THE PROSPERITY CONSULTING GROUP, LLC
A WEALTH MANAGEMENT COMPANY

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THE WEALTH ADVISOR

Investors Flee Stocks At Precisely The Wrong Time

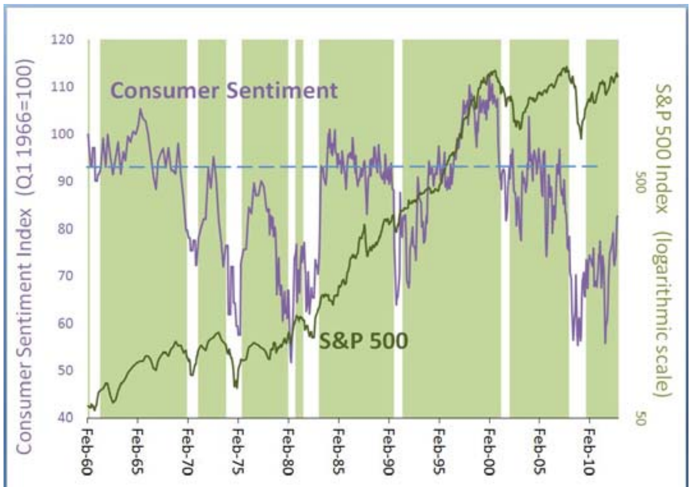
The percentage of American households owning stock mutual funds dropped to 46.4% in 2011, and it has fallen every year since 2008, according to Investment Company Institute. In addition, outflows from domestic stock mutual funds in 2012 neared the record-breaking pace of 2008, the worst year ever for outflows.

Pessimism has been rampant. As 2013 begins, worries persist over the long-term federal deficit. Modern Portfolio Theory, the intellectual underpinning embraced by academia for evaluating investments for the long run, is now derided by many pundits. The Wells Fargo/Gallup Investor and Retirement Optimism Index turned negative at -8 in November 2012, down from double-digit positive scores earlier in 2012. A belief that America's best days are behind her seems pervasive.

How worried should you be? Maybe not as worried as so many others seem to be. Looking back at the historical performance of the consumer sentiment index versus the Standard & Poor's 500 stock index indicates that periods of extreme pessimism are actually good times for stocks.

The most recent data from University of Michigan's consumer sentiment index shows that you would have to go back more than 30 years — to 1980 — to find consumer sentiment as low as it has recently dipped.

The accompanying chart shows the consumer sentiment index dating back to 1960, and about the only time sentiment was as negative as it has been over the past couple of years was in 1980. The plunge in consumer sentiment in 1980 followed a recession, an oil shortage sparked by the American hostage crisis in Iran, an annual inflation rate of 14%, and the bursting of a bubble in the price of silver after the Hunt brothers failed to corner the market in the precious metal. That confluence of calamities in 1980 kicked off a raging bull market.



Sources: The University of Michigan Survey Research Center, Standard and Poor's.

Today's economic worries are similar in many ways to 1980's woes. Global turmoil related to America's struggle with terrorism and Muslim fundamentalists dominates the headlines, threatening oil production in

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The Economy: What Does The Future Hold?

The economic events of the past and today will affect our future for years to come. The impact of government debt (which is approaching $17 trillion) and quantitative easing are straining the U.S. economy. Many questions exist in regard to the impact on investments. Equities (stocks) and bonds both will be impacted by Washington's policy.

We are inviting you to an informative seminar with renowned Economist, Anirban Basu. We will have an interactive format where you can participate if you desire. The details of the event are below. Please be sure to RSVP soon because space is limited.

Thursday, May 2, 2013
6:00 p.m. – 7:00 p.m., light fare and drinks
7:00 p.m. – 9:00 p.m., presentation

Conference Center at Sheppard Pratt
6501 N. Charles St.
Towson, MD 21204

Please RSVP by contacting Carol Pfab at 410-363-7211 or cpf@prosperityconsult.com
RSVP deadline is April 18, 2013.

Speaker Overview

Anirban Basu is Chairman & CEO of Sage Policy Group, Inc., an economic and policy consulting firm in Baltimore, MD. Mr. Basu is one of the Mid-Atlantic region's most recognizable economists, in part because of his consulting work for prominent developers, bankers, brokerage houses, energy suppliers and law firms. He also has written several high-profile economic development strategies.

