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FINANCIAL OUTLOOK

SPRING 2013

A 3-STEP ASSET ALLOCATION PLAN

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in different asset classes including a mix of stocks, bonds, and cash, you'll reduce the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among a mix of three types:

- **STOCKS** — Stocks tend to be risky investments. However, while they have a high potential for loss, they also offer a good potential for gain.
- **BONDS** — Bonds tend to be less risky than stocks but more risky than cash alternatives.
- **CASH** — Cash alternatives, such as savings accounts, certificates of deposit, and money market accounts, typically offer the lowest risk and the lowest potential returns.

The potential benefits of allocating your assets across the illustrated three types of investments include:

- Proper asset allocation diversifies your portfolio among the three types of investments, reducing your risk.
- Allocating your assets among the three types may allow you to tailor your portfolio to your specific goals.
- You can help manage the level of risk and volatility of your returns.

CONSIDERATIONS

To properly allocate your investments across different asset classes including stocks, bonds, and cash, consider this three-step approach to asset allocation:

STEP 1: BE HONEST ABOUT YOUR LEVEL OF RISK TOLERANCE.

Some people think that investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerances vary.

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TEACHING CHILDREN INVESTMENT BASICS

A common reason for investors to focus on their portfolios is because of the next generation: they want to ensure that their children are well taken care of so that they, the investors, don't have to worry later in life.

Taking it another step is to *teach* your children about investing. This is a golden opportunity to start them on a solid financial path. Where to start in discussing investment basics with your children largely depends on their age and maturity. That said, here are some effective approaches for children of all ages.

START WITH SAVINGS. Savings should come before investing. Make sure your children have a firm grasp of the importance of saving. If they have a regular job, discuss with them the idea of setting aside about 10% of their earnings. Consider opening a savings account for them and discuss how interest works. These are important first steps in learning to manage money. Once your children have a savings plan, investment topics will come more easily.

KEEP IT SIMPLE. As obvious as this seems, use your children's language, not sophisticated financial terms. Start by explaining to your

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A 3-Step

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If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low-risk allocations, even though you may see more modest returns.

Step 2: Write down your financial goals.

What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals are, knowing them will help you determine how to allocate your assets to help you meet them.

Step 3: Consider your time horizon for meeting those goals.

How much time do you have before you need your money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three illustrated investment categories at any time. However, broadly speaking, the further away in time you are from your financial goals, the more aggressively you can be invested.

For example, if your financial goal is retirement and you're just starting out, you'll want to have a higher percentage of your assets invested in stocks and the lowest percentage in cash. As you near retirement, you'll want to reallocate your assets more conservatively, so that a larger percentage is in bonds and cash than in stocks.

Please call so we can help you allocate your assets given your unique situation. ❍❍❍

Goals and Dreams: What's the Difference?

It takes a lot of hard-nosed work to fulfill your dreams. But in this case, we're not just talking about the years of employment you have to put in to afford your dreams. Instead, we mean converting your dream into a plan to make your dreams come true.

The first step is to recognize the difference between a dream and a goal. A dream is a vision that inspires you to work hard, smart, or both. It's what gets you up in the morning, keeps you on the job no matter how tough or trying it may be. As pleasant as the dream may be, however, it lacks specificity. Specifics are for goals and plans of action.

A financial goal and plan of action to meet it sounds like this: I'm going to retire when I'm 65 years old in a lifestyle that costs $150,000 a year in today's dollars and maintain it, adjusted for inflation, for as long as I live. Of that amount, $120,000 is going to come from my personal savings, which means I need to save a total of $1.7 million. And that means I have to save $40,000 a year, and my savings has to earn 8% a year, pretax.

To summarize: a financial goal consists of 1) a date 2) by which time you need a specific amount of money 3) that lasts a specific amount of time. The action plan calls for: setting aside a specific amount of money, investing it to achieve a specific rate of return, and monitoring your progress and making the necessary course corrections to remain on target.

If you're in business, you understand this implicitly: to reach a goal, you have to define it, create a business plan of action, execute that plan, and periodically review your progress. The personal corollary to a business plan is a plan for your financial future.

While financial strategies cover a number of topics and tactics, they revolve around two core goals: supporting a lifestyle and paying for education. Every other element of financial strategies — obtaining disability and life insurance, minimizing taxes, an investment plan, and planning the efficient distribution of your estate — is designed to support the two goals of lifestyle and education for you and your immediate family.

What good goal making comes down to is making fairly reliable projections of what your financial goals are going to cost in the future and when that future will arrive. The more expertise that's applied to goal formulation, the better the goals will be. After that, the creation of a strategy to meet those goals takes even more judgment calls: what is the rate of inflation likely to be between now and when your goal needs to be met, what kind of funding will the plan require, what asset allocation strategy is going to achieve the best balance between the rate of you return you need and the level of risk you're comfortable taking?

