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WHERE WE ARE AND WHERE WE ARE GOING

By Loren Kayfetz, President, CERTIFIED FINANCIAL PLANNER®

The first quarter of 2012 represented the strongest start for the U.S. stock market since 1998, and the best first quarter gains in 24 years for Japan. This was largely driven by reduced fears about an extremely negative outcome in Europe, as well as stronger economic data in the U.S. Of course, there are some formidable issues still to be addressed.

Following is my perspective on some of these issues and thoughts on what we can expect for the balance of 2012 and beyond. Given strong first quarter returns, most markets with the exception of the United States are underwater over the past 12 months.

Growth

The single factor that more than any other will drive stock markets over the mid-term is the global economic growth, especially in Europe. In early January, the International Monetary Fund reduced its forecast for global growth and predicted that continental Europe would see a mild recession in 2012.

From our own point of view, it's worth noting that given European issues and a slow down in China, there is broad consensus that the next five years will see *"2, 6 and 4"* growth – an average of 2% in developed countries and 6% in emerging economies, leading to 4% global growth overall. It's this divergence in growth between developed and emerging countries that is driving increased focus by multi nationals on faster growing emerging economies.

> ..there is a persistent view of America as an *"empire in decline"* ..

Optimism

In the face of challenges for developed economies, there is a persistent view of America as an *"empire in decline"* – this was reinforced by last year's downgrade of US debt and by the stalemate in Congress over dealing with America's deficit and debt challenges.

As we look at formulating recommendations for our clients, we don't subscribe to the view of a declining America, instead we place its performance in context with the rest of the world. Without dismissing its issues, the biggest

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IN THIS ISSUE

PUT SPRING IN YOUR STEP .. REDUCE YOUR TAX BILL THIS YEAR AND NEXT

By Erin A. Hadley, Certified Financial Planner®

It's spring, that glorious time of year when the days are longer, the flowers are blooming and we look forward to the warmer days ahead. It's a time when many of us clear away the cobwebs (in our attics and in our heads!) and take a fresh outlook.

There's one thing spring brings that isn't especially welcome, though, and that's taxes. While you can't clear away your tax bill the way you can the old clothes in your closet, there are a few things you can do to help reduce the sting this tax year or the next.

Whether we owe or expect a refund, we're reminded of how much of our hard-earned income goes to Uncle Sam, leaving us wondering if there isn't something more we can do.

The good news is that there are some effective (and legal!) ways to reduce your tax obligation.

Employer Retirement Plans:

Aside from your personal and dependent exemptions and homeowner-related deductions, one of the most powerful ways to shelter income is with a retirement plan. If you are "covered," meaning you have a plan available to you through your employer, that's good news, and the more you contribute to it, the more you save on taxes.

Self Employed/Business Owners:

If you don't have a plan at work because you're a business owner or you're self-employed, there are several options, one of which can still be done even past the April 17th deadline:

SEP IRA: A "Simplified Employee Pension" is a type of IRA a business owner may adopt for the owners and the employees. You still have time to set this up because the deadline to do so is not until the filing deadline of the employer's tax return, including extensions. SEP's don't require administration; the paperwork to set one up is simple. An employer may contribute up to 25% of an employee's wages or $49,000 in 2011 ($50,000 in 2012), whichever is less (approximately 18.6% of net profit if self-employed; see IRS Publication 560 for the worksheet to determine exact amount.)

SIMPLE IRA: A "Savings Incentive Match Plan for Employees" is another IRA variation which an employer (of a business with up to 100 employees) can establish; it is easy and inexpensive to set up and operate. The employer must contribute (either 3% of pay or 2% non-elective contribution for each employee) and the employee may contribute (up to $11,500 in 2012.) A SIMPLE may be set up any time between January 1 and October 1 in the current plan year. See IRS Publication 560 for more details.

SAFE HARBOR 401(k) Plan: Another plan that's easy to operate and can be established by an employer with one or more employees is this version of a 401(k.) Employers may match employee contributions dollar-for-dollar up to 3% and 50 cents on the dollar on the next 2%. Alternatively, the employer can make a non-elective contribution equal to 3% of each employee's compensation. Employees can contribute up to $17,000 in 2012. Contributions are 100% vested when made.

Traditional IRA:

If your employer doesn't offer a retirement plan, you can make a deductible contribution to an "Individual Retirement Arrangement."

To be eligible, you must have earned income and the contribution can be up to the amount of the earned income or $5,000 in 2012, whichever is lower. There is a "catch-up" amount of an additional $1,000 allowed for people who are age 50 and above.

