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Friends,

We're off and running with the new year! At AMR we are really excited about the opportunities 2012 presents. 2011 was a challenging year for markets, and market volatility was dramatic.

In the coming days, we'll be sending out our year review statements, and some brief market commentary.

As always we look forward to working with you, our clients. Now is a great time to get yourself organized for the New Year and the upcoming tax season. We think this issue of eResources Review may be of help. As always, if you need anything, we invite you to give us a call at 508-771-8900.

Chris

January 2012

eResources Review

Asset Management Resources' E-mail Newsletter

Making Financial Resolutions? Look Back at Last Year

Each new year brings the chance for a fresh start, and the opportunity to improve your financial picture. As you make financial resolutions for 2012, looking back at what happened last year can help you make some positive changes this year.

Automate your retirement savings

In 2011: The economic slowdown took its toll on retirement savings.

In 2012: While the economy--and its impact on financial markets--may be out of your hands, you can still look for ways to increase your retirement savings. First, determine whether you're leaving any money on the table. If you participate in an employer-sponsored retirement plan such as a 401(k) or a 403(b), contribute the maximum amount you can--particularly if your employer matches some or all of your contributions.

Contributing to an employer-sponsored retirement plan can help you save more consistently. Because your contributions are deducted automatically from your salary each pay period, you won't be tempted to skip one now and then. And this year, why not resolve to steadily increase your retirement contributions? Your employer may allow you to sign up for automatic contribution increases based on a certain schedule or triggering event (e.g., annually or whenever your pay increases).

If you're self-employed or contributing to a traditional or Roth IRA on your own, you can still automate your contributions by having money sent directly from a savings or checking account to your retirement account.

Plan ahead for a cash crunch

In 2011: According to the Federal Reserve, use of consumer credit rose in 2011 after falling for two straight years.

In 2012: If you've reigned in your spending but are still burdened by debt (especially credit card debt), your lack of emergency savings may be partly to blame. For example, even if you pay much more than your monthly minimum credit card payment, you'll be caught in an endless cycle of debt unless you can avoid using your credit card for new expenses. Resolve to have at least three to six months of your living expenses set aside in a liquid account such as a savings or money market account so that you have cash on hand to pay for unexpected expenses (e.g., costly car or home repairs, large medical bills) instead of racking up new credit card debt and interest charges.

Review your investments

In 2011: Market volatility was the norm.

In 2012: You can't control the market, but you can control your response to market volatility. Is your asset allocation still in line with your investment goals, time horizon, and risk tolerance? Is it time to rebalance your allocation in light of changing market conditions and/or your changing needs? Are you taking appropriate advantage of available investment products or offerings? Reviewing your portfolio periodically can help you stay on track.

Check your insurance coverage

In 2011: Floods, hurricanes, tornadoes, earthquakes, and wildfires were widespread.

In 2012: The federal government issued more disaster declarations in 2011 than in any other year on record, serving as a reminder that it's important to review your property and casualty coverage to make sure you're adequately protected. Is there coverage you really should have (e.g., personal umbrella liability, renters insurance, or flood protection), but don't?

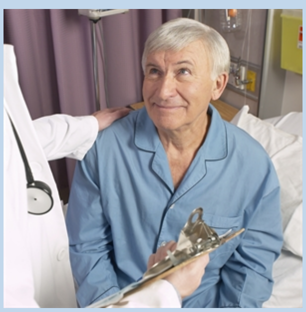
Update your estate plan

In 2011: New estate and gift tax laws took effect.

In 2012: Your estate plan should be reviewed in light of the changes made last year to estate and gift tax laws. Certain life events, such as changes in employment, family circumstances (marriages, divorces, births, illness or incapacity, and deaths), or even the valuation of your estate, may also affect your estate plan.

Factoring Health-Care Costs into Retirement Planning

Will living a healthy lifestyle reduce health-care costs in retirement? Not necessarily. While living a healthy lifestyle may aid in reducing annual health-care costs, that same lifestyle generally promotes longevity, which may translate to higher total health-care expenditures over a longer lifetime. The moral of the story is even if you're healthy, you still face illnesses and diseases, so don't wait until your health begins to fail to plan for these costs in retirement.



There are many factors to consider in determining how much you'll need to save in order to enjoy a comfortable and financially secure retirement. One often overlooked retirement expense is the cost of health care. You may presume that when you reach age 65, Medicare will cover most health-care costs. However, Medicare currently only pays for a portion of the cost for most health-care services, leaving a potentially large amount of uninsured medical expenses. Without proper planning, health-care costs can sap retirement income in a hurry, leaving you financially strapped.

How much will you need?

How much you'll spend generally may depend on when you retire, how long you live, your health status, and the cost of medical care in your area. But the costs can add up. You won't have to pay for Medicare Part A hospital insurance (unless you don't qualify and have to buy into the program), but you will likely pay either $96.40 or $110.50 each month in 2011 for Medicare Part B physician's coverage (although you may pay higher premiums based on income and other factors), and an average of $30 per month for Medicare Part D prescription coverage. In addition, there are co-pays and deductibles to consider (e.g., after paying the first $162 in Part B expenses per year, you pay 20% of the Medicare-approved amount for services thereafter).

