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2012 is off to a great start.

The S&P 500 closed today at 1,365, representing a 100% gain from the low on 3/9/09, nearly 3 years ago. YTD 2012, the S&P 500 is up 8%... a great start to this election year!

Speaking of politics, you'll hear plenty of political tax-speak in the coming months. So, I've included some understandable explanations about some of the main elements you will hear batted about.

I've also included some thoughts on the how the current tax preparation season may impact your investments, and some considerations for those of you contemplating re-financing your home amid an historic low-rate environment.

Thank you for your business!

-John

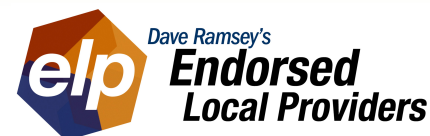
February 2012

Election Year Tax Talk: Deciphering the Terminology

Inheriting an IRA--What You Need to Know

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With mortgage rates so low, does it make sense to refinance?



Election Year Tax Talk: Deciphering the Terminology



This year's election chatter is sure to include a healthy dose of tax talk. To keep up, here are five terms you should know.

The "Bush tax cuts"

A number of major tax changes were enacted in 2001 and 2003, including lower federal income tax rates, special maximum rates for long-term capital gains and qualifying dividends, and increased standard deduction amounts. While most of the provisions were extended by legislation passed in late 2010, these tax provisions are still commonly referred to as the "Bush tax cuts" or the "Bush-era tax cuts." With these provisions set to expire again at year-end, much of the tax debate will center around whether to extend the provisions again--particularly whether to extend the provisions for all taxpayers, or only to those who make less than a certain amount (e.g., individuals with incomes under \$200,000, married couples with incomes under \$250,000).

Alternative minimum tax (AMT)

The AMT is essentially a separate federal income tax system with its own rates and rules. If you're subject to the AMT, you have to calculate your taxes twice--once under the regular tax system and again under the AMT system. Bush tax cuts expanding AMT exemption amounts were extended only through the end of 2011. This increases the pressure to address AMT this year--failure to extend AMT relief would result in an estimated 30 million or more individuals being affected by the AMT in 2012. (Source: U.S. Congressional Research Service. The Alternative Minimum Tax for Individuals (RL30149; August 23, 2011), by Steven Maguire.)

The "Buffett rule"

On August 14, 2011, the *New York Times* published an opinion piece written by Warren Buffett, chairman and CEO of Berkshire Hathaway (Warren E. Buffett, "Stop Coddling the Super-Rich," *New York Times*, August 14, 2011). In the piece, Buffett essentially argued

that he and his "mega-rich friends" weren't paying their fair share, noting that the rate at which he paid taxes (total tax as a percentage of taxable income) was lower than the other 20 people in his office. As Buffett points out, this is partially attributable to the fact that the ultra-wealthy typically receive a high proportion of their income from long-term capital gains and qualified dividends, which are currently taxed at rates that are generally lower than the rates that apply to wages and other ordinary income. President Obama has articulated the "Buffett rule" as the tenet that people making more than \$1 million annually should not pay a smaller share of their income in taxes than middle-class families pay. (Source: www.whitehouse.gov.)

Value added tax (VAT)

A value added tax (VAT) is a consumption tax, like a sales tax. What distinguishes the VAT from a straight national sales tax is the fact that the VAT is assessed and collected at every point in the chain of production, on the "value added" at that step in the chain. Although a VAT can be implemented in different ways, here's one general approach: With a 10% VAT in effect, a supplier who sells \$100 of materials to a manufacturer would pay \$10 in VAT; the manufacturer who, in turn, sells a finished product to a retailer for \$150 pays \$5 in VAT (\$150 sale price - \$100 cost of materials, multiplied by the VAT rate); the retailer sells the product for \$200, and pays an additional \$5 in VAT (\$200 sale price - \$150 cost, multiplied by the VAT rate). Total VAT paid on the product is \$20, or 10% of the final sale price.

Flat tax

Simple in concept, a flat tax would apply a single tax rate to individual income, or individual wages only (i.e., excluding investment income). A separate single rate might apply to businesses. Depending on the specific proposal, a base exemption may be allowed to exclude low-income families from the tax, and certain deductions may be allowed in determining the amount subject to tax.