After all of that, the key to achieving your goals is adjusting to the unexpected. If the changes are significant enough, it may take you back to square one — restructuring your goals. Proper planning for your financial future isn't a one-time exercise. At its best, it's an iterative exercise that calls for steadiness of vision, calm reactions to new realities, market awareness, and flexibility. Please call to discuss this in more detail. ❍❍❍

Teaching Children

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children that investing is a means of using their money to create more money. It can be as simple as that.

Use a real goal. Make investing real by focusing on a tangible goal. Chances are your children already have something they are working and saving for. Depending on the age, it could be a new doll, the hottest video game, or their first car. By showing them how investing money on a regular basis can help earn more money to achieve their goals, you're more likely to catch — and keep — their interest.

Explain stocks with familiar companies. Kids are drawn to the idea that buying a stock means buying a piece of a company — the stock can rise or fall as the company succeeds or fails. If you tie the concept to a company that your children may be familiar with, say a sports company, computer manufacturer, or food and beverage company, they might be more interested in following its progress. You might purchase a single share for them so they can experience ownership first hand.

Try virtual investing. You don't need to actually purchase a share of stock; rather, you can show your children how to research stocks online. Once again, choose companies whose products they are familiar with and, this time, have them "buy" 10 shares of a few companies they like. Record the "purchase price," monitor the performance and, after a while, have them calculate how much they gained or lost.

Open a custodial account. To give your children some real investing experience, consider setting up a custodial account under the provisions of the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act (depending on your state). You can start the account with a small amount of money and then add contributions from their already established savings plan or other gifts. ❍❍❍

Does Diversification Still Work?

So you paid attention to the advice to diversify your portfolio. You didn't just invest in one stock, you invested in many. And not only did you invest in more than one stock, you invested in large-cap stocks, mid-cap stocks, and small-cap stocks in different industries. You also invested in foreign stocks and bonds, maintaining some funds in a money market fund. And you still lost money, so now you're not so sure diversification really works. But consider this:

Diversification reduces risk; it can't eliminate it. The truth is, all investments are subject to risk. Diversification remains one of the primary ways of managing and reducing investment risk. It does so by spreading your investments not only among different securities, each representing a separate entity, but among different sensitivities to phases of the business cycle and to different cycles altogether. By doing this, you decrease the chances that you'll lose money because any one issuer has gone out of business or investors have turned sour on a particular industry, sector, or country.

In bad times, a lot of different kinds of investments perform the same way: poorly. Investment professionals track something called "correlation," which, roughly speaking, measures the degree to which different investments, asset classes and subasset classes produce gains or losses at the same time. In 2008, for example, four stock subasset classes delivered major losses. U.S. large-cap stocks lost 37% of their value, U.S. small-cap stocks lost 34%, the stocks of major developed foreign countries were down 43%, and emerging foreign market stocks lost 53%. Even diversifying by investment style didn't help — large value stocks in the U.S. lost 39%, while large growth stocks lost 35% (Source: Invesco, 2012).

Diversification is for the long term. If you need all of your money in the next year, your best bet is to put it all in cash, where your chances of a loss are mostly theoretical. But if you're planning for the next 10 to 20 years, you're likely to lose the battle against inflation if you don't keep some money in stocks.

Diversifying is an alternative to market timing, which very few get right. How confident are you that you know exactly when to move your money out of stocks at the right time to avoid losses and then move back in when stocks start making money again? Most investors haven't been successful at timing the market in that way. The most common mistake is to get out too late and then wait too long to get back in.

Diversifying still avoids the deepest possible losses. 2008 was, we've noted, a very bad year for stocks. But the total U.S. bond market, including Treasuries and corporate, returned 5.24% that same year, and Treasuries increased 12.39% (Source: Invesco, 2012). If you'd had 40% of your money in bonds, that loss would have been trimmed to 20.1% — a reduction of nearly half.

If you've been investing for a long time, you know that the issue isn't that the stock market hasn't produced a positive return recently, but that it has been below what you're used to. For decades, we've been taught that stocks return, on average, about 10% a year; but for the past 10 years, that number has been about 5% (Source: Invesco, 2012). Even if the stock market continues to perform that way, diversification still protects your portfolio from the worst possible losses. ❍❍❍

