.1%	Managed futures

- Small to Mid Cap

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struction jobs and boosting sales of appliances and other products that go with home purchases.

At the same time, the National Association for Business Economics is forecasting a slow but steady increase in employment this year, and consumer debt is shrinking. The still-weak global economy seems unlikely to cause gas prices to rise dramatically, and some economists have pointed to the record amount of money parked in Treasuries (hence the low rates), which, if people become more confident in the stock market, could be redeployed into equities and cause prices to rise.

None of this, of course, is guaranteed, and it would be nice if our government policymakers would finally settle on a plan to reduce the federal debt without wrecking the economy in the process. But those who ignored the optimistic outlook for 2012, and looked at the headlines instead of the millions of workers who got up every day and went to work to build (or rebuild) the economy, probably regret it today. The same could be true for 2013.

The new tax law makes $24 billion in federal spending cuts, while giving Congress two additional months to decide what to do about $109 billion of automatic spending cuts that were scheduled to begin taking effect at the start of this year.

You can expect those two additional months to be spent in partisan wrangling over where, exactly, federal expenses should be cut, and news outlets have been repeating over and over the fact that March 1 also happens to be the next time that Congress has to vote to raise the debt ceiling. We don't know whether that next debate will spill over into tax rates once again, but we will be paying attention and will keep you posted

Keep An Eye On Your Life Insurance Plan

by Dave Stieh

Term life insurance rates fell for years and are near all-time lows, but they won't stay there, says Byron Udell, chief executive officer of the online insurance marketplace Accuquote. A few carriers have started to push up rates about 5 to 10 percent, he says, and he expects others will follow.

The best possible life insurance price for a 40 year old male buying a 20-year level term $500,000 policy will now cost less than $400 per year. In 1994, you had to pay almost $1,000.

Insurance prices are rising because interest rates are staying low, so insurers aren't making much on the bonds they invest in during this extended low-interest rate period.

Of course, don't run out and buy life insurance if you don't need it, but if your family depends on you, it's a good time to make sure you have enough coverage.

Advisor As Fiduciary—Part 13

The former Client 1st Advisors and Wealth Management Consultants ended their relationships with their former broker/dealers effective 12/31/12, allowing the new firm, Client 1st Advisory Group, to be solely a fiduciary SEC Registered Investment Advisor (RIA).

Note: This commentary is a service of Craig Phillips, Michelle Mabry, Dave Stieh and Client 1st Advisory Group, Inc., an SEC Registered Investment Advisor.

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[1] *Sources: Wall Street Journal, January 2, 2013. Investment Advisor Online January 4, 2013., Frank Russell Co online, January 4, 2013.* [2] *Your results would vary from the historical returns shown, which do not include the effects of fees, charges or taxes that would apply to a real investment. It is not possible to invest in an index and past performance is no guarantee of future results. Investing involves risk, fluctuating returns and the possibility of loss.*