The rules governing inherited IRAs can be complicated. If you inherit an IRA from someone who isn't your spouse, your options are fairly limited. If you inherit an IRA from your spouse, you have many more options.

Inheriting an IRA--What You Need to Know

The rules governing inherited IRAs can be complicated. Here are the major issues to consider.

Transferring inherited IRA assets

If you inherit a traditional or Roth IRA from someone who isn't your spouse, your options are fairly limited. You can't roll the proceeds over to your own IRA, treat the IRA as your own, or make any additional contributions to the IRA. What you can do is transfer the assets to a different IRA provider, as long as the registration of the account continues to reflect that the IRA is an inherited IRA, and not your own.

If you inherit an IRA from your spouse, however, you have additional options. You can roll over all or part of the IRA proceeds to your own IRA (or to a qualified plan). If you roll the proceeds over to your own IRA (an existing one, or one you establish just for this purpose) the rules that apply to IRA owners, not beneficiaries, will apply from that point on. If you're the sole beneficiary, you can also generally treat the inherited IRA as your own by simply retitling the IRA in your name.

But you aren't required to assume ownership of an IRA you inherit from your spouse. You can, instead, continue to maintain the inherited IRA as a beneficiary. You might want to do this if, for example, you inherit a traditional IRA and you'll need to use the funds before you turn 59½ (distributions from inherited IRAs aren't subject to the 10% early distribution penalty but distributions from IRAs you own are subject to the penalty, unless an exception applies).

A spouse beneficiary can also convert all or part of an inherited traditional IRA to a Roth IRA (you'll generally have to pay income tax on the amount converted). This option is not available to nonspouse beneficiaries.

Required minimum distributions

Nonspouse beneficiary: Federal law requires that you begin taking distributions (called required minimum distributions, or RMDs) from an inherited IRA (traditional or Roth) after the IRA owner dies.

Spouse beneficiary: If you roll the inherited IRA over to your own IRA, or treat it as your own, then the RMD rules apply to you the same way they apply to any IRA owner--you'll generally need to begin taking RMDs from a traditional IRA after you turn 70½; no lifetime RMDs are required at all from a Roth IRA. If you don't roll the IRA assets over or treat the IRA as your own, then the same rules described above for nonspouse beneficiaries generally apply to you, except that you can defer receiving distributions

until your spouse would have turned 70½.

Note: *In both cases, if the IRA owner died after turning 70½ and didn't take a required distribution for the year of death, you'll need to make sure to take that distribution by December 31 of the year of death in order to avoid a 50% penalty.*

Taxation of inherited Roth IRAs

Qualified distributions to a beneficiary from an inherited Roth IRA are free from federal income taxes. To be qualified, the distribution must be made after a five-year holding period. The five-year period begins on January 1 of the year the deceased IRA owner first established any Roth IRA, and ends after five full calendar years. If you take a distribution from an inherited Roth IRA before this five-year period ends, any earnings you receive will be nonqualified, and will be subject to federal income taxes (earnings generally come out last).

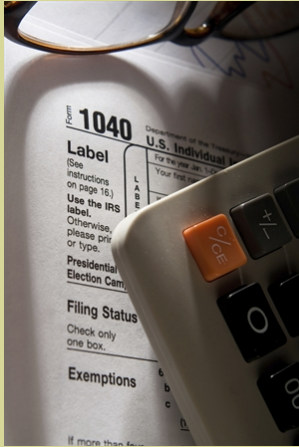
For example, you inherit a Roth IRA from your father on January 1, 2013. Your father established this IRA in June 2012. Your father also established a separate Roth IRA, which you did not inherit, in December 2008. Distributions you receive from the Roth IRA will be qualified, and tax free, because the five-year holding period (January 1, 2008, to December 31, 2012) has been satisfied.

If you're a spouse beneficiary, and you roll the inherited Roth IRA over to your own Roth IRA or treat the inherited IRA as your own, then you'll be eligible to take tax-free distributions only after you reach age 59½, become disabled, or have qualifying first-time homebuyer expenses. You'll also need to satisfy the five-year holding period, but a special rule applies. The five-year period for all of your Roth IRAs--including the inherited IRA--will be deemed to have started on January 1 of the year either you or your spouse first established any Roth IRA.

