Capital Investment Advisors

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Special Points of Interest:

- As 2012 ends, we want to thank you for your continued confidence in us. As a "thank you" for being a valued client, in your honor, we once again teamed up with Clark Howard and adopted 50 kids for the Clark's Christmas Kids annual toy drive! This is a great event that we look forward to supporting each year.
- Be sure to check out our website periodically for updates! Recently our team has been featured in Baron's, CNN and 11Alive. We post any new articles or "hot topics" on the front page of our site.
- Please remember that if you leave a voicemail or e-mail from anyone on our team and you do not get a response within 24 hours please contact our office as the message might not have been received.
- We wish you a healthy and happy 2013!

Inside this issue:

Fiscal Cliff Review

By: Wes Moss CFP®

Welcome to 2013 – as promised, the Fiscal Cliff negotiations provided quite a side-show all the way up to the last minute in 2012. But we did, as we thought all along, get a deal that helps avoid the worst parts of the Fiscal Cliff. Even though the newest compromise from Congress leaves some questions unanswered, we probably have enough information now to avoid a recession in 2013. Below, I have put together some bullet points to help highlight where we stand:

1. The Fiscal Cliff has turned into a Fiscal Slope… the deal is a very positive development for the economy vs. what "could" have happened. Given what we know now, we estimate a fiscal drag of about -1% on our economy in 2013. Worst case scenarios pointed to a -4%+ drag, which could have landed us right in a recession.

2. Payroll Tax Holiday EXPIRED = 2% hike on first $113,700 in income or about a max of $200 a month. So tax rates are going UP for nearly everyone, but 90% of the new tax revenue will be collected from families who earn $1.0 million or more (according to the Kogod Tax Center at American University) .

3. The AMT (Alternative Minimum Tax) Patch is made permanent with new provisions for future inflation. This is an extraordinary positive, as more than 30 million families in the US would have been blindsided by a tax they had never seen to the tune of $3,700 per family!

4. Taxes on dividends and capital gains stay the SAME except for: (A) filers with modified AGI of ($200K single/$250K married) who will now be subject to an extra 3.8% Medicare tax on dividends/capital gains (effectively an 18.8% rate); and (B) filers with modified AGI of ($400K single/$450K married) who will now have dividends/capital gains taxed at 20% and be subject to an additional 3.8% Medicare tax on dividends/capital gains (effectively a 23.8% rate).

5. Americans KEEP their Mortgage Interest Deduction - very positive for the housing market. Plus there is still tax relief for Mortgage Debt Forgiveness - also very positive for housing. (There were 98,000 short sales in Q3 2012. As an example of how prevalent this is, debt forgiveness will continue to allow the housing market to clear and recover).

6. "Doc Fix" was extended – meaning that Medicare enrollees should not have any new worries about receiving care. Medicare reimbursements to doctors were extended through 2013.

7. Estate/Gift Tax Exemption remains at $5.12 million per person for 2013 and is indexed to inflation in the future. The maximum estate tax rate was raised to 40%.

8. The spending sequester was delayed until March 1, 2013. This is good and bad news; the stock market likes this in the short term, but the debate will be had again once the new Congress is sworn in.

In summary, this deal is a very positive outcome for the economy as the "uphill battle" in 2013 has been significantly sidestepped. This deal will be very good for consumer sentiment and confidence and is, in turn, good news for the stock market and investors. This deal is very close to what we were expecting in the months leading up to the new year and we have positioned your portfolio for this type of environment.

What Lies Ahead?

2012 ended with a bang as policymakers stayed up to the wee hours of January 1st to complete a small scale deal that helped Americans avoid the popular (or not so popular) fiscal cliff.

Washington stole the spotlight in the fourth quarter as the news was squarely focused on the election and then quickly turned to the fiscal cliff. The election wasn't exactly what markets had hoped for and policymakers were anything but effective in fiscal cliff negotiations. But despite the headwinds that policymakers provided, markets stayed resilient throughout the entire quarter.