"Ghost Story" Can Haunt Your IRA

The rules for contributing to an IRA are relatively simple. You put in the money for each tax year by the required deadline—the tax return due date for the year of the contribution—and tell the account custodian how you want the funds invested. In addition, you might roll over funds to an IRA from a 401(k) or another kind of "qualified plan" at work when you change jobs or retire. That way, your money can continue to grow without being eroded by taxes until you make a withdrawal.

The rules for *distributions*, in contrast, are extremely complex. In particular, complications may arise as you approach the time for taking "required minimum distributions" (RMDs) from your IRA. Make the wrong moves and your heirs might be forced to receive payouts based on your "ghost life expectancy."

For IRA owners, the "required beginning date" (RBD) for RMDs is April 1st of the year after the year in which they turn age 70½. For instance, if someone reaches that age on June 1, 2013, the RBD is April 15, 2014. The amount of the RMD is based on the value of your accounts on December 31st of the tax year of the RMD—in this example, 2013—and is calculated according to an IRS-approved life expectancy table. And here's where things get complicated.

If you die *before* the RBD and have designated a "qualified beneficiary" such as a child or spouse, the RMDs are generally based on the beneficiary's life expectancy. (Surviving spouses also have the option of rolling over the funds into their own IRAs.) However, if you haven't designated a beneficiary or you named a "non-qualified beneficiary" such as your estate, the IRA must be emptied out in five years. Conversely, if an IRA owner dies *after* the RBD, payments to a beneficiary are still based on the beneficiary's life expectancy, but payments to a non-qualified beneficiary must use the owner's ghost life expectancy.

A ghost life expectancy isn't as scary as it sounds. It's how long the IRA owner would be expected to live—if he or she hadn't already died. But using an older owner's life expectancy table will still drain the IRA faster than usual.

Suppose that Walter Mason, age 80 and single, has $750,000 in his IRA. Walter named his estate as the beneficiary of his IRA. He dies on July 1, 2013 without taking an RMD for the 2013 tax year.

Because Walter designated a non-qualified beneficiary, RMDs for 2013 and future years will be based on his ghost life expectancy. The payment for 2013 under the single-life expectancy table is $40,107. Under this method, payments will be greater than the amounts that would have been required if Walter had designated a qualified beneficiary.

Good planning can minimize the impact of RMDs and help preserve your retirement nest egg. ●

Six Disability Facts To Consider

You probably already understand the importance of having life insurance. The proceeds from a life policy can help cover your family's current expenses and may provide a cushion for the future if you die prematurely. But another kind of coverage—disability income (DI) insurance—is often ignored or neglected. And that's a mistake, because DI insurance can be even more vital than life insurance in maintaining a family's financial well-being. A new white paper from the Council for Disability Awareness, an independent nonprofit group, provides these six startling facts.

1. More than one in four of today's 20-year-olds will become disabled before they retire. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

2. Some 8.5 million disabled U.S. wage earners were receiving Social Security Disability Insurance (SSDI) benefits at the end of September 2011. (Source: Social Security Administration, Office of Disability and Income Security Programs)

3. Ninety percent of new long-term disability claims are the result of an illness, not an accident, and fewer than 5% of claims are work-related. (Source: 2011 Council for Disability Awareness Long-Term Disability Claims Study)

4. The average long-term disability claim lasts 31.2 months. (Source: 2010 GenRe Disability Fact Book)

5. New applications for Social Security Disability Insurance (SSDI) benefits increased 27% from 2008 to 2010. (Source: Social Security Administration, Office of Disability and Income Security Programs)

6. About 100 million workers lack private disability income insurance. (Source: Social Security Administration, Fact Sheet, March 18, 2011)

If you don't have DI insurance, either through a policy from your

7 Major Tax Changes In The Fiscal Cliff Law

From the edge of the "fiscal cliff," Congress took a step back and approved the American Taxpayer Relief Act (ATRA), a hodgepodge of tax extensions and modifications. But the agreement postponed decisions on spending cuts and failed to continue a 2% "payroll tax holiday" for employees. Moreover, upper-income taxpayers will have to shoulder a greater burden going forward. Here are seven noteworthy changes for individuals.

1. Individual Tax Rates. Across-the-board tax hikes are averted and the "marriage penalty" is eased. Nevertheless, ATRA creates an "extra" top tax rate of 39.6% for single-filers with income above $400,000 and joint-filers with income above $450,000. When you add in the new 3.8% Medicare surtax for certain upper-income investors, which begins in 2013, your effective top tax rate can reach 43.4%!

