



MARKET UPDATE

Hi-Ho Silver!

The month of April welcomed positive corporate earnings that resulted in nice gains for the stock market. The S&P 500 turned in a 3.0% performance for the month, which left the broad market index up 9.1% for 2011. [S&P500 trailing 12 month return is 17.2%] Perhaps the most impressive gains were in the metals markets. Gold crossed the \$1,500/oz. mark in the process of posting new all-time highs, and Silver neared the \$50 mark - a height not seen in over 30 years. Silver has returned nearly 30% in April alone and up roughly 70% since the beginning of February.

Domestic economic news was tepid, as first quarter GDP was lowered due to a drop in government spending a slowdown in personal consumption. However, housing sales increased and there was positive news on the employment front. We feel it is important for investors to remain positioned to not only capture the upside associated with continued growth, but to also protect against the downside risks.

While global headlines continued, they seemed less dramatic than earlier in the year. Clean up efforts continued in Japan and unrest remains in the MENA (Middle East/North Africa) region. Perhaps the biggest domestic event was the narrowly averted U.S. government shutdown. This was followed by a report issued by Standard & Poor's that placed U.S. Debt on a negative watch, and indicated the potential downgrade from its current AAA status if budget shortfalls are not addressed. Keep in mind, Standard & Poor's (along with Moody's and Fitch) had also given AAA ratings to the mortgage backed securities at the center of the 2008 crisis, and "investment grade" status to Enron right up to their bankruptcy. Credibility of the rating agencies aside, this potential downgrade intensifies the current budget debate around debt, deficits, and spending, and puts a deadline of roughly two years to get things in order. Typically, a two-year deadline is given before a rating downgrade.

After April's FOMC meeting last week, Federal Reserve Chairman Ben Bernanke held a first ever post FOMC meeting press conference. He reaffirmed the Fed's plan to end the current Quantitative Easing program, "QE 2," at the end of June as scheduled, and also reaffirmed his position that the inflationary fears expressed in the marketplace are not warranted. Quantitative Easing is the economic stimulus program that has been employed since 2008.



Investment Outlook Summary

Asset Class	Outlook	Commentary
Cash / Stable Value	<ul style="list-style-type: none"> - In general, higher than normal levels of cash 	<i>Even though money market rates are basically zero, having investments with high safety and liquidity provides access when opportunities arise, and stability when markets turn volatile.</i>
Bonds / Fixed Income	<ul style="list-style-type: none"> - In general, shifting from slight overweight to slight underweight exposure of bonds - Cautious of Treasuries for the long-run - Positive on Treasury Inflation-Protected Securities (TIPS) - Slightly positive on floating rate bonds - Positive on emerging market bonds 	<p>Many bond mutual funds have enjoyed great gains, along with record inflows from investors during this latest "flight to safety." It may be time to look for fixed income investments outside of the traditional mutual fund.</p> <p>Primarily used for safety, but with yields at historic lows and the risks of future inflation present, treasury owners may not be paid adequately for the potential risk.</p> <p>Essentially, these are treasury notes with an interest rate tied to inflation. Used for safety, but the future interest paid will increase with inflation.</p> <p>A rising interest rate environment is positive for floating rate investments. <i>Floating rate investments have risen in value due to the expectation of higher rates.</i></p> <p>As this asset class develops and matures, there will be great potential for investors over the coming years. <i>They have benefitted recently from a weakening dollar.</i></p>
Stocks / Equities	<ul style="list-style-type: none"> - In general, shifting from underweight to normal levels of exposure of stocks - Neutral on preferred stocks - Positive on dividend paying stocks - Utilizing covered call strategies to hedge - Selective of international stocks - Positive on Korea, Brazil, Canada and Australia. <i>Cautious of China</i> - Avoid much of Europe, the U.K., and Japan 	<p>Pullbacks should be seen as an opportunity to increase stock exposure to neutral levels, that is neither underweight nor overweight.</p> <p>Preferred share class stocks have performed well and seem to more than fairly valued.</p> <p>Many of the traditional dividend paying companies are more attractively valued than the general stock market.</p> <p>Covered call options strategies can provide extra income to your portfolio while you own stocks.</p> <p>International diversification is still very important to your portfolio, however individual country selection will likely play an increasing role in international stock performance.</p> <p><i>While the long term opportunities remain with emerging market economies, resource rich countries like Canada and Australia provide the building blocks the world needs in order to grow.</i></p> <p>Current solutions appear to be a band-aid to a much larger problem inherent in a shared currency. <i>The story hasn't changed.</i></p>
Alternate Assets	<ul style="list-style-type: none"> - Positive on Gold and Silver - Negative on the Euro - Positive on energy trusts 	<p>Primarily used as an inflation and currency hedge. The risks of global currency dilution are present. <i>Gold continues its climb to new highs. Silver is up 70% since the beginning of February, however it has yet to close above its all-time high of roughly \$50/oz. made in January of 1980.</i></p> <p><i>European sovereign risks seem to fade into the background for a few months, then reemerge to center stage with the same issues over and over again.</i></p> <p>Many energy trusts provide a good dividend source with the potential for capital gains. Looking more attractive.</p>

Italics denote a change from last month

The Investment Tax Landscape: Countdown to 2013

In December 2010, Congress extended the Bush-era tax cuts by passing the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. However, for investors, the legislation may represent not a pardon but a stay of execution. While it's true that federal tax rates on income, qualifying dividends, and capital gains have been extended through the end of the 2012 tax year, many of the issues that influenced the debate over tax rate extensions will continue to be the subject of heated discussion. As a result, investors have been granted a reprieve while Congress wrestles with those issues. That's time you can use to think about how best to position your portfolio.

