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THE FINANCIAL FORMULA

Giving You The Financial Information You Need

December 2011

Happy Holidays to all of our readers! We hope you enjoy the December 2011 newsletter. If you have any questions, please let me know - eat, drink, and be merry!

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In This Issue

Getting Ready for Tax Season: Changes for 2012

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The Advantages of Participating in a Retirement Plan

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Should You Prep Your Portfolio for Inflation?

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The Three-Step Retirement Plan Tune-Up

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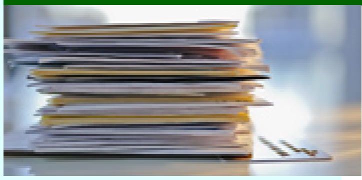


Getting Ready for Tax Season: Changes for 2012

Although most Americans will not have to worry about 2012 taxes until early 2013 when 2012 tax returns are due, self-employed individuals or anyone who must pay quarterly tax payments will want to plan ahead.

And there's good news for those that do. The IRS recently announced cost-of-living adjustments for the 2012 tax year that bump up brackets, deductions, and other thresholds for inflation.

The following is a summary of the key changes for 2012.

- **Exemptions are up:** The personal and dependent exemption increases to $3,800, up $100 from 2011.
- **Standard deductions have increased:** The 2012 standard deduction increases to $11,900 for married couples filing a joint return, $5,950 for singles and married individuals filing separately, and $8,700 for heads of household.
- **Tax-bracket adjustments:** Tax-bracket thresholds have increased for each filing status (see table below).
- **Estate tax exclusion has increased:** The estate tax exclusion increases to $5,120,000, up from $5,000,000 for 2011. The annual exclusion for gifts will remain at $13,000.
- **Earned income credits rise:** The maximum earned income tax credit (EITC) rises to $5,891, up from $5,751 in 2011. The maximum income limit for the EITC increases to $50,270, up from $49,078 in 2011.
- **Transportation benefits adjusted:** The monthly limit on the value of qualified transportation benefits exclusion for qualified parking provided by an employer to its employees for 2012 rises to $240, up $10 from the limit in 2011. However, the temporary increase in the monthly limit on the value of the qualified transportation benefits exclusion for transportation in a commuter highway vehicle and transit pass provided by an employer to its employees expires and reverts to $125 for 2012.

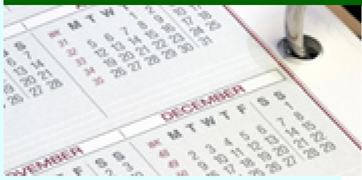
The 2012 standard deduction increases to $11,900 for married couples filing a joint return, $5,950 for singles and married individuals filing separately, and $8,700 for heads of household.

Several tax benefits are unchanged in 2012. For example, the additional standard deduction for blind people and senior citizens remains at $1,150 for married individuals and $1,450 for singles and heads of household.

Details on these and other inflation adjustments can be found in Revenue Procedure 2011-52.

2012 Tax Brackets

	Single	**Joint Filers**	**Married Filing Separately**
10%	$0 - $8,700	$0 - $17,400	$0 - $8,700
15%	$8,700 - $35,350	$17,400 - $70,700	$8,700 - $35,350
25%	$35,350 - $85,650	$70,700 - $142,700	$35,350 - $71,350
28%	$85,650 - $178,650	$142,700 - $217,450	$71,350 - $108,725
33%	$178,650 - $388,350	$217,450 - $388,350	$108,725 - $194,175
35%	Over $388,350	Over $388,350	Over $194,175



The Advantages of Participating in a Retirement Plan

With traditional pension plans rapidly becoming phased out and Social Security's long-term future in doubt, more Americans shoulder the responsibility of funding their own retirement. Many workers rely increasingly on their workplace-sponsored retirement plans to provide the means to meet their investment goals. That's because these types of plans -- such as a 401(k), 403(b), or 457 -- offer a variety of attractive features that make investing for the future easy.

Tax Treatment

401(k), 403(b), and 457 plans allow you to contribute up to $16,500 of your salary in 2011 and $17,000 in 2012. Keep in mind that individual plans may have lower limits on the amount you can contribute. In addition, individuals aged 50 and older who participate in these types of plans can take advantage of so-called "catch up" contributions of an additional $5,500. Note that non-governmental 457(b) plans are not eligible for catch-up contributions.

In all cases, contributions to the plan are made before taxes are withdrawn from your salary, giving you the immediate advantage of lowering your taxable wage base. For example, if your salary is $50,000 and you contribute $5,000 to your plan, your wages for income tax purposes are lowered to $45,000 (excluding FICA and Medicare taxes).

