ASCEND
Investment Management, Inc.
*Ascend to your financial potential*

# QUARTERLY INVESTMENT REPORT
## September 30, 2012

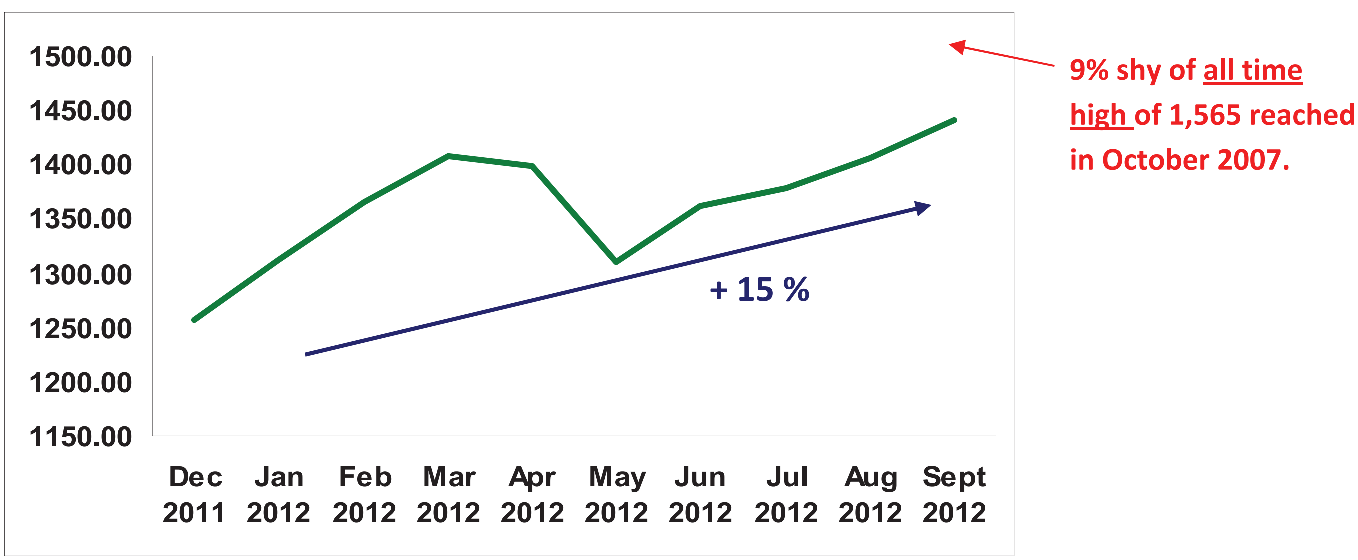
Dear Investor:

National Debt: huge
\+ Fiscal Cliff: looming
\+ Unemployment: frustrating
\+ Economic Growth: weak
\+ Europe & China Slowdown: threatening
<u>+ Potential War with Iran: frightening</u>

**= Stock Market: optimistic!?!**

For many it's difficult to reconcile the 15% price return in stocks this year so far, given the economic and global backdrop. If it were possible (which it's not!) to accurately predict market cycles, the bears earlier in the year would have held a cogent argument for urging investors to pull back from stocks. And those bears, like many investors with piles of cash sitting on the sidelines, would have been dead wrong.

**S&P 500 Price Performance**
**12/31/11 - 9/30/12**






610.547.3618 ellen@ascendinvmgt.com www.ascendinvmgt.com

## There are several explanations for why stocks have rallied this year:

- **Stocks are reasonably priced.** They were trading at Price to Earnings multiples (PEs) of 14X earlier in the year and currently trade closer to 16X on trailing 12 months of earnings and 15X on forward 12 months. That's close to the average for PE multiples historically. Stock earnings grew at double digit rates in 2011. Expectations for continued earnings growth in 2012 coupled with reasonable PE multiples kept stocks looking attractive.

- **Government policies keep interest rates low.** With short-term interest rates already set close to zero, the government has been buying treasury and mortgage bonds of various maturities periodically since the end of 2008. The objective is to increase the supply of money in the banking system to jumpstart lending. The most recent Quantitative Easing (QE3) is open-ended, which means there is neither a predetermined amount of purchases nor a stated end date to the purchases. The Federal Reserve's goal is to continue until the labor market "improves substantially". **Though the macroeconomic impact is likely to be limited, QE3 is extremely stock market friendly**.

