Financial markets did very well in 2012, with stocks returning 16%-18%, which is significantly above long-term averages. During the fourth quarter markets seemed to cling to an assumption that the fiscal cliff would be averted, or at least end in something less than a catastrophe. Domestic stocks ended the quarter very close to where they started, despite a bumpy ride on the hopes and fears related to the fiscal cliff and other issues. International stocks, on the other hand, had a great quarter as bad news about the Euro crisis gave way to cautious optimism. So after lagging for the first three quarters of the year, international stocks’ 2012 performance slightly exceeded that of the broad U.S. market.

Bonds had another surprising year, showing that low interest rates can go even lower. The broad bond market had returns exceeding 4% with yields under 2%, meaning bond values appreciated as rates came down. Someday this process will reverse itself. When interest rates rise, depreciating bond values will easily overwhelm low yields producing negative bond market returns. A reasonable predictor of bond market returns over the next decade is the current interest yield, making 2% annualized returns a realistic expectation.

Balancing the Doom and Gloom
Stories about a “new normal” and near-zero growth expectations for the U.S. economy have circulated widely in the financial press. Some of these stories are based on complicated economic analyses, but many, in the end, extrapolate our recent experience and conclude that our economic future will be disappointing.

If we are really in so much trouble, why does the market not reflect this expectation of gloom? The media loves doom and gloom. In fact “good news” seldom makes the news. Unless it is coverage of SU’s bowl victory, or Coach Boeheim’s 900th win, the 11 o’clock news is generally about things we wish never to happen.

Impressive Growth of Fee-Only Advisors by Tony Farella

As we start a new year filled with promise, I would like to share our story with you. We view Rockbridge Investment Management as a community of talented professionals and clients who value our services. Working together with our clients we hope to fulfill our collective goals of financial independence and well being.
Impressive Growth of Fee-Only Advisors (cont.)

can have a significant impact. Everything we do is focused on building and preserving wealth for our clients. We help remove complexity so clients can focus on the simple but often difficult process of successful investing.

Firm Growth
Our growth over the past three years has been steady and significant. At the end of 2009 we served 457 clients. Today we have 562 clients and an annualized growth rate of 8% per year. The leadership team is committed to growing the firm by adding professionals who are passionate about our philosophy and vision. We want the firm to endure for the long run and we have the capacity for steady growth. Our succession plan is designed to include our younger advisors in the ownership of the firm over time.

Strategic Plan
Our firm continues to grow organically through referrals from our existing clients and professional relationships. As a team we meet twice a year to evaluate and discuss our strategic goals for the business. While investment management remains the focus of the firm, we recognize the need for risk management, tax and estate planning, so we continue to build our network of referable professionals to address the varied needs of our clients.

New Advisors
In 2012 we added two advisors to our team of professionals. Geoff Wells started in October after relocating back to Central NY from Texas. Geoff completed the Certified Financial Planning coursework and passed the CFP exam last year.

Scott Poppleton, a Manlius resident, joined us in November after several years in the military and the defense industry. Scott has a passion for financial planning and is developing a second career helping others achieve their financial goals.

To learn more about Geoff and Scott, visit www.rockbridgeinvest.com/who-we-are/

Communications
New technologies have given us more opportunities to tell our story and add valuable services. We invested heavily in our website as a way to communicate important information to our clients in a more timely manner. The website also tells the story of our firm and attracts people who are literally searching for fee-only objective advice. We have no plans to advertise our services and rely on our community of clients to refer others in their own personal or professional networks.

The need for objective advice and professional investment management has never been greater in our history. We are well positioned to serve our clients and help more people who turn to us for advice in the future. We truly appreciate your trust in us and we all look forward to building our community together. Happy New Year!

Geoff Wells – After several years into his aerospace career, Geoff’s interest in financial planning grew from assisting friends and coworkers with their retirement plans. Geoff completed his Finance (M.S.) and MBA degrees from the Kelley School of Business at Indiana University after finishing his Mechanical Engineering degree from SUNY Buffalo. He is currently a candidate for the Certified Financial Planner™ certification having completed his coursework and examination.