2. Capital Gains And Dividends. The "Bush tax cuts" for capital gains and dividends are generally preserved. The maximum tax rate remains 15% for net long-term capital gain and qualified dividends (0% for investors in the lowest tax bracket). Otherwise, the tax rate for capital gains would have soared to 20% (10% for investors in the lowest tax bracket). Even worse, dividends would have been taxed at ordinary income rates. But the upper crust still pays a steep price: a maximum 20% tax applies to single-filers with income above $400,000 and joint-filers with income of more than $450,000.

3. Alternative Minimum Tax. The onerous alternative minimum tax (AMT), which has steadily been casting a wider net each year, is overhauled. Under ATRA, exemption amounts have been increased and nonrefundable personal credits can be used to offset AMT liability in full. In addition, the exemption amounts will be indexed for inflation in the future. Because the changes are retroactive to the 2012 tax year, it's been estimated they will save as many as 60 million taxpayers from the clutches of the AMT.

4. Itemized Deductions And Personal Exemptions. Two other "back-door" tax increases may affect taxes of wealthier individuals. Due to the revival of the "Pease rule," most itemized deductions are reduced by 3% of the amount of adjusted gross income (AGI) above a specified threshold, beginning in 2013 (but the overall reduction can't exceed 80%). At least ATRA establishes higher thresholds of $250,000 for single-filers and $300,000 for joint-filers. A comparable provision begins to phase out the tax benefits of personal exemptions at the same thresholds.

5. Education Tax Breaks. ATRA generally extends several valuable tax incentives relating to higher education. Significantly, it allows parents to claim the maximum $2,500 American Opportunity Tax Credit (AOTC) for another five years, subject to a phaseout based on modified adjusted gross income (MAGI). It also extends the above-the-line deduction for tuition and fees, also phased out based on MAGI, through 2013. This deduction may be claimed in lieu of a higher education credit. The tuition deduction extension is retroactive to 2012. Finally, ATRA permanently extends enhancements for Coverdell Education Savings Accounts (CESAs), the tax exclusion for employer-provided education assistance and the student loan interest deduction.

6. Extensions Of Other Rules. Besides those already mentioned, ATRA extends a host of other tax provisions for individuals, many of them retroactive to the beginning of 2012 (i.e., for provisions that technically expired). Most of the extended tax breaks are limited by dollar amounts. This includes:

- Optional state sales tax deduction (in lieu of state income tax)
- Enhanced child tax credit, dependent care credit and adoption credit (and tax exclusion for adoption program assistance)
- Credit for energy-saving at home
- Monthly tax exclusion for certain commuting benefits
- Deduction for mortgage insurance premiums
- Deduction for classroom expenses of educators
- Tax exclusion for mortgage debt forgiveness
- Tax benefits for donating real estate for conservation purposes
- Tax-free distributions of IRA funds to charity by those age 70 ½ or over

7. Estate And Gift Taxes. At long last, there's greater certainty in estate planning. Beginning in 2013, the unified estate and gift tax system permanently retains a $5 million exemption and will be indexed annually for inflation ($5.25 million in 2013), instead of plummeting from $5.12 million in 2012 to $1 million. The top estate tax rate, which was scheduled to jump from 35% in 2012 to 55% in 2013, is bumped up to 40%. ATRA also retains the provision allowing "portability" of estate tax exemptions between spouses and coordinates various other aspects, including implementation of the generation-skipping tax.

These are just some of the highlights of the fiscal cliff law. We will be offering further guidance on the tax law changes, but please don't hesitate to call us about how the changes affect you personally. ●

employer or one you've bought on your own, you can choose from among a wide array of products whose costs and benefits vary widely. Here are several factors you'll need to take into account.

- How a policy defines "disability" is crucial. The best policies pay benefits if you can't work in your chosen profession, and they don't consider the nature of an injury.
- DI insurance policies generally require a waiting period before paying benefits, and a shorter waiting period normally translates into higher premiums.
- Typically, a policy will state how long and under what circumstances it will pay disability income benefits. It could, for example, provide benefits only until you qualify to receive Social Security retirement benefits.
- If you opt for a noncancellable policy, the insurer can't drop you off its rolls if your health declines.

Finally, don't be seduced by the low costs of a fly-by-night operation. You'll be better off opting for an experienced company with a good reputation. ●

How To Choose Trustees For Your Trust

Many high-net-worth people rely on trusts to minimize taxes and keep wealth in the family. But who should serve as trustee? A survey by Spectrem Group shows many wealthy investors who create trusts designate themselves or a family member as the trustee. But are family members the best choice?