The cost of health care is rising. The Centers for Medicare & Medicaid Services (CMS) reports that national health expenditures grew by 4% in 2009. And the CMS Office of the Actuary estimates that out-of-pocket spending is projected to grow at an average rate of 5% from 2015 through 2020.

What can you do?

It's clear that health care is an important factor in retirement planning. And while you may be able to buy a cheaper car, live in a smaller home, or take fewer vacations in order to stay within your retirement income budget, you can't do without necessary medical care. So what can you do? You can better prepare for these expenses by taking the following steps:

- Acknowledge that paying for health care in retirement is an issue to consider. Don't presume Medicare and Medigap insurance will cover all your expenses--they probably won't. Include potential health-care costs in your retirement plan.
- Evaluate your present health and project your future medical needs. That might be easier said than done, but taking stock of your overall health now and factoring in your family's health history may help you determine the type of care you might need in retirement. Are you currently being treated for high blood pressure or diabetes? Do you live a healthy lifestyle? Does heart disease run in your family?
- Understand what Medicare covers and what it costs. For instance, Medicare (Part A, Part B, and Part D) generally provides benefits for inpatient hospital care, medically necessary doctor's visits, and prescriptions. But Medicare doesn't cover everything. Examples of services generally not covered by Medicare include most chiropractic care, dental or vision care, and long-term care. You'll also have to account for deductibles, co-insurance costs for some services, and a monthly premium for Medicare Parts B and D.
- Consider the cost of supplemental insurance. Medigap plans are standardized policies sold by private insurance companies that pay for some or all of the costs not covered by Medicare. In addition to Medigap policies, other types of supplemental insurance include long-term care insurance, dental insurance, and vision insurance. The type and amount of coverage that's best for you depends on a number of factors, including how much premium you can afford, what benefits you need, your financial resources, your health, and your anticipated medical needs.
- Don't forget to factor in the cost of long-term care. The National Clearinghouse for Long-Term Care Information estimates that at least 70% of people over age 65 will require some long-term care services. Medicare does not pay for custodial (nonskilled) long-term care services, and Medicaid pays only if you and your spouse meet income and asset criteria.
- Save, save, save. You may have already begun saving for your retirement, but if you fail to include the cost of health care in your plan, you're likely leaving out a big expense. Your financial professional can help you figure out how much you may need to save and adjust your retirement planning strategies to account for potential health-care costs in retirement.

ASSET MANAGEMENT RESOURCES

Portability allows a surviving spouse to use the unused basic exclusion amount of the first spouse to die to shelter property from federal gift and estate taxes. Portability of the exclusion between spouses would seem to make estate planning easier for many estates. However, unless extended by Congress, portability of the unused basic exclusion amount between spouses is set to expire in 2013.

Your estate plans and documents may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. Flexibility will be key.

Portability of Basic Exclusion Amount between Spouses

Transfers of property during life or at death are generally subject to federal gift or estate taxes. Each taxpayer has an applicable exclusion amount, which is the amount of property that can be sheltered from federal gift and estate taxes by the unified credit.

Prior to 2011, each spouse was entitled to his or her own applicable exclusion amount, and any amount that a spouse did not use was lost, absent special planning.

But, thanks to legislation passed in 2010, the estate of the first spouse to die can now elect to transfer any basic exclusion amount that is not used to the surviving spouse. This is known as "portability." For 2011 and 2012, the applicable exclusion amount is redefined as equal to the sum of the basic exclusion amount of the surviving spouse and the unused basic exclusion amount of the last deceased spouse. For 2011 and 2012, the basic exclusion amount is $5 million (plus indexing in 2012).

Portability of the exclusion between spouses and an increase in the basic exclusion amount would seem to make estate planning easier for many estates. However, unless extended by Congress, in 2013, portability of the unused basic exclusion amount between spouses is set to expire and the exclusion is scheduled to decrease to $1 million.

Simple planning with portability

If you're planning today, you could transfer everything to your spouse and, if you die in 2011 or 2012, your estate can elect to transfer your unused basic exclusion amount to your surviving spouse. Your spouse will then have an applicable exclusion amount equal to the sum of his or her own basic exclusion amount and your unused basic exclusion amount, which your spouse can use for gift or estate tax purposes. For example, if you transfer your $5 million unused basic exclusion to your surviving spouse, who also has a $5 million basic exclusion amount, your spouse then has a $10 million applicable exclusion amount to shelter property from gift and estate taxes. Such simple planning might be very practical for some married couples, especially where the spouses' combined estates are expected to be less than the applicable exclusion amount.

Potential need for more complex planning

There are a number of reasons why such simple planning with portability may not produce the desired or best results. These include:

- Portability is set to expire in 2013, and tax rates are scheduled to increase while the applicable exclusion amount is set to decrease.
- You have family members or individuals other than your spouse that you would like to benefit prior to the death of your spouse.
- You have grandchildren or younger generations that you would like to benefit. The $5 million generation-skipping transfer (GST) tax exemption is not portable between spouses (and is scheduled to decrease to $1 million as indexed in 2013).
- State exclusion amounts may be lower than the federal applicable exclusion amount and may not be portable between spouses.

