TFC Market Update
February 7, 2013

"Equities March On: Dow Tops 14,000; Data Offer Reassurance"

This headline from a recent *Financial Times* edition conveys the impression that possibly the worst of the financial market crisis may be behind us. Celebrating this suggestion, the Wilshire 5000 Index (perhaps the broadest measure of U.S. common stock market price levels) reached a historic high last week. Other more publicized market benchmarks are within striking distance of their October 9, 2007 previous all-time peaks. Readers of our past client letters will not be surprised by these unfolding positive events, except possibly by the rapidity of these developments.

Although fourth quarter GDP results were disappointing, fortifying a shift to a more sanguine financial market psychology, 75% of year-end 2012 corporate earnings per share reports have exceeded consensus estimates. Also, reversing a 5-6 year steady equity withdrawal pattern (exceeding a cumulative $1 trillion), strongly positive stock market individual investor cash inflows have become evident during the four weeks ending January 30th. Perhaps this is a signal of a renewed interest in equities, or is it possibly only a seasonal reinvestment reversal; time will tell.

Beyond this, closely watched will be the deployment of the exceedingly large investor sideline cash reserves seeking higher yields not currently available in the bond markets. Another twist on this latter theme finds corporations flush with excess balance sheet cash possibly faced with the need to pour more into under-owned corporate pension funds. The unintended consequence of this could be subsequent additional flows into equities as these institutional retirement and endowment portfolios start to rebuild under-allocated stock allocations. Inundated with central bank-administered liquidity, domestically the stock market's vital signs continue to improve.

The Big Issue

But is the worst behind us? Are the equity markets near-term merely relieved that one issue (i.e., the "fiscal cliff") has been moved down the pike for later resolution? Have the fundamental concerns weighing collectively on investors worldwide been cleared from the path to ever higher stock market valuations? The answer, of course, is resoundingly no! The 2008 near collapse of the global financial system has given rise to many new public policy-imposed consequences with which business managers must contend in order to rebuild *lasting* profitability.

This is not meant as a political statement. Recognition of the public policy miscalculation exposure should be incorporated into every investor's risk assessment equation. Clients place their savings in our hands to earn a reasonable return and expect the prudent management of each portfolio's risk profile. A frank evaluation of the economic and financial market outlook today leads one to the conclusion that a major hurdle blocking a return to a more prosperous growth pattern is the probability of public policy miscues. It is this uncertainty that burdens the developed economies of the world and why further upward momentum in the financial markets may be limited until resolution of these political issues occurs.

In the U.S., neither side of the political spectrum can claim the high ground in this discussion. In Washington, and in many state capitols, more times than not, fiscal and economic questions are being settled by politicians not necessarily well grounded in the economic implications of their decisions. Not that these are uniquely new circumstances, nor do *we* have a lock on the wisdom needed to make the

optimal choices amongst the many dilemmas facing our political classes, but one wishes, perhaps naively, such decisions were being made with a better understanding of their longer term economic implications.

A Curious Thing Happened on the Way to the "American Taxpayer Relief Act of 2012"

As Congress stood on the precipice of the fiscal cliff this past New Year's Eve, it would have been more than of little interest to know what went on behind closed doors and learn why the upper end of the range of the life-time estate tax exemption limits (i.e., $5.25 million per person) was made "permanent." Beyond this, the exemption was made *portable* and the exemption *amount* indexed to inflation. Why this very sensible outcome?

A cynic might be tempted to advance the following home-grown hypothesis: During the past twenty years, congressional district gerrymandering for Federal House of Representatives seats has effectively assured that roughly 90% of the current House membership will be re-elected if the choice to remain in Washington is made. Similarly, since term limits do not apply to the Congressional branch, Senate members, once ensconced, can also look forward to lifelong careers in DC. There is always the option of serving enough terms to learn the system, build the network, and then bow out to join one of the lucrative lobbying firms or associations on K Street. So the path to riches for this segment of our political class is clear, and in the Senate in particular, the ratio of millionaires has crept up stealthily. There is nothing more motivating than enlightened (undetected) self-interest to legislate for the greater good; ergo in the name of the "Taxpayer Relief Act of 2012," the lifetime estate tax exemption and other aspects relative to federal estate taxation have been resolved rationally.

The result, as described in Leann Sullivan's (Vice President, TFC) recent tax planning letter, is greater clarity for all in the estate planning tasks that have may have been deferred during the recent past. Now seems an opportune moment to revisit one's estate settlement documents to assure the planning strategies remain contemporary.

As always, we welcome your comments and questions.

Sincerely,

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