Speak to a financial professional if ...

- You're sharing the inherited IRA with other beneficiaries. This can impact when and how you must begin receiving RMDs from the IRA.
- You don't want or need the IRA funds. You may be able to disclaim the IRA and have it pass to another beneficiary. This must be done in accordance with strict IRA rules.
- Any estate taxes were paid that are attributable to the inherited IRA. You may be entitled to an income tax deduction equal to the estate taxes paid.

2011 Tax Season Considerations



Roth recharacterizations

Did you convert a traditional IRA to a Roth IRA in 2011, only to see the account drop in value as a result of ongoing market volatility? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets that was lost in the downturn? Turns out, you can.



You don't want to pay more in taxes than you have to. That means taking advantage of every deduction and credit that you're entitled to, and recognizing potential opportunities to save. It also means staying on top of deadlines, and avoiding mistakes that could prove costly down the road. So, here are some things to keep in mind this filing season.

Due date: April 17, 2012

The due date for 2011 federal income tax returns is April 17, 2012 (April 15 is a Sunday, and April 16 is Emancipation Day--a Washington, DC, holiday). Whether you're preparing your own taxes or paying someone else to do them for you, you'll want to start pulling things together sooner rather than later. That includes gathering a copy of last year's tax return, W-2s, 1099s, and deduction records.

If you're not going to be able to file your federal income tax return by the due date, file for an extension using IRS Form 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*. Filing this extension gives you an additional six months (to October 15, 2012) to file your return. Don't make the mistake of assuming that the extension gives you additional time to pay any taxes due, though. If you do not pay any taxes you owe by April 17, 2012, you'll owe interest on the tax due, and you may owe penalties as well. Special rules apply if you're living outside the country or serving in the military outside the country on April 17, 2012.

There's still time to contribute to an IRA

You generally have until the due date of your federal income tax return to make contributions to either a Roth IRA or a traditional IRA for the 2011 tax year. That means there's still time to set aside up to \$5,000 (\$6,000 if you're age 50 or older) in one of these retirement savings vehicles. It's worth considering, in part because contributing to an IRA can have an immediate tax benefit. That benefit comes in the form of a potential tax deduction--with a traditional IRA, if you're not covered by a 401(k) or other employer-sponsored retirement plan, you can generally deduct the full amount of your contribution. (If you're covered by an employer-sponsored retirement plan, whether or not you can deduct some or all of your traditional IRA contribution depends on your filing status and income.)

A Roth IRA is a little different; if you qualify to make contributions to a Roth IRA (whether you can contribute depends on your filing status and income), the contributions you make aren't deductible, so there's no 2011 tax benefit.

Nevertheless, a Roth IRA may be worth considering, because qualified Roth distributions will be completely free from federal income tax.

Roth conversion regret?

Did you convert a traditional IRA to a Roth IRA in 2011, only to see the account drop in value as a result of ongoing market volatility? Wish you could go back in time so that you wouldn't have to pay tax on the value of the IRA assets that was lost in the downturn? Turns out, you can.

For example, assume you converted a fully taxable traditional IRA worth \$100,000 to a Roth IRA in 2011, but that Roth IRA is now worth only \$60,000. If you don't undo the conversion you'll pay federal income tax on \$100,000, even though the current value of those assets is only \$60,000. If you undo the conversion, you'll be treated for tax purposes as if the conversion never happened, and you'll wind up with a traditional IRA worth \$60,000--and no resulting tax bill. You generally have until the due date of your 2011 return, including extensions, to recharacterize your 2011 Roth conversion (note that special rules allow individuals who file timely 2011 returns to recharacterize up until October 15, 2012--talk to a tax professional for details).

If you do recharacterize your 2011 conversion, you're allowed to convert those dollars (and any earnings) to a Roth IRA again ("reconvert") but you'll have to wait 30 days, starting with the day you transferred the Roth dollars back to a traditional IRA. If you reconvert in 2012, then all taxes due as a result of the reconversion will be included on your 2012 federal income tax return.