Scott Poppleton – Scott is passionate about helping clients develop financial plans to meet their goals. A retired Air Force pilot and previous Business Development Manager with Lockheed Martin, his experience has taught him the extraordinary value of simple, unbiased, world class financial advice – all enabled by Rockbridge’s “fee only” business model. Scott is a Distinguished Graduate of the U.S. Air Force Academy (BS in Civil Engineering) and holds an MBA from Rensselaer Polytechnic Institute (RPI).
Schools and parents have always taught students to strive for A’s and B’s. In fact, it would be hard to do well in school without using grades as goals or milestones. Unfortunately after school, grades fall off the radar. By translating retirement savings into something as simple as a letter grade, retirement preparation can be seen in a new light.

The current rule of thumb is to save 10%-15% of your salary throughout a career for retirement. This general guideline often gets trumped by real life events: kids, a new house, emergencies, etc. In addition, television commercials are now touting a very large “retirement number” that often looks extremely intimidating and confusing. With these generalized recommendations, it is often too vague to figure out if you are really on track for retirement.

Applying a letter grade to your savings will provide a new way to look at your retirement preparedness. This article’s model uses a simplified grading scale with each letter grade assigned a level of spending in retirement. A grade of “A” means you have enough savings to replace 100% of your pre-retirement spending for the rest of your life when factoring in other income sources such as Social Security. A grade of “B” would correspond to 90% of pre-retirement spending on down to a grade of “F” which would represent only 60% of pre-retirement spending.

What’s Your Grade?
To find your personal savings grade, you first need to calculate your savings multiplier. For example, if you have $250K in savings and $90K in spending ($100K salary minus $10K yearly savings), then the savings multiplier will be 2.8 ($250K savings ÷ $90K spending = 2.8). The table is broken down by 5-year age brackets and letter grades of A through F. For a 45-year old, this savings level would be equal to a grade of B.

Now that your retirement savings have been graded, is it better or worse than expected? If you received a poor grade, the easiest way to fix this would be to increase your employee retirement plan contribution percentage. In addition, yearly contributions to an Individual Retirement Accounts (IRAs) would also improve your grade over time.

Our motto here at Rockbridge is “Building Wealth with Simple Disciplines” and we have been doing that for clients for the past 20 years. Grading your retirement picture is just another way that Rockbridge can help you simplify and achieve your financial goals.

Assumptions/Customization
- Married couple earning $100K/year and saving $10K/year ($90K/year spending)
- A real market return rate of 5%, which takes into account inflation
- For illustrative purposes only, upon retirement, all assets are converted into a paycheck for life via an immediate annuity paying 6%
- Social Security makes up $36K/year of retirement income needs for this couple

To customize this table for your personal situation, compare your spending level to the model. If expenses are greater than $90K/year, then you will need to save more than the table lists. In contrast, if you have a company pension, you will be able to save slightly less.
**Market Commentary (cont.)**

So to provide some balance, I am pleased to report that at least a few people hold contrary viewpoints.

In a recent article, Laurence B. Siegel writes, “We have heard concerns about the permanent slowing or stopping of global growth after every depression or severe recession. In the 1890s, the idea was circulated that everything worth inventing had already been invented. In the 1930s, it was popular to say that capitalism had created the mechanism of its own destruction. In the 1970s, concerns focused on foreign competition and resource constraints, and some people forecast mass starvation. Today’s concerns are no different in principle, and they are no more realistic.”

In a video and transcript recently posted by Vanguard Chief Economist Joe Davis, he makes a strong case for optimism about the future. In a theme shared with the Siegel article, he talks about the three industrial revolutions experienced in the U.S. The first started with the invention of the steam engine, which changed manufacturing and revolutionized transportation. The second started with the invention of the light bulb, which led to wide-ranging innovations that revolutionized many aspects of American life. The third revolution he attributes to the invention of the microprocessor in the early 1970s.

