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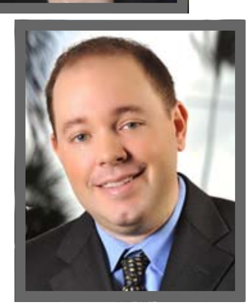


2011 WAS A YEAR WITH MANY SURPRISES

By Loren Kayfetz, President, CERTIFIED FINANCIAL PLANNER®

Undoubtedly, we will remember 2011 as a year of volatility of many kinds. The unprecedented moves up and down by markets worldwide made people dizzy, weary and wary. Yet, lost in all of the drama were some interesting take-aways.

If you had asked someone a year ago where the US Stock Market would be after the supposedly unthinkable event of the downgrading of the credit quality of US Government debt, you would have heard cries of doom. Despite the government impasse on debt reduction, raising the debt ceiling, inability to decide on continued stimulus or tax changes needed to eventually bring the debt into line, the markets closed either slightly higher or break even. Even more surprising were the high returns generated by bonds in general and municipal bonds in particular in the US.

> That pent up demand will only continue to intensify, changing these (China, India, Brazil) from export oriented to regional and internal markets.

The US economy is going to continue to improve, albeit very slowly. We find quality stocks that pay dividends to be very attractive. We also continue to believe strongly in low to medium quality bonds in the US. The election will help focus the public on the need to look at solutions rather than just cry about the broken system.

Foreign markets, while they lost ground last year, have been more resilient and regained their values faster with higher

(cont. pg. 4)

MAKE A TAX-SAVING NEW YEAR'S RESOLUTION IN 2012

By Nicole Hanson, Senior Managing Advisor/CERTIFIED FINANCIAL PLANNER®

This is the time of year many of us make a resolution, such as losing weight, and take advantage of the energy and sense of renewal that a new year brings. This year, try making a financial resolution - your future self will thank you.

Here are some New Year's resolutions that you will be glad you kept:

Boost your 401(k) retirement savings

One of the best ways to lower your tax bill is to reduce your taxable income. You can contribute to up to $17,000 to your 401(k) or similar retirement savings plan (such as 403(b) or 457) in 2012 ($22,500 if you are 50 or older by the end of the year). Money contributed to the plan is not included in your taxable income.

Switch to a Roth 401(k)

But if you are concerned about skyrocketing taxes in the future, or if you just want to diversify your taxable income in retirement, considering shifting some or all of your retirement plan contributions to a Roth 401(k) if your employer offers one. Unlike the regular 401(k), you don't get a tax break when your money goes into a Roth. On the other hand, money coming out of a Roth 401(k) in retirement will be tax-free, while cash coming out of a regular 401(k) will be taxed in your top bracket at the time of withdrawal

Fund a Traditional IRA

If you don't have a retirement plan at work, or you want to augment your savings, you can stash money in an IRA. You can contribute up to $5,000 in 2012 ($6,000 if you are 50 or older by the end of the year). **Depending on your income and whether you participate in a retirement savings plan at work, you may be able to deduct some or all of your IRA contribution**.

Fund a Roth IRA

You can choose to forgo the upfront tax break and contribute to a Roth IRA that will allow you to take tax-free withdrawals in retirement. You can contribute up to $5,000 in 2012 ($6,000 if you are 50 or older by the end of the year). There are income limitations: If you are married and filing jointly and your earned income is under $173,001, you can fund a Roth IRA for 2012. If you are single or head of household and your earned income is under $110,001 you can fund a Roth IRA for 2012.

Convert some Traditional and/or Roll-Over IRA assets to a Roth IRA

There are several reasons why paying tax *now* rather than in the future might make sense. For instance, many expect tax rates to rise in the future. By converting to a Roth now, you essentially lock in today's current, relatively low rates for what may be substantial retirement dollars. You may have to be careful not to convert so much that you push yourself into a higher tax bracket in 2012, but in the long run, you can end up a winner on the tax front. There are no longer income limitations on Roth conversions so you are not limited in 2012.

Don't hesitate to call us if you would like to discuss which resolution is going to be the best fit for you!

WHEN IT COMES TO INVESTMENT DECISIONS, DON'T BE AN ANIMAL

By Dr. Brad Klontz, Associate Advisor

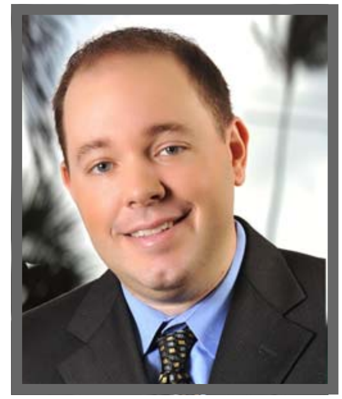
We like to think that we are logical, rational beings. We want to believe that we weigh the pros and cons of each decision and choose the most effective course of action before we act. However, when it comes to money, our brains haven't evolved much beyond those of our furry friends.

