Pettinga Insights and Outlook

December 2012 | Vol. No. 1 | Investment Updates

A New Year's Resolution for 2013.

The end of each year leads us to look back at our activities during the past twelve months. It also stimulates the establishment of resolutions for new goals and aspirations for the coming year. At Pettinga, our 2013 New Year's resolution is to provide a new comprehensive financial plan to every client who wants to find out whether he, she, or their family is on track to meet their long-term financial objectives.

The performance of the stock market over the past twelve years has altered the financial plans of most investors. Projected rates of return over that period were not realized, and plans for retirement have changed in line with the markets' failure to deliver.

Market underperformance does not relieve us of our responsibility to plan for retirement. In fact, that underperformance increases the importance of building and maintaining a solid financial plan. Our margin of error is smaller than we expected, and we must respond with action to ensure we will not be disappointed when we reach retirement.

We encourage each of our clients to consider letting us build a new financial plan for you in 2013. The issues addressed in a financial plan include saving for college, retirement planning, estate planning, insurance funding, and charitable giving. Our clients' financial situations span the spectrum from young professionals starting their financial lives, to well-established business owners looking at retirement, to affluent retirees seeking to transfer wealth to children, grandchildren and charities. A comprehensive financial plan enables individuals in any one of these circumstances to find answers to the questions unique to their personal situation.

We are excited about the future, and we can think of no better way to embrace the future than to PLAN for it!

Pettinga
Get there.

Our Firm

Pettinga Financial Advisors, LLC is an independent, fee-only financial services firm serving clients across the nation from our office in Evansville, Indiana.

We offer a no-obligation introductory meeting to interested persons and institutions to determine if we can add value to their individual situation.

Because you receive our services on a fee-only basis, you pay no sales commissions for our investment counsel. Nor do you deal with sales people tied to transaction commissions. Instead, you enjoy a personal relationship with a knowledgeable, unbiased advisor.

Your personal financial advisor focuses on the future you envision and commits to helping you Get There.

Pettinga Financial Advisors, LLC is a proud member of Focus Financial Partners.

Five Year-End Tax Tips

1. Contribute to your tax-advantaged accounts: One of the best ways to cut your tax bill is to reduce your taxable income. It is important to take advantage of any retirement-plan contributions you can make to reduce your taxable income. You can contribute $17,000 to your 401(k) plan in 2012, and those age 50 or older can save an additional $5,500. Consider ratcheting up your contribution before the end of the year if you're on pace to fall below that contribution limit.

Some taxpayers might also be able to contribute up to $5,000 to a traditional IRA (individuals 50 and older can contribute $6,000), and you'll be able to deduct that contribution from the income you report on your tax return. Keep in mind that in order to be eligible for a traditional deductible IRA, your income must come in below a certain threshold. Please be sure to consult the IRS Web site (www.irs.gov) or a financial professional for detailed information.

2. Beware of ticking tax time bombs: Have you had any big mutual fund winners in your portfolio? If so, there's a very good chance that they'll be making capital gains payouts later this year—which means you could wind up owing taxes on those gains. If you were planning to purchase any one of these funds, it would be wise to wait until after they've made their distributions for the year. That way, you won't be responsible for taxes on gains you weren't around to enjoy.

Many fund shops begin making capital gains distribution estimates available later in October and into November, and capital gains payouts typically occur in December. If your fund company doesn't list this information anywhere on its website, call to find out whether your fund is planning a distribution, how much it will be, and when it will occur. And remember, past performance is no guarantee of future results.

3. Harvest your losers: Selling losing investments and reinvesting the money in investments that are similar in style might allow investors to maintain their long-term asset allocation and enjoy the benefits of a potentially lower tax bill. Although long-term investors know that it is better to buy and hold than to try timing the market, there are times when selling and taking losses could be worthwhile. For instance, if an investor suffers losses from a large-cap stock fund, she can sell it at a loss to offset other capital gains she might have and then reinvest the money in another large-cap stock fund to maintain the asset allocation. Federal tax laws allow capital gains to be offset dollar for dollar with realized capital losses.

4. Taxable versus non-taxable accounts: Pay attention to which funds are in your taxable and non-taxable accounts. To the extent that you own taxable bonds and bond funds, particularly high-yield offerings (such as junk-bond and emerging-markets bond funds), be sure to hold them in your tax-sheltered accounts. The same applies for high-turnover stock funds that generate a lot of short-term capital gains.

5. Be generous: If you contribute to a charity, your generosity could come in handy come tax time. If you itemize deductions, you can deduct charitable contributions; just be sure to save receipts and canceled checks as proof. And if you're helping those near and dear to you, remember that you can contribute up to $13,000 per year per recipient in 2012 without triggering gift tax.

Tax law is ever-changing and can be quite complex. It is highly recommended that you consult with a financial or tax professional with any tax-related questions or concerns.