As happened in the first two industrial revolutions, Davis argues that we are now in a lull of the third, which is likely to be followed by a resurgence of innovation and investment, based on the global application of still evolving technology. He makes a strong argument for optimism.

We could experience more of the recent past, with sluggish growth and high unemployment, or we could see a return to more normal growth rates, driven by innovation and investment as suggested by Joe Davis. Neither scenario is certain. When markets seem inconsistent with the drumbeat of media, remember to listen for the whispered viewpoint of the contrarian. The future is never certain, but the better we can understand that a range of outcomes is possible, the less likely we are to be caught by surprise, and be unprepared for a future that is different than the recent past.

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**Returns from Various Markets**
The following table shows the returns from various markets over periods ending December 31, 2012:

<table>
<thead>
<tr>
<th>Market/Asset Class</th>
<th>Quarter</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money Market</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>0.5%</td>
<td>1.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Bond Market</td>
<td>0.4%</td>
<td>4.8%</td>
<td>6.7%</td>
<td>6.1%</td>
<td>5.2%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Large-Cap Stock Market</td>
<td>-0.4%</td>
<td>16.0%</td>
<td>10.9%</td>
<td>1.7%</td>
<td>7.1%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Small-Cap Stock Market</td>
<td>1.9%</td>
<td>16.3%</td>
<td>12.2%</td>
<td>3.6%</td>
<td>9.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td>International Equity Market</td>
<td>6.6%</td>
<td>17.9%</td>
<td>4.0%</td>
<td>-3.2%</td>
<td>8.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5.6%</td>
<td>18.6%</td>
<td>5.0%</td>
<td>-0.6%</td>
<td>16.9%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>2.3%</td>
<td>17.1%</td>
<td>17.9%</td>
<td>5.1%</td>
<td>11.5%</td>
<td>10.9%</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.1%</td>
<td>1.9%</td>
<td>2.1%</td>
<td>1.8%</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

**Market Benchmark Portfolios**
The following table shows returns from our market benchmarks over periods ending December 31, 2012:

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Quarter</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Preservation</td>
<td>0.4%</td>
<td>3.9%</td>
<td>4.2%</td>
<td>3.3%</td>
<td>4.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Conservative</td>
<td>1.0%</td>
<td>7.4%</td>
<td>6.2%</td>
<td>3.7%</td>
<td>5.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Moderate</td>
<td>1.6%</td>
<td>10.7%</td>
<td>8.0%</td>
<td>3.8%</td>
<td>6.7%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Aggressive</td>
<td>2.1%</td>
<td>13.1%</td>
<td>8.3%</td>
<td>2.6%</td>
<td>7.2%</td>
<td>7.6%</td>
</tr>
<tr>
<td>All Equity</td>
<td>2.8%</td>
<td>16.2%</td>
<td>8.1%</td>
<td>0.4%</td>
<td>7.9%</td>
<td>7.5%</td>
</tr>
</tbody>
</table>

Note: These results were developed by simulating past returns in the various markets included in each benchmark, assuming the reinvestment of dividends and other earnings and deductions of costs totaling 0.20%. The money market is represented by 90-Day Treasury Bills; the bond market by the Barclays Capital Government/Credit Bond Index; the domestic large cap market by the S&P 500; the domestic small cap market by the Russell 2000 Index; the emerging markets by MSCI Emerging Markets Index; the real estate market by Dow Jones US Select REIT Index; and the international equity market by the EAFE Index. This data is presented to show the long-term relationship between returns at various levels of investment risk. It is not intended to present performance results experienced by clients of Rockbridge Investment Management, but is intended to provide a benchmark against which actual performance might be judged. Also, readers should recognize that future investments would be made under different economic conditions. It should not be assumed that future investors would experience returns, if any, comparable to those shown above. The information given is historic and should not be taken as any indication of future investment results.