Now that we have a deal in place to avoid falling off the cliff, investors will continue to focus on Washington where the discussion will now turn to cutting spending and reforming entitlements (this is the bigger deal).

Many investors showed their relief for the small scale deal as they pushed the Dow up 300+ points to start the New Year. But this relief should be short-lived and policymakers should roll up their sleeves early to solve the issues that lie right in front of their noses.

The debt ceiling debate will begin and will likely need to be raised in the next six to eight weeks. And at the same time this debate is going on, policymakers will need to determine what to do with the spending sequesters that they kicked down the road to March.

Thus, the ineptitudes of Washington late last year has kept the spotlight solely on them and thus markets will likely react very similar to the way they did last quarter. The markets will swing with headlines that are printed and news outlets will look to scare many investors.

The hope for many investors is that a negotiated deal on spending and entitlements can be struck well before the March deadline; but the likelihood is that we will see another last minute deal. As the days lead up to March, there will be times of greater hope and then times of straight disarray. But, something will get done… because it has to.

Early in 2013, we have seen Treasury yields start rising and this is a sign that investors have become much less concerned with a recession in the New Year. This should come as a relief to investors given the poor leadership in Washington that seems to be trying everything to push us into a recession.

In the upcoming quarter, expect to hear news outlets talk a lot about the possibility of the U.S. defaulting on their debt (this will be in regards to the debt ceiling debate). The noise will be very similar to that we experienced in December with regards to the fiscal cliff, but ultimately a negotiated solution will come out of Washington and all the noise will subside. But the path to this solution will be a wild ride.

So, this next quarter poses many challenges for American politicians and markets will again be at the mercy of these individuals. Holding true to a diverse portfolio will help to weather the volatility that will likely ensue. This will also allow for individuals to be positioned to positively take advantage of the upside that could occur once policymakers make the tough decisions that need to be made.

Economic CHIME

Confidence:

- *Investor confidence plunged in December, pushing both major data points down more than 11% for the quarter.*

Housing:

- *The recovery continues; building permits, existing home sales, pending home sales and home prices all improved during the quarter.*

Inflation:

- *Remains muted as both CPI and PPI saw minimal movement on a month-over-month basis.*

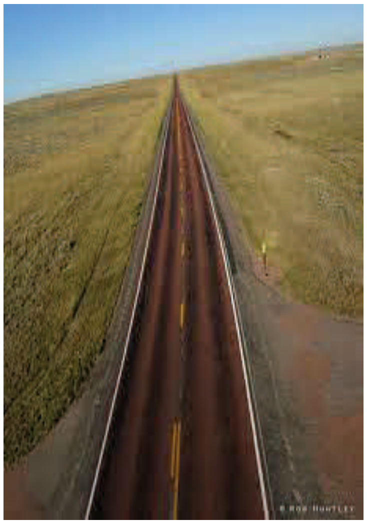
Manufacturing:

- *Manufacturing continues to weaken; drops below the psychological growth threshold. Services remain as bright spot.*

Employment:

- *Payrolls continue to expand. Initial claims declined and unemployment ended at 7.8%*

A Longer Term Perspective



We now know that Q1 will likely be a wild ride (with the debt ceiling and spending sequester debates), but what will the rest of 2013 present for investors?

With the fiscal cliff deal behind us, the prospects of a recession in 2013 have severely diminished. We are still likely to see some drag on economic growth early in 2013 but nothing to the extent of 4-5%, which was anticipated had we fallen off the cliff.

This upcoming year is poised to surprise many people if politicians can de-polarize and negotiate like they were voted into office to do. Given the assumption that policy-makers decide to effectively reduce spending and do some sort of entitlement reform, the markets and economy stand ready to slingshot into some growth.

The first half of this year will see slower economic growth, likely, as we sift through the political mess. But the pent-up demand that we have, from the manufac-turing sector to the auto sector, gives us reason to believe that we could see economic growth in excess of 3% (annualized) in the second half of this year.