All contributions to your account may grow on a tax-deferred basis, meaning that you don't pay taxes on the contributions and any earnings until they are withdrawn at retirement.[1]

401(k) and Roth 401(k)

401(k) plans now come in two varieties: traditional and Roth-style plans. Your employer may offer just one type or both. A traditional 401(k) plan allows you to defer taxes on the portion of your salary contributed to the plan until the funds are withdrawn in retirement, at which point contributions and earnings are taxed as ordinary income. In addition, because the amount of your pre-tax contribution is deducted directly from your paycheck, your taxable income is reduced, which in turn lowers your tax burden.

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The tax treatment of a Roth 401(k) plan is different. Under a Roth plan, contributions are made in after-tax dollars, so there is no immediate tax benefit. However, plan balances grow tax free; you pay no taxes on qualified distributions.

Both traditional and Roth plans require that distributions be qualified. In general, this means they must be taken after age 59½ (or age 55 if you are separating from service from the employer whose plan the distributions are withdrawn from), although there are certain exceptions for hardship withdrawals, as defined by the IRS. If a distribution is not qualified, a 10% IRS penalty will apply in addition to ordinary income taxes on all pre-tax contributions and earnings.

Choosing Investments

Generally, workplace retirement plans provide you with several options in which to invest your contributions. Such options may include stocks, bonds, and money market investments. This flexibility allows you to spread out your contributions, or diversify, among different types of investments, which can help keep your retirement portfolio from being overly susceptible to different events that could affect the markets.

Borrowing From Your Retirement Plan

One potential advantage of many workplace retirement plans is that you can borrow as much as 50% of your vested account balance, up to $50,000. In most cases, if you systematically pay back the loan with interest within five years, there are no penalties assessed to you. If you leave the company, however, you may have to pay back the loan in full immediately, depending on your plan's rules. In addition, loans not repaid to the plan within the stated time period are considered withdrawals and will be taxed and penalized accordingly.[1]

Work With Your Financial Advisor

A workplace retirement plan can become the cornerstone of your personal retirement savings program, providing the foundation for your future financial security. Consult with your plan administrator or financial advisor to help you determine how your employer's plan could help make your financial future more secure.

[1]*Withdrawals made prior to age 59½ may be subject to an additional 10% penalty tax.*

Should You Prep Your Portfolio for Inflation?

Although many economists project overall U.S. inflation to remain modest in the near future, most see an uptick down the road.

Economists and market watchers have been warning investors about the prospect of increased inflation since the housing bubble burst in 2007.

The dreaded "I" word has been cropping up more frequently lately, largely due to escalating commodity prices, which are pushing up consumer prices, both in the United States and abroad. At the beginning of 2011, the inflation rate stood at a paltry 1.6%. By November, it had more than doubled to 3.6%. It has remained at over 3% throughout the year -- peaking at 3.9% in September. And this could be just the start of a longer-term inflationary cycle.[1] With an improving economy and soaring federal deficits, many experts feel that prices in the United States will inevitably pick up their pace even further.

Inflation Rates Around the World (as of November 30, 2011)[2]

Country	Rate
Brazil	6.6%
Canada	2.9%
China	4.2%
Egypt	7.5%
Germany	2.4%
India	9.4%
Japan	-0.2%
Russia	7.0%
United Kingdom	4.8%
United States	3.4%
Venezuela	27.7%

Staying Ahead

For investors, staying ahead of inflation means choosing investments that are most likely to provide returns that outpace it. Here's a look at how a climbing inflation rate could impact various investment types and asset classes.

- **Domestic Stocks** -- Although past performance is no guarantee of future returns, historically, stocks have provided the best potential for long-term returns that exceed inflation. An analysis of holding periods between 1926 and December 31, 2010, found that the annualized return for a portfolio composed exclusively of stocks in Standard & Poor's Composite Index of 500 Stocks was 9.93% -- well above the average inflation rate of 3.01% for the same period. However, over shorter time periods the results are not as appealing. For the 10 years ended December 31, 2010, the S&P 500 returned an average of only 1.41%, compared to an average inflation rate of 2.33%.[3]
- **International Stocks --** During the same 10-year span that ended December 31, 2010, the Morgan Stanley Capital International (MSCI) EAFE, which is comprised of established economies such as Germany and Japan, outpaced U.S. inflation with an average return of 3.94%. The MSCI Emerging Markets index, which tracks developing world economies such as Brazil and China, was even more stellar, returning an average of 16.23%.[4]
- **Bonds --** Historically, investors have turned to shorter-term corporate and high-yield bonds for protection in rising-rate environments.[5] There are two types of bonds that receive a lot of investor interest when inflation starts

to rise: Treasury Inflation-Protected Securities (TIPS) and I Savings Bonds. Both TIPS and I bonds are types of fixed-interest rate bonds whose value rises as inflation rates rise.