> ...you may still be able to make a deductible contribution.

Even if you are covered by a plan provided by your employer, you may still be able to make a deductible contribution. Be careful though, the deductibility is affected by very specific upper limitations to your income, and these figures differ depending upon whether you are covered, your spouse is at their work place or both of you are.

Your tax advisor may have come to you and said something along the lines of: "the bad news is, you owe money to the IRS this year; the good news is, you can reduce what you owe if you contribute to your IRA." Even if you contribute less than the maximum, and therefore don't realize the full tax benefits, it's still a terrific opportunity.

To begin making your 2012 contributions, start with automatic monthly deposits from your bank to your IRA account. When tax time comes around next spring, you'll have already made your contribution and can just sit back and enjoy the deduction for it.

Another advantage of contributing monthly rather than all at once comes from what is known as "dollar-cost averaging." Because you are contributing a fixed amount each month, you buy fewer shares when the price of the investment is higher and you buy more shares when the price is lower.

Of course there are other types of retirement plans; the intent here is to highlight some of quickest and easiest options. Next year at this time you may find the tax burden feels a bit lighter, giving you more "spring" in your step!

SPRING CLEAN YOUR MONEY SCRIPTS

By Dr. Brad Klontz, Psy.D., Certified Financial Planner®

For many of us, spring is a time of cleaning and reorganizing; opening up our closets and sorting through our things, letting go of some items while bringing others front and center. While spring is in the air, why not take a few moments to examine, reorganize, and spring clean your money scripts? Money scripts are unconscious beliefs we have about money that we pack away from our childhood, like clothes stuffed into the back of our closets from many years ago. Money scripts set our money moods and drive our financial behaviors. However, not all money scripts are good, and letting go of some can be good for our financial health.

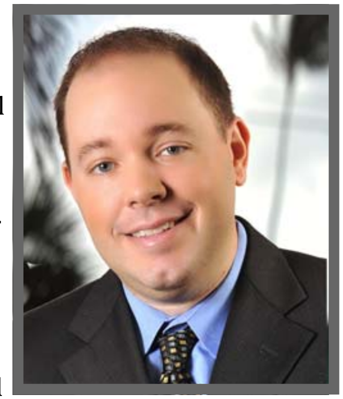
> Money scripts set our money moods and drive our financial behaviors.

In recently published research in the *Journal of Financial Therapy* my colleagues and I at Kansas State University identified three patterns of money scripts that are financially destructive. All three were found to be associated with overspending, less income and lower net-worth. Holding onto any of these money scripts can be bad for our financial health. They include money avoidance, money worship, and money status.

Money Avoidance: Money avoidance is a set of beliefs that include anti-rich sentiments such as "rich people are greedy," "money corrupts people," and "I don't deserve money." Often such beliefs are rooted in childhood experiences in which money was misused or misunderstood. We then associate money with some undesirable trait or event and subconsciously repel it. Unless we embrace the idea that money is just a tool that can be used for good or evil, we may unconsciously sabotage ourselves.

Money Status: Money status scripts include "Money is what gives

life meaning," and "Your self-worth equals your net worth." When we erroneously equate money with our value as human beings we may take excessive risks or overspend to keep up appearances. Those of us raised in lower socioeconomic settings are more vulnerable to money status scripts.



Money Worship: Money worship scripts are rooted in the idea that more money or more possessions will make us happy or complete. These scripts continue to be epidemic in America and are at the heart of much of our country's financial dysfunction. People with money worship beliefs tend to carry more credit card debt in their attempts to buy happiness and are more likely to be workaholics- sacrificing family and health in the pursuit of more and more. Money worship beliefs include "More money will make you happier" and "There will never be enough money."

Holding onto any of these money scripts can be bad for our financial health. As you are digging through the nooks and crannies in your spring cleaning efforts, if you run across any of these money scripts, take the opportunity to bag them up and set them on the curb.

Delve into these subjects in more depth by reading Dr. Brad Klontz's "*Wired for Wealth*."

Where We Are and Where We Are Going

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competitive advantage for theUnited States is its vitality and capacity for change and innovation. It continues to dominate in high tech and remains a magnet for the best and brightest talent from around the world.