Monthly Market Commentary

November and early December saw Hurricane Sandy's destructive powers sweep their way through a series of economic data, including new home sales, personal income, and same store sales, making them difficult to interpret. These economic data will likely remain muddled for the next few months. With the U.S. presidential election done, earnings season done, and minimal news coming out of Europe and China, all attention is now focused on whether the U.S. can avoid the fiscal cliff. Similar to how markets made wide swings during the debt ceiling negotiations in 2011, investors may experience déjà vu should Congress fail to come to an agreement by the end of December.

GDP: The second estimate for third quarter real GDP growth was revised sharply higher to a very robust 2.7%, up from an initial estimate of 2.0% and up from the second quarter real GDP growth rate of 1.3%. This positive revision was mostly attributed to higher inventories and higher exports. Higher inventories are generally not a good thing as they could indicate slumping sales. Consumer spending and business investments were also revised downward.

Employment: November's employment report came in far better than expected, with job growth of 146,000: 147,000 private-sector jobs were added, while 1,000 government jobs were lost. The Bureau of Labor Statistics also indicated that Hurricane Sandy had minimal impact on the November job numbers. Overall, the job market has been relatively stable over the last 12 months, adding an average of 161,000 new jobs per month. At that rate, it will still take about another two years to gain back all the private-sector jobs lost in the recession. Unfortunately, job growth has not been distributed evenly across industries, with services strongly outperforming manufacturing and construction. The unemployment rate fell slightly to 7.7% from 7.9% in October.

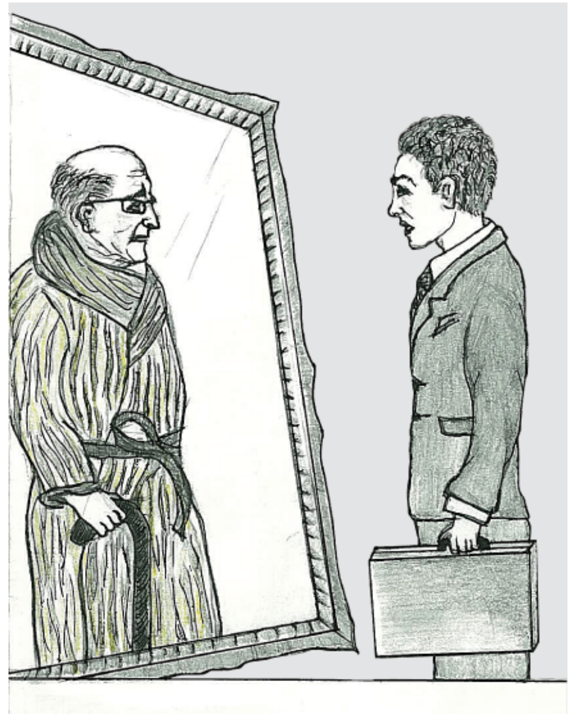
Housing: Overall housing data continued to be positive, with homes prices expected to be up as much as 5% for 2012. November's Builder Sentiment, which is compiled by the National Association of Home Builders and tends to be a good predictor of housing starts and new home sales in the months ahead, is now at its best level since May 2006 and marks the seventh consecutive month of improvement. Even the Northeast region, which was hit by Hurricane Sandy during the survey period, showed improvements. More importantly, home inventories fell 1.1% in October to 2.14 million units, their lowest level since 2006.

Auto: Auto sales were up significantly in November. As a recap, Hurricane Sandy caused a dip from 14.9 million units in September to 14.2 million in October, but sales rebounded sharply to 15.5 million units in November. Morningstar economists believe that, with vehicles damaged by Sandy still in need of replacement, auto sales may remain above the 15-million mark again in December.

Retail: November's same-store sales (excluding drugstores) were only up a miserly 1.7%, a far cry from expectations of 3%-4%. Many economists had believed that a strong Black Friday would offset the earlier-in-the-month effects of Hurricane Sandy. Unfortunately, they failed to realize that even though previous storms may have been more damaging than Sandy, this was one of the few times that a storm has made a direct hit on such a highly populated, high-income, and high-spending part of the country. Also, sales from cyber Monday will count in December's report this year versus November last year.

Looking forward to next year and hopes of Congress reaching a settlement, consumers should realize that such a settlement may mean bad short-term news for the economy. Some tax increases will likely still occur, impeding growth in the first half of the year. On the other hand, even if no settlement is reached, the worst of the immediate impacts can probably be delayed by some sort of administrative action (for example, defense cuts can be saved for later in the year).

Man in the Mirror



You seldom think about retirement when you're in your 20's or 30's; after all, the reflection you see in the mirror every day looks back at you with a young and confident smile. However, what if the years quickly passed by (as they have a way of doing) and one day retirement found you unprepared?

The most important thing to do is to start saving for retirement as soon as you can. No matter how small, any amount of money you can save when you're young will grow over time and help you reach your retirement goal.

Pettinga
Get there.

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