Use of A/B trust arrangement

Prior to the 2010 legislation, many married couples with estates that were greater than the applicable exclusion amount would set up an A/B (or A/B/C) trust arrangement. In general, the first spouse to die would transfer an amount equal to the applicable exclusion amount to the "B" or credit shelter (bypass) trust. The B trust could benefit the surviving spouse and their children, but the B trust would be designed to bypass the surviving spouse's estate. The balance of the estate would be transferred to the surviving spouse, either outright or by using an "A" marital trust, and qualify for the marital deduction. In some cases, a "C," "Q," or QTIP marital trust was also used if the first spouse to die wanted to control who received the marital trust property at the second spouse's death. The A/B trust arrangement typically assured that there would be no estate tax at the first spouse's death and that neither spouse's applicable exclusion amount was wasted.

An A/B trust arrangement may still be useful whether or not portability is available. For example, the B trust can assure that the applicable exclusion amount of the first spouse to die is not lost, even if portability is not available in the future. The B trust can be used to provide for family members or individuals other than your spouse (and even your spouse) prior to the death of your spouse. You could also allocate your GST tax exemption or state exclusion to the B trust. The A trust could use your spouse's applicable exclusion amount, GST tax exemption, and state exclusion.

Review estate plans and documents

Your documents and plans may need to be revised to reflect the tax changes for 2011 and 2012 and for the uncertainty for 2013 and beyond. To help guide you through these opportunities and uncertain times, consult an experienced estate planning attorney.

Ask the Experts

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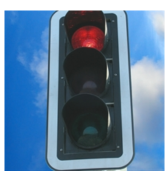
Is a stop limit the same as a stop order?

A stop limit is typically used when you're trading during a volatile market and want to target a specific price as closely as possible. When placing a market order, the price you pay is the best price available in the market at the time the order is executed. With a market order you can't be sure of the price you'll get, especially for more thinly traded securities or larger orders that may need to be handled in multiple transactions.

A stop order instructs your broker to buy a stock only when it is selling at or below a specified price (or if you're selling, when it is at or above a certain price). Once the stop is triggered--in other words, once your specified price is reached--your order becomes a market order and is executed at the market price. However, if markets are volatile or the security is illiquid, the market price can change between the time the stop is triggered and when the order is fully executed. If you're buying a stock and that price is lower, you benefit, but if the execution price is higher, you may pay more than you expected. For example, if you're buying a thinly traded security and your order isn't fully executed before the end of the trading day, you could run the risk of the market opening up strongly the next day--a phenomenon sometimes known as "gapping up"--potentially taking the price of your targeted stock with it. Conversely, if you're selling a stock and the price moves lower before the trade is fully executed, you might make less from the sale than you intended.

A stop-limit order puts a limit on the price you're willing to pay for your purchase (or accept if you're selling). It mandates that a purchase be executed at a specific price or better; that price can be different from the stop level that triggers a trade, and increases the odds of the transaction meeting your expectations. If you're selling, a stop-limit order also can be used to set a minimum price for the sale. Stop limits are typically good for a specific time frame, such as a day, a week, or a month.

Why wouldn't everyone use a stop-limit order with every trade? Because they typically cost more to use than market orders. As a result, a stop limit probably makes the most sense for large orders in volatile markets, when a difference of even a penny or two per share can mount up.



Can a stop-loss order really protect me from losses?

As the name implies, stop-loss orders are a way to help you manage the amount of loss you can suffer on a single holding. Also known as a stop order or stop-market order, a stop-loss order sets a level at which your broker is instructed to sell all or part of a particular position once the stop-loss point is reached.

With a stop-loss, you can specify a share price below which you do not want to hold a stock. Once the bid price hits that level, the position would be sold automatically at the market price. You also can employ what's known as a trailing stop-loss to adjust the stop upward if a security's price rises. The stop might be calculated as a percentage or a dollar amount relative to the bid price (for example, a loss of 10% or a $2 per share drop). If the stock's price moves higher, your stop level also rises. That can help protect a portion of your paper profits while potentially allowing you to participate in any further upward appreciation. If the price falls, the holding simply moves closer to the level at which it will be sold.

In addition to helping you minimize losses you can't handle, stop-loss orders are one way to remove emotion from your investment decision-making. They also can be especially useful if you're anxious about volatile markets at a time when you know you'll be traveling in remote areas and unable to monitor your accounts easily.

However, under certain circumstances, stop-loss orders can be a mixed blessing. Just because you've specified a certain stop-loss level doesn't mean your trade will be executed at that exact price; once your specified level is triggered, the trade will be executed at a market price. If markets are extremely volatile or if a security is thinly traded, you might lose more than the amount you expected.

For example, during the 2010 "flash crash," when prices plummeted and markets were temporarily illiquid, some stock positions were sold at prices well below the stop loss. Some of those trades were subsequently voided, but it's still a good idea not to take the protection of stop-loss orders for granted, and to know that there can be a gap between expectations and execution.