- **The housing market is getting stronger.** Existing home prices increased 10% over the last seven months. Despite the sluggish job market and risks of a fiscal cliff, people are becoming more comfortable with buying both new and existing homes due to more affordable prices, record low mortgage rates, and moderate job gains. A stronger housing market is good for jobs, consumer confidence and household wealth, and the financial industry. And this is good news for stocks.

## What can go wrong?

**If weakness in Europe and China gets too out of hand it could push us towards another recession.** Greece is still in danger of being forced out of the Eurozone, progress towards a European banking union remains very slow, and the Eurozone could fracture. Having said that, we think European leaders understand the dismal consequences of a break up and are hell bent on proving that the Euro is unbreakable. China remains an important engine of growth globally even though its economy has slowed down quite a bit. The Chinese government continues to pump money into their economy and, though further slow-down is a risk, we don't put high odds on it over the next several years.

**We could fall off that dastardly fiscal cliff.** The Bush 2001 and 2003 tax cuts are set to expire on December 31, 2012 which *would raise income tax, dividend, and capital gains tax rates for middle-class and wealthy tax payers. It would also impose more than $100 billion of spending cuts across the board*. Economists warn of a severe economic slowdown or recession if nothing is done. The benefits from a substantial reduction in our national debt would be overshadowed by the blow to economic growth from higher taxes and more job losses.

We think something will get done after November no matter who wins the election. On the back page we highlight how individuals may be affected by (1) our politicians doing nothing when the Bush tax cuts expire, (2) Obama's tax plan, and (3) Romney's tax plan. We also review how the Affordable Care Act will affect taxpayers.

There may be a danger of our economy falling into another recession but we think this risk is low. Housing is on a much firmer footing, car sales are stronger, gasoline prices are set to drop, and the Fed's QE3 program will keep money cheap for as long as takes until businesses spend freely again. (We will save commentary about credit and inflation issues associated with our skyrocketing national debt for a future newsletter.)

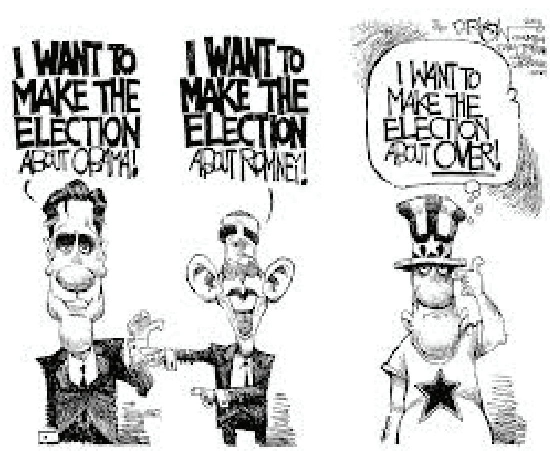
We think it's an inefficient use of our time to spend too much of our energy worrying about the economy and choose rather to focus on keeping our nose to the grindstone to ferret out the safest stocks and bonds to own for growth and income.

It's certain that we can't know ahead of time when stocks will turn south. We are careful to maintain portfolio protections that keep assets balanced and strong through both economic clear skies and ill-winds. In other words, we care most about minimizing risk in our portfolios while remaining invested in the markets.

We expect the current strength in stocks to persist into 2013. Just as stocks typically fall too far vis-à-vis their intrinsic values in bear markets, stocks often climb too high vis-à-vis their intrinsic values in bull markets. Though the market appears over-due for some good old-fashioned volatility, we think this bull's got a bit more charge in him.

Sincerely,

Ellen P. Le, CFA
President






610.547.3618 ellen@ascendinvmgt.com www.ascendinvmgt.com

# THE TAX PLAN COMETH

In the chart below we focus on payroll tax, income tax brackets, dividend tax rates, and capital gains tax rates. There are several other tax areas up for debate including tax credits, allowable deductions, alternative minimum tax, estate tax, and corporate tax.