The can won't stay kicked down the road forever

Why should you look at the time between now and 2013 as an opportunity? Because the U.S. budget deficit is at levels that both political parties recognize can't be sustained long-term. In 2010, a presidential budget commission recommended addressing the problem through a combination of spending cuts and tax increases. Though the proposals didn't get enough support to be submitted to Congress, the deficit problem hasn't gone away. Even if Congress can agree on budget cuts, the possibility of higher taxes in the future can't be ruled out.

There are several categories of investors who should be paying particular attention to the planning process in the coming years. They include people with investments that have appreciated substantially in value; people who rely on dividends and bonds to provide them with ordinary living expenses; and people who are considering investing in the newly issued stock of a small business.

Capital gains and dividends

The tax cut extensions gave investors who have large unrealized capital gains some breathing room. Rather than a top tax rate of 20%, long-term capital gains will generally continue to be subject to a maximum rate of 15%, and the rate for investors in the lowest two tax brackets will remain at zero. If you own investments that have appreciated substantially in value and that now represent a bigger portion of your portfolio than you'd like, you have another chance to examine whether it makes sense to unwind those investments before the end of 2012. Taxes obviously are only one factor in making such a decision, of course. However, if you've been considering selling an asset anyway, you've got some time to plan and gradually implement a strategy for doing so.

Two points worth remembering: first, unless further action is taken, the top long-term capital gains rate will increase to 20% after 2012 (a top rate of 10% will apply to investors in the 15% tax bracket); and second, even at the increased level, the rates on those gains would still be relatively low. As recently as 1986, under President Ronald Reagan, the Tax Reform Act of 1986 provided for capital gains to be taxed at the same rates as ordinary income, with a top rate of 28%. To paraphrase Mark Twain, no one is safe when Congress is in session, and there's no guarantee that the top capital gains rate after 2012 might not be increased beyond the scheduled 20% maximum.

Qualified dividends will continue to be taxed through 2012 at the long-term capital gains rates rather than as ordinary income, as they were before 2003 and are scheduled to be again beginning in 2013. The higher your tax bracket and the more reliant you are on dividends for your income, the more you should be aware of the potential impact if that income were subject to higher taxes. Again, many factors will affect your decision about the role of dividends in your portfolio, including the potential for higher interest rates in the future. However, doing some "what-if" analysis might be useful.

Taxable vs. tax-free bonds

Taxable bonds typically pay higher interest rates than municipal bonds. However, if you're in a relatively high tax bracket or expect to be in one in

the future, munis can potentially offer a better after-tax return. They may be worth a second look between now and 2013, when--separate from any potential increase in federal income tax rates--the unearned income of people making \$200,000 a year (\$250,000 for couples filing a joint return) is scheduled to be subject to a new 3.8% Medicare contribution tax. Absent further legislative changes, that could make munis even more attractive for affluent investors.

However, as with any investment decision, there are many factors to consider. Local and state governments have come under severe financial constraints in recent years, and though the default rate on muni bonds has historically been low, default by individual governmental bodies is always possible. Also, the legislation that extended the tax cuts did not authorize continued issuance of Build America Bonds (BABs) beyond 2010. During the almost two years BABs were authorized, many local and state governments used them to tap the taxable bond market; that temporarily reduced the issuance of new tax-free munis. However, since BABs can no longer be issued without further authorization from Congress, the supply of new munis may increase, which could affect prices. Finally, interest rates have been at historic lows since the end of 2008; since bond prices move in the opposite direction from their yields, rising interest rates would not be good news for bond prices.

Tax break for qualifying small business stock

To help small businesses raise capital, the Internal Revenue Code offers a tax break for investments in businesses that meet certain qualifications. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended the exclusion of 100% of any capital gains on the sale of qualified small business stock. The 100% exclusion now applies to qualifying stock issued after September 27, 2010 and before January 1, 2012.

The 100% exclusion is higher than that previously available. Prior to the 2010 legislation, the exclusion amount for a qualifying small business investment was generally 50% of the capital gains on stock issued between August 10, 1993, and February 17, 2009, or 75% for stock issued after February 17, 2009, and before September 28, 2010.

If you're interested in making an investment that qualifies for the exclusion, you should be aware of some of the restrictions that govern it.

There are limits on the total amount of gain that is eligible for the exclusion. There also may be special considerations if you roll over the gain from the sale of your stock to another qualified small business stock, or if you receive qualified stock as part of your deferred compensation plan. Consult a financial professional about your specific situation.

2013 and beyond

The nation's financial pressures will almost certainly mean continued adjustments to the tax code as 2013 approaches. Though there are no guarantees about what will happen when the new provisions expire, investors generally have another chance to fine-tune their planning efforts while taxes remain historically low. If a bird in the hand is worth two in the bush, why not get expert help in taking advantage of the opportunities available now?

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SDW's TAKE

While the current tax landscape is not set to change until the end of 2012, proper understanding of tax implications can assist in making the best possible tax and investment decisions for the future. However, one must remember the old financial adage, *Don't let the Tax-Tail wag the Investment-Dog*. In other words, don't make investment decisions based solely for tax reasons.

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