Money is a hot topic. Studies show that it is the no. 1 source of stress in our lives, in good times and bad. Money is a primary source of conflicts in couples, and the no. 1 cause of divorce in the early years of marriage. Whether it is a steady build up of funds over the years or a significant real or imagined sudden financial gain or loss, money comes wrapped in an emotional package; and **when we are emotionally charged we become rationally challenged.**

Neuroscience has shown that when our emotions run high, our logical, rational brain shuts down. When it comes back on -line, we typically rationalize our behaviors. Simply put, when it comes to investing decisions made when we are anxious or excited, we can't trust our instincts. When we let our animal brain make our investment decisions, it wreaks havoc on our financial lives.

> . . . running with the herd does more harm to our financial health than any other investing behavior.

The last few years fluctuations in the stock market have been the norm. This is animal behavior in its broadest and purest form. Watching the Dow Jones Industrial Average's roller coaster ride can fill us with excitement or terror, depending on the day. Listening to the pundits on CNBC or FOX Business make up stories about why the market is swinging this way or that **feeds** our inner animal, **keeps** our eyes glued to the screen, and **sells** commercials. Whether it is an impulse to buy into the latest bull-run or a panicked imperative to pull out our money and buy gold bullion, a floor safe, and a shotgun, running with the herd does more harm to our financial health than any other investing behavior. The reality is that those big "missed opportunities" in the market have almost nothing to do with brains, and are more like lighting strikes- guaranteed to happen sometime, impossible to predict, and rarely hit the same place twice. Betting on the location of the next lighting strike is a fools game.



Emotional investing is nothing new. A classic example occurred in the mid-1500s, when the tulip was introduced to Western Europe and soon became a prized possession. By the 1630s, a tulip craze had swept through Holland. Tulips began to be traded on stock exchanges. One rare bulb went for 12 acres of land. Soon enough, people sobered up and the bottom dropped out. Many lost their life savings.

Whether it is tulips, tech stocks, loan default swaps, gold, real estate, or pork belly futures, we will never rid ourselves of the impulse to run with the herd and dive into the newest bubble. **"Bubble babble"** always accompanies the newest bubble, and is a sure sign that one is underway: "X will never lose value," "It is an entirely new market," "Things are different now," etc. However, the truth is that investing behavior will never change on a large scale because it is driven by the highly emotional, animal brain and group psychology. The key is to make sure that you don't fall victim to the next bubble and crash.

So the next time you hear bubble babble on television or at a party and start to get anxious or excited about the asset du jour that you "must have," you are likely witnessing a bubble. Resist the urge to run with the herd. Whether it is today or tomorrow, one thing we know for sure: the herd will always run itself right off a cliff.

2011 Was A Year with Many Surprises (continued from pg. 1)

overall returns for the past 3, 5 and 10 years than domestic stocks.

Our feeling is that emerging markets, despite a very rough and volatile 2011. The fact that these markets are gradually changing from export oriented to internal consumer oriented is not necessarily being recognized by the average observer. China, India, Brazil, and to a lesser extent, other emerging market countries have millions, tens of millions and/or hundreds of millions of people who want to and can afford to buy things that you and I take for granted. That pent up demand will only continue to intensify, changing these from export oriented to regional and internal markets. This means their growth will no longer be dependent upon developed economies. Emerging market bonds are becoming higher quality and more dependable than US and developed country fixed income instruments.

Europe is in for a long and painful period, punctuated by crisis, hope, relief, disappointment and just plain slow turnaround. We have always stayed away from the fringe countries and concentrated on the major economic powers. That will not change. We will continue to avoid those areas, as well as financial institutions and most sovereign bonds.

We enter 2012 with a truly top notch professional team. Nicole Hanson has however started her maternity leave as she is expecting her first child any day now. Happily Erin Hadley has returned to work part-time after the birth of her daughter Ashlyn in September. I will be spending a lot more time in the California office over the next several months, and Brad Klontz will be spending more time with us there as well. Along with Pat Pannell, Stefanie Corrales, and Adam Stolarsky of our operations team, we are here to provide you with top notch advice, service and consistent support.

PERSONAL FINANCIAL SPONSORED CLASSICAL MUSIC FUNDRAISER

for the Kauai United Way raises $22,000 supporting 28 worthy social service agencies.

The program featured musicians from the Chamber Music Society of Lincoln Center

Pre-concert music included the Green Lake Quartet with PFC staff Loren and Adam on the flute and clarinet

Peter Kolkay (Bassoon), James Austin Smith (oboe), Hon. Mayor Bernard Carvalho, Tara Helen O'Connor (Flute) and Loren Kayfetz

Personal Financial Client Service Specialist Adam Stolarsky with Loren Kayfetz.

WE ARE LOOKING FOR PEOPLE JUST LIKE YOU!

THE GREATEST COMPLIMENT TO US IS A REFERRAL.

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