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Federal health care reform legislation, recently passed by Congress and signed by the President, will expand the availability of health care coverage to millions of Americans. While some of the measures will be implemented this year, many do not take effect until 2014 and some extend out to 2020.

So, what does all of this mean for investors?

We need to recognize that in discussing this issue, like any other issue in investing, it is critical to leave politics and emotion to one side. These comments are solely focused on the investment implications of this legislation.

Taxes: The most obvious quantifiable impact of the bill is an increase in taxes for upper income Americans, particularly on investment income. Starting in 2013, the Medicare tax rate on households with income over \$250,000 will be increased from 1.45% to 2.35%. In addition, a new 3.8% Medicare tax will be introduced for the same group on investment income.

Currently, the tax rate on dividends and long-term capital gains is 15%. In 2011, those rates are expected to rise to 20% for households earning over \$250,000, and with the new Medicare tax, these rates will rise to 23.8% for the same group.

The economy: Despite dire predictions, it's not clear that health care reform will really slow economic growth that much. Most of the tax provisions don't kick in until 2013 and the mandates on businesses and individuals don't kick in a big way until 2016. Between now and then, the economy is quite capable of staging a full cyclical recovery. It may be that businesses will, in the end, be forced to pay more for the health care of their workers – however, overall, American business is quite capable of limiting wage increases to add to benefit costs. It may be that America as a society ends up spending more on health care. However, if we spend more on health care and less on housing or education or hamburgers, that is our choice. The jobs created in the health care field are, for the most part, American jobs and still some the highest skilled and best paid jobs out there. It should be noted, however, that to the extent that the government incurs more debt to pay for higher health care costs, it probably does mean higher long-term interest rates.

Medical care industry: For the medical care industry, this bill will expand demand without much effort to rein in costs. A combination of federal subsidies and mandates will increase the pool of insured individuals, and while there are many constraints preventing insurance companies from limiting coverage, there are few that limit how much they can charge for it.

Federal deficit: According to the Congressional Budget Office, the passage of this legislation would reduce federal deficits by a cumulative \$143 billion between 2010 and 2019 and by greater amounts in the following decade. However, these estimates should be taken with more than a grain of salt. It is obviously very hard to estimate what total federal health care spending will be over the next decade. However, whatever else is said about this bill, there is nothing in it to suggest a reduction in either the quantity or prices of health care services consumed.

- ◆ There is no meaningful malpractice reform.
- ◆ There is no reduction in drug patent lives.
- ◆ There is no compulsion to force insurance companies to compete across state lines.
- ◆ There is no effort to limit health care procedures in the last year of life.
- ◆ There is no movement in the direction of forcing consumers to confront the cost of services at the point of purchase, and,
- ◆ There are no meaningful incentives to force the insured to take better care of their own health. †

Visit our website, www.elsass-efg.com, for more information on investing and this topic.

† J.P. Morgan Asset Management - March 22, 2010

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MARKET UPDATE

We wanted to send a quick note regarding the recent stock market activity we have seen. A recent headline said market volatility was up recently – we had to laugh a little, as that was certainly an understatement. The market's rise over the past 12+ months had been marked by fairly low volatility, though recently we have seen very large swings again in the stock / financial markets. The tension and investor concerns over a possible pullback have, in our opinion, seemed to have been looking for reasons for such a correction. Although there are numerous possible issues to point to for a cause for the recent volatility, much of this is due to concerns over European (Greece in particular) sovereign debt issues. We hope the news reporting going forward tells complete information and not just some of the sensationalized headlines we have heard / seen (though we wouldn't count on it), as I think this adds to the fear and uncertainty that often contributes to these swings.

As we routinely do, throughout various market environments, we have continued to follow comments and research from a number of the managers we follow. In addition, we hope our clients can somewhat separate financial market performance from their portfolio performance, as they are not necessarily the same. While it is important to pay close attention to the news, it is also important to be sure your portfolio allocation fits your risk tolerance and is aligned with your financial goals. There is a tremendous amount of information and news being distributed and discussed -- especially in times as these. We are more than happy to spend some time on the phone with any of you who may have concerns or questions during this time. Please call us if we can assist you.

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ENVISIONING THE YEAR 2020

ERIC ELSASS, LUTCF

Back in 1899, Charles H Duell said, "Everything that can be invented has been invented." You might think to yourself, 'who was this guy, someone with no pulse on the innovative spirit of the American people or human race.' Hardly, Mr. Duell was the Commissioner of the U.S. Office of Patents.

We all know he could not have been more wrong in his statement. From medicine, transportation, to communications, there's hardly an area of our lives that's not been improved through invention and/or innovation over the past 110 years. Look at music reproduction, from Edison's Phonograph, to vinyl records, 8-tracks, cassettes, CD's, to current MP3 players. I think about my father's vast collection of vinyl albums which takes up a wall in his home to my equally large CD collection filling numerous drawers and shelving space. Then I look at my son's iPod that holds almost as much music as our collections, yet fits in his pocket AND plays videos!!

So what does this have to do with investing in the 21st century? It's all about optimism and vision versus pessimism and shortsightedness. Many individuals find themselves one decade into the new century thinking like Mr. Duell, "We've done it all, what could we possibly invent that we haven't already done?" This negativity directly translates to what we do with our investment dollars, especially with the market volatility of the past 10 years.

However, as with invention and innovation, when we look at historical investment returns in the S&P 500 Index for 10 year periods over the past 75 years, 95%¹ of those have been positive, with only 4 negative periods ending in '38, '39, '08, and '09. Annualized returns for that same time period were positive 71%¹ of the time, a good reminder of the long term mindset needed when investing in the markets.

Innovation needs investment, and breakthroughs in innovation tend to drive up the markets. Back to the music illustration, consumers shifted easily to the "new and improved" forms of music reproduction as they came to the market place, purchasing the new form of media and equipment to play them on, driving up the stock values of the companies who developed and produced them. Where vinyl records sales peaked in 1977 with 534 million units shipped, 1,112 million MP3 units were 'shipped' in 2008².

So what DO we see in the future? Here are a few innovations many experts believe to be coming soon: Nanotechnology, greater use of Cloud Computing, Gene Therapy & Regenerative Medicine, and greater innovations in Robotics and Green Energy technology. The future IS bright; let us help you invest with optimism and vision!

¹ Franklin Templeton Investments 2020 Vision, 2010 Morningstar

² Franklin Templeton Investments 2020 Vision, Recording Industry Association of America



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