"So, 2013 will be a year that we need to see policymakers get out of the way and let the private sector catapult this sluggish economy into euphoria."

Along with the pent-up demand, we are also getting a positive boost from the demoralized housing sector. We won't likely see huge gains in this sector, but the net benefit from the sector being a drag on economic growth to now having some positive addition to economic growth is a huge plus for economic growth.

We will continue to face issues within the marketplace and global environment. Some that could stand to raise worries this year are student loan debt (which reared its ugly head for some time in 2012), Europe will likely hit the markets again, and there is always the unforeseen events that could have a short-term negative impact on markets. But the overall theme of the markets for 2013 should be a positive one if politicians can get out of the way.

Corporations remain heavily strapped with cash and CEOs want to spend money, but they want to know that the politicians won't retard the economy longer term.

As the calendar turned to 2013, we entered the 13th year of being in a secular bear market (a long-term bear market). The average of past secular bear markets ranges between 13-16 years. We are starting to see some of the prominent data points begin to lean bullish. The economic growth needed may not fully occur until 2014, but the second half of 2013 seems to be positioning itself as a launching pad for future economic and market growth.

So, 2013 will be a year that we need to see policymakers get out of the way and let the private sector catapult this sluggish economy into euphoria. If politicians aren't able to de-polarize, markets will be left to react in a negative manner. But if level-headedness occurs in Washington, the pieces are aligned to allow markets to begin a new chapter.

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Focusing on Income Investing

CIA focuses exclusively on investment management and specializes in *income*-oriented investing. We're not "active traders"— we're active managers of your wealth. Our philosophy is to provide personalized investment management to meet long-term goals in a style that considers all client objectives and expectations. Our strategy for you will be carefully crafted to fit your unique circumstances. Wherever you want your money to take you, the multi-faceted CIA professional staff, with its expertise in investments, taxes, real estate and small business operations, is uniquely qualified to help you get there.

Social Security Retirement Options

By: Bryan Rea CFP®

As we know, Social Security is now at a point where there are more retirees taking out benefits than paying in. There are even several scenarios in which individuals can qualify for either a spousal/ex- spousal benefit that may leave you scratching your head. Sometimes one SS payer could have as many as two or three individuals drawing on their personal benefit all at the same time. The Social Security Trustees' annual report for 2012 announced that the current path for SS is not sustainable. In as early as 20 years from now, in 2033, the SS benefits paid will be equal to only 70% of what is currently being projected. We need to have structural changes to Social Security if we want to continue to enjoy its benefit in the future.

Below, I highlight two separate situations in which you may be able to use Social Security rules to your benefit. When deciding whether or not to retire and take Social Security benefits, don't just assume that your individual benefit is the only option on the table.

Situation A

A Husband and wife are both 66. The husband has decided to fully retire and the wife decided that she would like to continue to work for maybe two to four more years. She know that if both of them retire at the same time, neither of them would make it to 67. Anyway, the husband (Retired) is taking his SS. The wife (Working) may decide to take a spousal benefit of close to 50% of the husband's SS and leave her SS alone to continue to grow until the time that she fully retires. This guarantees that she will receive some income now but ultimately receive much more of a benefit at full retirement age 70.

Situation B

Husband is 66 and wife is 62. The wife has decided that she is ready to retire while the husband would like to continue work. Because the husband is nervous about SS, he has decided to go ahead and take his benefit at 66. Now the wife has an option of taking her benefit or taking a Spousal benefit for several years, then electing to take her own benefit at some future date. The wife is guaranteed that she is receiving some income now but will receive a much greater amount at a future date because her SS will continue to grow on its own accord.

The situations I've described above are not black and white, and everyone's situation is a little different. However, don't always assume that you only have one option available to you. When planning for Social Security, I recommend you work closely with your trusted financial advisor as well the local Social Security office for ideas.