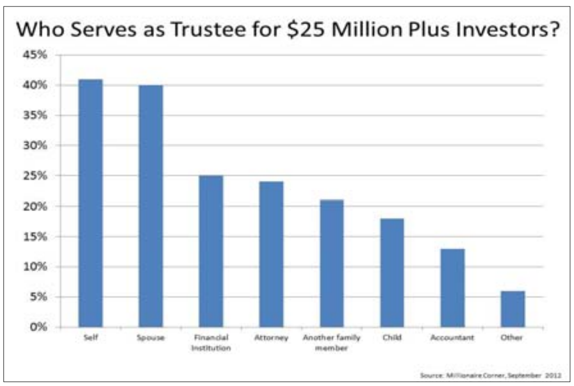
Trustees have many complex responsibilities. The primary obligation is to distribute assets and trust income according to the wishes of the grantor - the person who establishes the trust. But the job also involves keeping records, investing assets, filing tax returns, and resolving conflicts.

Among affluent investors, Spectrem reports, 41% serve as their own trustee, 40% name their spouse, 21% name another family member, and 18% name their child. Just 25% name a financial institution, while 24% name their attorney and 13% appoint their accountant. (The numbers add up to more than 100% because some grantors name more than one trustee, known as co-trustees.)

Many investors appoint family members because they believe they will serve the interests of the beneficiaries. Also, family members often are paid little or nothing for their service.

However, trust experts say family members often have problems trying to administer a trust. They may not understand legal and regulatory issues, and sometimes may grant distribution requests too freely, draining the assets.

An outside professional can provide the expertise needed, along with an objective viewpoint. Sometimes the best solution is to appoint a family member along with a trust expert as co-trustees. The professional ensures the trust is properly handled, while the family member may be in a better position to deal with family issues.



Here are four reasons to consider appointing a trust professional as trustee or co-trustee:

- A professional trustee will continue as administrator for the term of the trust—even if that covers multiple generations. Any family member appointed as trustee eventually will die or become unable to continue. Grantors usually appoint a back-up, but that person, too, won't be able to serve indefinitely.
- A professional trustee is held to an even higher standard under state and federal regulations than regular trustees. All trustees must interpret all trust documents to serve the best interests of the beneficiaries. The trustee works for the grantor, not the beneficiaries, and is guided by the trust documents.
- Trust specialists have the knowledge and experience required to comply with all legal and regulatory requirements.

A professional trustee brings objectivity and ensures that any conflicts or questions are resolved in a legally appropriate manner. In conclusion: There are numerous options at your disposal, so obtain expert advice. ●

Investors Flee Stocks

(Continued from page 1)

the Arab world. Massive monetary stimulus by the Federal Reserve has sparked inflation fears and the price of gold spiked higher than ever in the last couple of years. America seems unable to muster the strength to fight its fiscal crisis.

But just as it happened in 1980, stocks over the past couple of years have marched higher. And, as the accompanying chart assembled by Fritz Meyer Economic Research illustrates, it's not unusual for stocks to rise steadily higher precisely when consumer pessimism is at its worst.

Investor perceptions and consumer sentiment are often at odds. Wall Street reality—earnings growth and rising stock prices—governs stock prices. As a result, even as consumer sentiment plunges, you could see a rally in stocks.

To be sure, economic and political problems plaguing the U.S. are serious and must be addressed. The federal debt, downgrading of the U.S. Government's credit rating, and threat of terrorism remain very real problems. But the pessimism these problems engender doesn't necessarily stop the stock market from rising if corporate earnings growth holds up, and that's what occurred in recent months.

In the aftermath of the 2008 global financial crisis, consumer sentiment has recovered. As history shows, however, it can take years for a full recovery in consumer sentiment to take hold. In fact, stock prices must rise for an extended period before consumer sentiment fully recovers following economic trauma. Stock prices are always out in front of consumer perceptions.

So, when you hear news about the extreme pessimism over the economy and record outflow from stock mutual funds, remember these lessons from history. The stock market in 2012 showed an astounding total return of 16%, while investors fled stock mutual funds in droves. Investors historically leave the stock market and become pessimists at precisely the wrong time. While past performance is never a guarantee of future results, it appears that familiar pattern was repeated in 2012. ●

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