- **CDs and Other Cash Instruments --** The Federal Reserve is still keeping a tight lid on interest rates, forcing investors who hope to keep pace with inflation by investing in cash instruments facing a harsh reality. The rates on a 1-year CD are averaging under 1%, while a 5-year CD is yielding an average of under 2%, according to Bankrate.com. Money market and other bank savings accounts are also averaging well under 1%.[6]

Although many economists project overall U.S. inflation to remain modest in the near future, most see an uptick down the road. For investors, a well-rounded portfolio may be your best weapon. The key is to consider your time frame, your anticipated income needs, and how much volatility you are willing to accept, and then construct a portfolio with the mix investments with which you are comfortable. Consult your financial professional to discuss your specific needs and options.

[1]*Source: U.S. Bureau of Labor Statistics, December 2011.*

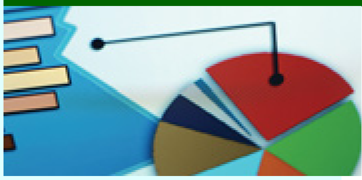
[2]*Sources: TradingEconomics.com and U.S. Bureau of Labor Statistics, December 2011.*

[3]*Sources: Standard & Poor's, U.S. Bureau of Labor Statistics. The S&P 500 is an unmanaged index. It is not possible to invest directly in an index. Past performance is no guarantee of future results.*

[4]*Source: Morgan Stanley. The MSCI EAFE and MSCI EM are unmanaged indexes. It is not possible to invest directly in an index. Past performance is no guarantee of future results.*

[5]*Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.*

[6]*Source: Bankrate.com, December 21, 2011.*



Even if your personal outlook hasn't changed, keep in mind that uneven returns provided by different investments may have caused your portfolio to shift from your intended asset allocation.

The Three-Step Retirement Plan Tune-Up

Conducting an annual review of your retirement goals and strategy is a great way to help ensure that your plans for your financial future remain realistic and on track. With that in mind, taking the three easy steps outlined below will help you conduct your retirement tune-up.

Step 1: Review Your Retirement Goals

Your first step should be to review your retirement savings goals and assess whether anything significant has occurred during the past year that might affect either your outlook for retirement or your current strategies to prepare for it.

For example, have you decided to change the date when you'll retire? Or have you experienced any new milestones such as getting married, divorced, or having a child? Any of these events may affect how much you will want to save to fund the retirement you envision.

Step 2: Take a Fresh Look at Your Retirement Strategy

Your portfolio's specific mix of stocks, bonds, and cash, known as your asset allocation, should complement your financial goals, risk tolerance, and time horizon.[1] If you haven't taken a fresh look at your investments in a while, don't assume that your old asset allocation is still appropriate for your current needs.

Even if your personal outlook hasn't changed, keep in mind that uneven returns provided by different investments may have caused your portfolio to shift from your intended asset allocation. Given the market volatility that has occurred since 2007, if you have not reviewed your asset allocation since that time, there may be a good chance that uneven returns have caused it to change. If your asset allocation needs to be rebalanced, now may be the time for action.

Step 3: Consider Saving More

None of us know what the future may hold. A good way to improve the odds that you have saved enough for retirement is to save more, no matter how prepared you may already be.

If you have not already done so, consider funding an IRA. For the 2011 and 2012 tax years, you can contribute a maximum of $5,000 and those aged 50 and older can make an additional catch-up contribution of $1,000. These limits are set annually by the IRS. More information can be obtained at www.irs.gov.

If you participate in a workplace-sponsored retirement plan -- such as a 401(k), 403(b), or 457 -- you can contribute up to $16,500 for 2011 and $17,000 in 2012. Those aged 50 and over can add up to another $5,500. If you are eligible for a plan at work, but haven't enrolled yet, what are you waiting for?

Conducting a retirement tune-up is always a great idea, but don't forget to consult with your financial advisor to discuss what else you can do to help achieve retirement security.

[1] *Asset allocation does not assure a profit or protect against a loss in a declining market.*