Expiring provisions

A number of key provisions have expired. So, without additional legislation, 2011 will be your last chance to take advantage of these opportunities. These now-expired provisions include increased "bonus" depreciation and IRC Section 179 expense limits that drop significantly in 2012. Additionally, 2011 will be the last year that individuals who itemize deductions will be able to elect to deduct state and local general sales tax in lieu of state and local income tax. And, both the above-the-line deduction for qualified higher education expenses and the above-the-line deduction for up to \$250 of out-of-pocket classroom expenses paid by education professionals will not be available starting with the 2012 tax year.

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Registered representative and securities offered through Securities Service Network, Inc., member FINRA/SIPC. Fee based advisory services offered through SSN Advisory, Inc., a registered investment advisor.



Term	Rate
10 Year	4.375
30 Year	

With mortgage rates so low, does it make sense to refinance?

Historically low mortgage interest rates have prompted many homeowners to think seriously about refinancing, but there's a lot you need to consider before filling out a loan application.

Start by determining why you want to refinance. Is it primarily to reduce your monthly payments? Do you want to shorten your loan term so that you can save interest and possibly pay off your mortgage earlier? Are you interested in refinancing from one type of mortgage to another (e.g., from an adjustable rate mortgage to a fixed-rate mortgage)? Establishing a goal will help you determine if refinancing makes sense for you and which type of loan will best suit your needs.

Keep in mind that the low mortgage rates that are advertised aren't available to everyone. To get the best rate, you'll need to meet the lender's criteria. For example, you generally need to have an excellent credit score, stable income, and substantial equity in your home--e.g., 20% or more. The type and length of the loan will also affect the rate you receive--in general, the shorter the loan term,

the lower the rate. Advertised mortgage rates sometimes also include points that you'll have to pay to obtain the lower rate--each point is equal to 1% of the mortgage amount. Because so much can affect the rate you receive, it's important to shop around and compare interest rates, loan terms, and costs to make sure you're getting the best deal.

Finally, you'll need to consider refinancing costs as well as the new interest rate you'll receive. Refinancing costs may include points, closing costs, and private mortgage insurance premiums (if any) that you'll have to pay when you take out the new loan. Will you be able to recoup these costs while you still own the home? To calculate this, divide your total refinancing costs by the monthly mortgage payment savings you'll realize by refinancing. The result indicates how many months you'll need to stay in the home to recoup your costs. If you don't plan to remain in your home long enough to recoup your costs, then refinancing may not be worthwhile, no matter how low your new interest rate is.



If I owe more than my home is worth, will I be able to refinance?

Home values across the country have declined, and many homeowners owe more on their mortgages than their homes are worth. When you're "underwater" on your mortgage, it may be possible to refinance, but it will depend on your circumstances and the type of mortgage you have.

Refinancing an underwater mortgage is usually difficult, because lenders generally require that you have equity in your property. However, if you meet certain criteria, you may be eligible to refinance your mortgage through the federal Home Affordable Refinance Program (HARP). This program targets homeowners who are underwater but who are having no trouble making their mortgage payments.

To qualify for HARP, your mortgage must be owned or guaranteed by Freddie Mac or Fannie Mae, and you must be current on your mortgage at the time of the refinance. In addition, you must have made no late payments within the past six months, and no more than one late payment in the past twelve months. Other eligibility criteria also apply.

To find out if you're eligible for HARP, start by

verifying that your mortgage is backed by Freddie Mac or Fannie Mae. You can do this by visiting www.freddiemac.com or www.fanniemae.com and using their lookup tools. Once you've established that your mortgage meets this basic criteria, contact your current lender or other lenders to see if they offer HARP refinances--not all lenders do. For more information about HARP, visit www.makinghomeaffordable.gov.

Another option you might have is a cash-in refinance. With this type of refinance, you bring cash to the closing to reduce your mortgage balance and increase your home equity, enabling you to meet the lender's loan requirements. Underwater borrowers who can also afford to refinance to a shorter loan term (e.g., from 30 to 15 years) might especially benefit because they may boost their equity stake more quickly. However, home equity isn't liquid and it's possible that home values will continue to decline, sinking borrowers further underwater, so a cash-in refinance is only an option if you have substantial savings and can ride out the ups and downs of the housing market.