We are not alone in this view. Here's an excerpt from Warren Buffett's annual letter to investors released in February, *"In 2011, we will set a new record for capital spending–$8 billion–and spend all of the $2 billion increase in the United States. Money will always flow toward opportunity, and there is an abundance of that in America. Commentators today often talk of "great uncertainty." But think back, for example, to December 6, 1941, October 18, 1987 and September 10, 2001. No matter how serene today may be, tomorrow is always uncertain.... The prophets of doom have overlooked the all-important factor that is certain: Human potential is far from exhausted, and the American system for unleashing that potential–a system that has worked wonders for over two centuries despite frequent interruptions for recessions and even a Civil War–remains alive and effective. We are not natively smarter than we were when our country was founded nor do we work harder. But look around you and see a world beyond the dreams of any colonial citizen. Now, as in 1776, 1861, 1932 and 1941, America's best days lie ahead."*

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Where We Are and Where We Are Going (continued from pg. 3)

Value

While economic growth enables long term increases in corporate profits as a whole, and drives the value of equities higher, in the short and mid-term we have to pay a fair value for the companies we buy in the equity portfolios we use. Anyone who invested at the peak of the U.S. market valuations in 2000 learned a hard lesson about the perils of losing focus on what we pay for a dollar of earnings.

There are few more hotly debated issues on Wall Street than whether today's market is overvalued, undervalued or priced just right. In looking at all the available data, our conclusion is that the market is roughly fairly valued.

That's not to say it doesn't face some speed bumps in the period ahead. But we were interested to see a March 29 interview with Jeremy Siegel of the Wharton School, author of *Stocks for the Long Run*, which examined almost 200 years of market data. In this interview Siegel looks at historical precedent and sees significant upside potential at today's stock valuations.

Strategy

While all portfolios are customized to clients' specific needs, there are three principal components to the investment advice that we offer.

1) Determine allocation limits between equities and fixed income.

We subscribe to Benjamin Graham's philosophy (the Columbia professor who was Warren Buffett's teacher and who is considered the father of value investing):

"In my nearly fifty years of experience on Wall Street, I've found that I know less and less about what the stock market is going to do but I know more and more about what investors ought to do … my suggestion is that the minimum amount (of the investor's) portfolio held in common stocks should be 25% and the maximum should be 75%. Consequently the maximum amount held in bonds would be 75% and the minimum 25% … any variations should be clearly based on value considerations."

2) Barring a significant change in circumstances, stick within the investment framework that we've decided upon.

You may recall our advice in early 2009, as we faced what appeared to be an end of the world scenario and some stocks hit lows they hadn't seen in 20 years. At that time, we urged clients to maintain a continued and steady level of equity exposure. Since each portfolio is designed to meet certain long term financial objectives while accounting for individual risk tolerance, we generally advise against changing equity allocation from the level that we had going into 2012.

3) Plan for cash flow from investments.

In an uncertain environment for economic growth and equity returns, we continue to place priority on the cash yield from investments. In my view, the returns on some REITs, corporate bonds and dividend stocks in selective sectors continue to make these attractive relative to the available alternatives.

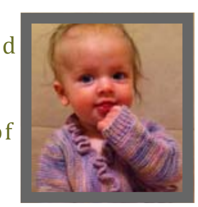
Should you have any questions on anything we have covered in this newsletter or on any other issue, please feel free to give me or one of the members of the Personal Financial Consultants team a call. And as always, thank you for the opportunity to serve as your financial advisor.

CONGRATULATIONS

Loren receiving his award from Kauai United Way Board Chair Kathy Miyake, Executive Director Scott Giarman

Loren was honored with the Founders Award from the Kauai United Way. The award is presented annually to the Kauai United Way Board Member who best exemplifies the noble mission of the organization's founders to "increase the organized capacity of the people of Kauai to care for one another.

Wesley Otis Hanson joined us as our latest addition in early February. Mother and son are doing fine and we look forward to Nicole's return.



Erin Hadley rejoined us on a modified schedule. Her daughter, Ashlyn Elizabeth, just passed the six month mark and continues to be the focus of her parent's love and attention.

We are excited to announce that Dr. Brad Klontz, CFP® is now, indeed, a CERTIFIED FINANCIAL PLANNER ™, after completing the education requirements, passing the grueling two day exam, and meeting the experience requirement. Brad brings a new measure of professional services to our team, broadly applying his knowledge and expertise in behavioral finance and money psychology, as well as a passion to work with our individual clients in their investment and planning needs. Brad will be the featured speaker at the Kauai Chamber of Commerce quarterly membership meeting in late June. He and I have been featured in Hawaii Business Magazine and will soon be on the cover of Mid-Week Kauai. Brad resides in Lihue with his wife Dr. Joni Wada, who is also a clinical psychologist.

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