Allison Coleman

From: Elliott R. Miller [erm@fulcrumsecurities.com]
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To: Elliott R. Miller
Cc: elliottmiller529@gmail.com
Subject: 2012 Year in Review

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"Be fearful when others are greedy and greedy when others are fearful"-Warren Buffett.

Quick! At the beginning of 2012, how many prognosticators guessed that the return on Greek debt would be 78%, making it one of the best performing assets in the world last year. If your financial advisor had suggested putting a significant slice of your retirement funds into Greek debt, most of us would have considered it a throwaway laugh line, or if that advisor had persisted, we would have started searching for a new advisor. The more likely prediction early last year was that Greece would default on its debt and it would be the beginning of the end for the European Union. Pessimism about Europe and most other markets was easy to find and most portfolios were positioned to reflect the perceived risk in the Developed International markets. Are Greece and Europe out of the woods? It's not certain. We could still hear more about it.

One year ago, pessimism about most markets was easy to find and often accepted. Our fear of loss is so strong. We have recent memories of the harsh market conditions of late 2007 to early 2009 where there weren't many positive returns to be found and losses of 30% to 40% were commonplace. Occasionally, our pessimism is well founded. If only we could consistently figure out when.

Last year, many prognosticators had it wrong. Here in the U.S., we had been through a bruising battle over the debt ceiling which resulted in Standard and Poor's lowering our debt rating. Investors in Mutual Funds were fleeing equities for the perceived safety of bonds. So here's what happened:

-S&P Total Return Index 16%
-Barclays Aggregate Composite Bond Index 4.2%
-MSCI Developed EAFE Index (Developed International stocks) 17.9%
-MSCI Emerging Markets 15.1%
-Dow Jones UBS Commodity Index (1.1%)

Last year we had an ugly, negative presidential race both in the Republican primaries and the general election. After the election, our attention turned to the ongoing inaction of our elected officials in Washington on the "fiscal cliff", which was settled in the early hours of 2013, with a guarantee that most of us will pay higher taxes and continue to be dogged by political squabbling for months into the future. We had a big dose of foreign calamities and here at home Hurricane Sandy will turn out to be among the costliest natural disasters in our history. The markets responded with strong returns and the lowest volatility in many years. It was a rare year where the S & P Index never closed below its opening price.

What have we learned? We will never know what the world will bring. We can only know what we need for our futures. Whether the goal is a comfortable retirement, the education of children or grandchildren, the reduction or removal of debt or to try to improve the world through philanthropy, we have some control. The pundits are entertaining, but not necessarily useful in helping us plan our futures.

If we can help in your planning and investment management, please let us know.

Elliott R. Miller, CIMA®

Fulcrum Securities, LLC
150 N. Radnor-Chester Rd, F-200
Radnor, PA 19087
Tel. 610-977-2010
Fax. 610-977-0694