



January 9, 2013

2012 Year End Recap

Dear Client:

The markets survived 2012 and the Fiscal Cliff was averted. However, no thanks should be given to Congress who hijacked Q4 returns with their less than stellar handling of the tax and spending cut situation.

A quick highlight of the results of the Washington compromise includes:

- Income Tax Rates: Decade old tax cuts remain on incomes up to \$400,000 for an individual and \$450,000 for couples
- Estate Tax: Exemption up to \$5,000,000 remain with a top tax rate of 40% (5% increase) for estates exceeding this threshold
- Capital gains, dividends: taxes remain at 15% but increase to 20% for incomes over \$400,000 for an individual and \$450,000 for couples
- Alternative Minimum Tax: Remains in place but is now indexed to inflation
- Other tax changes: many of the tax credits in place (college/ child/ business depreciation) continue for 5 additional years
- Unemployment: long term unemployment extended for one year
- Social Security Payroll Tax cut: 2% cut in employees SS tax expires and returns to 6.2% for the first \$113,000 of wages
- Across-the-board cuts: \$109 billion worth of cuts have been delayed for two months
- IRA to ROTH conversion: Continue to be allowed.

We would be remiss if we did not also inform you of the so called “pork” that was included by Congress in the bill: Hollywood maintains generous tax credits for filming in low cost neighborhoods; Importers of Rum produced outside the US will continue to enjoy \$480mm of tax breaks; owners of electric scooters will receive a \$2,500 tax credit; new special NASCAR tax deductions for stadium owners were enacted; \$60mm in tax credits to Algae growers were extended; and the list goes on. One good outcome is the extension farm bill which will keep milk prices from doubling!



Much has been written about this volatile year in the markets. While Q4 was generally a bust for the most indices, European and Emerging market returns were strong which is somewhat counterintuitive given the continued economic stress they are facing. The full year returns were robust across the board and our clients' portfolios performed well!

Index	Index Close	Q4 Price Return (%)	1 Year Price Return (%)
S&P 500	1,426.19	-1.01	13.41
DJIA	13,104.14	-2.48	7.26
NASDAQ	3,019.51	-3.10	15.91
MSCI EAFE	56.86	7.28	14.80
MSCI Emerging Markets	44.35	7.31	16.90
Barclays Aggregate Bond	111.08	-1.22	0.75

We look forward to reviewing your performance with you in the coming month.

If we can be of assistance in the interim, please do not hesitate to reach out to us.

Happy New Year,

Locust Capital Management