*Note: Politicians are involved.*
*Please take the Obama and Romney proposals with a huge grain of salt.*

| | Current | Bush Tax Cuts Expire (Fiscal Cliff: 1/1/2013) | Obama's Plan | Romney's Plan |
|---|---|---|---|---|
| **Payroll Tax** | A Payroll tax for Social Security is assessed on earned income. Typically employers and employees each pay 6.2% of employee income. Higher income people are less affected since maximum income assessed is $110,100 (for 2012). Obama had extended the Bush Payroll tax cut which had decreased employee tax from 6.2% to 4.2%. | Payroll tax will revert to 6.2% of income (up to $110,100 of income). | Current Payroll tax rate of 4.2% may possibly get extended. | Payroll tax cut will likely not get extended, and would revert to 6.2%. |
| **Income Tax** | There are six income tax brackets. | Two higher tax brackets would be added. | Two higher tax brackets may be added. | All income tax rates may be lowered. |

| Tax Brackets (2013 Dollar Amounts) | | | | Marginal Rate | | | |
|---|---|---|---|---|---|---|---|
| Single Filers | | Married Joint Filers | | | | | |
| Over | But Not Over | Over | But Not Over | CURRENT | CLIFF | OBAMA | ROMNEY |
| 0 | 8,900 | 0 | 17,800 | 10% | 15% | 10% | 8% |
| 8,900 | 36,150 | 17,800 | 72,300 | 15% | 15% | 15% | 12% |
| 36,150 | 87,550 | 72,300 | 145,900 | 25% | 28% | 25% | 20% |
| 87,550 | 182,600 | 145,900 | 222,300 | 28% | 31% | 28% | 22.4% |
| 182,600 | 212,850 | 222,300 | 266,100 | 33% | 36% | 33% | 26.4% |
| 212,850 | 397,000 | 266,100 | 397,000 | 33% | 36% | 36% | 26.4% |
| 397,000 | ... | 397,000 | ... | 35% | 39.6% | 39.6% | 28% |

| | Current | Bush Tax Cuts Expire (Fiscal Cliff: 1/1/2013) | Obama's Plan | Romney's Plan |
|---|---|---|---|---|
| **Qualified Dividend Tax** | Dividend tax rate is 0% for filers in the 10% and 15% marginal tax brackets and is 15% for filers in all other tax brackets. | Dividend tax rate would be the same as income tax bracket rates: 15%, 28%, 31%, 36%, 39.6% | Dividend tax rate would likely be 0% for filers in the 10% and 15% marginal tax brackets. The rate would be 15% for filers in the 25%, 28%, and 33% tax brackets, and 20% for filers in the 36% and 39.6% tax brackets. | Dividend tax rate would possibly be 0% for filers earning less than $200,000 and 15% for everyone else. |
| **Long-Term Capital Gains Tax** | Long-term (assets held for more than one year) capital gains tax rate is 0% for filers in the 10% and 15% marginal tax brackets and is 15% for filers in all other tax brackets. | Long-term capital gains tax rate would be 10% for filers in the 10% and 15% marginal tax brackets and would be 20% for filers in all other tax brackets. (Assets bought after 2000 and held for more than five years, would be taxed at 8% for filers in 10% and 15% tax brackets and at 18% tax for filers in all other tax brackets.) | Long-term capital gains tax rate would possibly remain 15% for single filers earning less than $200,000 and married joint filers earning less than $250,000, and 20% for everyone else. | Long-term capital gains tax rate would possibly be 0% for individuals earning less than $100,000 and married joint filers earning less than $200,000 and 15% for everyone else. |
| **Medicare Contribution Tax** | A Payroll tax for Medicare of 2.9 % is assessed on earned income. Employers and employees each pay 1.45%. There is no salary cap on this. | No change to this Payroll tax for Medicare. | On 1/1/13 The Affordable Care Act increases the Payroll tax for Medicare by .9% on earned income. A new 3.8% tax on investment income will be initiated. These additions apply to single filers earning more than $200,000 and married joint filers earning more than $250,000. | These additional .9% and 3.8% taxes would likely be eliminated. |



610.547.3618 ellen@ascendinvmgt.com www.ascendinvmgt.com