Financial Data

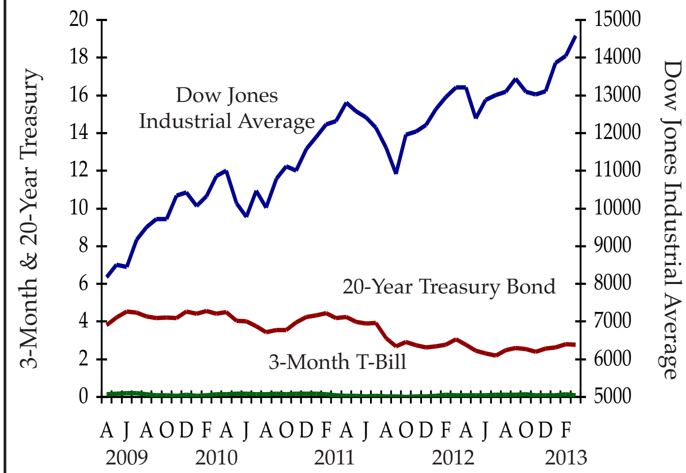
Indicator	Month-end Jan-13	Feb-13	Mar-13	Dec-12	Mar-12
Prime rate	3.25	3.25	3.25	3.25	3.25
Money market rate	0.50	0.48	0.50	0.51	0.47
3-month T-bill yield	0.08	0.13	0.08	0.09	0.09
20-year T-bond yield	2.63	2.81	2.77	2.56	3.07
Dow Jones Corp.	2.55	2.61	2.58	2.70	3.28
30-year fixed mortgage	3.05	3.15	3.16	2.81	3.58
GDP (adj. annual rate)#	+1.30	+3.10	+0.40	+1.30	+3.00

Indicator	Month-end Jan-13	Feb-13	Mar-13	% Change YTD	12 Mon.
Dow Jones Industrials	13860.58	14054.49	14578.54	11.3%	10.3%
Standard & Poor's 500	1498.11	1514.68	1569.19	10.0%	11.4%
Nasdaq Composite	3142.13	3160.19	3267.52	8.2%	5.7%
Gold	1664.75	1588.50	1598.25	-3.8%	-3.9%
Consumer price index@	229.60	230.30	232.20	0.9%	2.0%
Unemployment rate@	7.80	7.90	7.70	-1.3%	-7.2%
Index of leading ind.@	93.90	94.30	94.80	1.5%	-0.6%

— 2nd, 3rd, 4th quarter @ — Dec, Jan, Feb Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

April 2009 to March 2013



Past performance is not a guarantee of future results.

News and Announcements

Saline Financial Solutions Changes Name to Saline Wealth Management Group

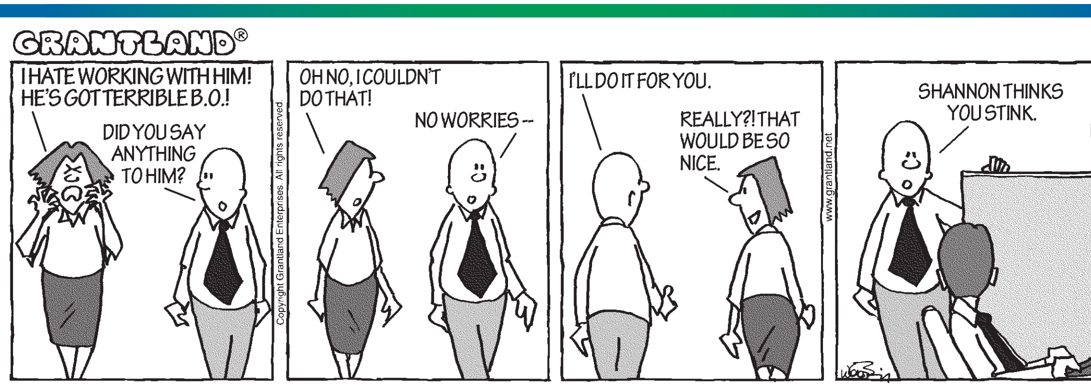
Over the winter the firm began looking at ways to refresh our brand with a name that points to all facets of our services. We wanted to make just a small adjustment that indicates an all-encompassing service model. Wealth management is an all-inclusive concept which has a holistic approach and considers every aspect of your financial life. This entails more than just investment management. It also includes financial planning, retirement planning, and risk management. With that being said, we are changing our name from Saline Financial Solutions to Saline Wealth Management Group.

The change has given us the opportunity to look at some other opportunities to add value. In April of this year, we will be launching our new website, which will be much more user friendly and interactive. Some of the new features include account access, where you'll be able to get information on how your investments are working for you. It will also have a knowledge center that will have newsletters and briefing that will be frequently updated. In addition to that, it will have a place where you can conduct some light research on stocks, ETFs, and mutual funds. We will be sending notice of our new website launch via regular mail and e-mail as we approach the completion.

As mentioned in a previous newsletter, we are growing and building our team stronger. With the addition of Jim Stahl, CFP®, ChFC®, Jim has been recognized as a Five Star Wealth Manager* from New Jersey Monthly magazine. The Five Star Wealth Managers represents a select group featuring less than 2 percent of the wealth managers in the New Jersey area.

You may notice that some of our materials have both company names as our name transition will take place over the next few months. Saline Wealth Management Group is excited to announce these updates, and we look forward to servicing you to the best of our abilities.

**Working with a Five Star Wealth Manager is not a guarantee as to future investment success nor indicative of the wealth manager's future performance. The inclusion of a wealth manager on the Five Star Wealth List should not be construed as an endorsement of the wealth manager by any entity.*



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