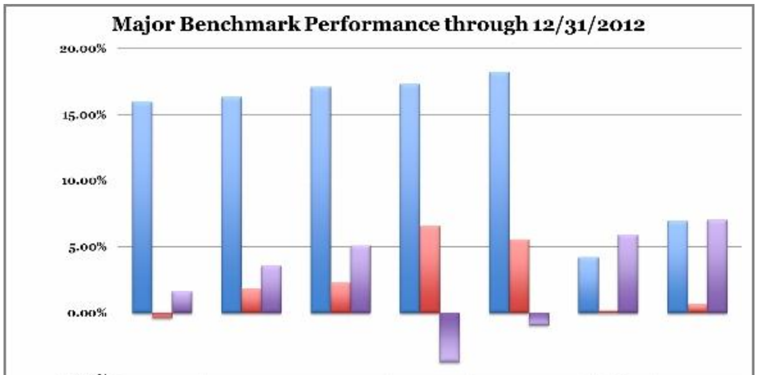
Overall, 2012 was a good year for market performance. Although the year was an uneven one, each broad asset categories that IFS includes in our diversified portfolios was up.



	S&P 500	US Small Cap	US REITs	Foreign Developed	Emerging Markets	US High Quality Bonds	TIPS
YTD	16.00%	16.35%	17.12%	17.32%	18.22%	4.22%	6.98%
4th Qtr 2012	-0.38%	1.85%	2.31%	6.57%	5.58%	0.22%	0.69%
5 Year (ann.)	1.66%	3.56%	5.08%	-3.69%	-0.92%	5.95%	7.04%

High quality fixed income was far outpaced by equities which is what we expect to see over long periods of time. To review, fixed income is intended to cushion your portfolio from downside volatility while equities provide growth but with added risk. As recently as 2011, it was fixed income that provided the positive returns in your portfolio. One other point about fixed income: we include foreign fixed income and TIPS (Treasury Inflation Protected Securities) and both categories handily beat the high quality fixed income benchmark.

The S&P 500 was up 16% in 2012. So, those investors who remained invested during the year were rewarded. However, there were plenty of stomach-churning events that drove many investors to cash:

- Problems in Europe (Greece, Portugal, Spain, Italy…)
- US presidential elections
- Concerns over whether the "Fiscal Cliff" issue would be resolved

We were not surprised that the "Fiscal Cliff" was resolved at the very last minute. Although we generally don't go out on a limb with our market prediction, we believe market volatility will continue. This prediction is based on the fact that the deal negotiated last week will result in another $4 trillion of debt over the next 10 years, the fiscal cliff deal does nothing to address long-term debt, and the debt ceiling debate is about to begin. On the bright side, we now have clarity on estate tax exemption and tax laws (as was addressed in our email of January 8th).

Despite volatility now being a way of life, we believe that equities remain an important and valuable element of a balanced portfolio based on the historical and potential growth of equity markets. Below are some factors that make it bullish for the long term

- The housing market continues to recover
- The most recent jobs report shows a "slow and steady" recovery, the unemployment rate remains at 7.8% although 155,000 jobs were added in December. The Federal Reserve has indicated it will not raise rates until the unemployment rate is closer to 6.5% which probably will not happen until well into 2014.
- Corporations have strong balance sheets (ample cash).

While there are plenty of reasons for investors to have concerns, we do not see any reason to stray from a long-term strategy of a diversified portfolio consisting of both equity and fixed income funds. We are committed to working with you to help navigate uncertain financial markets, in addition to providing financial planning as the framework to make your long-term investment decisions.