Condor Capital Wealth Management

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Economic data improvement and progress in Washington pushed domestic equities to record highs.

Treasuries and highly-rated corporate bonds traded lower while junk bonds and municipal debt continued to rally on strong investor demand.

Despite the recent rally, valuations and corporate fundamentals underpin our constructive outlook for domestic equities. Investors should be more selective in the fixed income market given low prevailing yields.

April 2013

Condor Capital Reviews 1st Quarter 2013

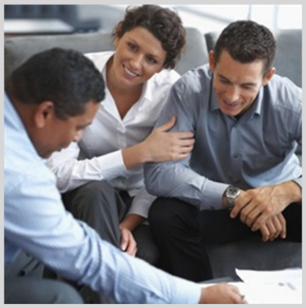
The first three months of 2013 saw employment gains accelerate and momentum in the housing market build. Despite further wrangling out of Washington D.C. over sequestration, some progress was made as lawmakers agreed to raise the debt ceiling and passed a resolution to fund the government through September. These factors pushed the S&P 500 Index to a record high, gaining 10.60% for the quarter.

During the period, large-cap stocks generally trailed their smaller peers. While value stocks outperformed in the mid- and large-cap spaces, growth names outperformed in the small-cap universe. The basic materials sector lagged amid concerns over end-market demand abroad. Uncharacteristically, the more defensive healthcare sector led the market rally on the upside. While they still delivered positive returns, developed foreign markets generally lagged U.S. equities as inconclusive elections in Italy and a bailout of Cyprus heightened uncertainty. Japanese equities, however, bucked the trend and generated some of the highest returns globally amid a continued push by its new prime minister to stem deflation and stimulate the country's stagnant economy. With that said, the MSCI EAFE returned 5.13%. The MSCI Emerging Markets Index, on the other hand, declined by 1.62% due to ongoing concerns about the pace of growth in countries such as Brazil and China.

While global central banks maintained their prior commitments to providing liquidity and keeping interest rates low, no substantial new policy measures were announced. Treasuries generally declined and the yield curve steepened as some investors felt that improving data could push the Federal Reserve to wind down its bond buying program sooner than previously anticipated. Despite worries over low yields and elevated valuations, credit spreads tightened and lower-rated debt outperformed. To illustrate, while the Citi Corporate Bond Index declined by 0.26%, the CSFB High Yield Index rose a healthy 2.94%. In spite of an uptick in Treasury yields, the Lipper Municipal Fund Index rose by 0.42% thanks to strong asset flows into the segment.

Outlook – Despite a four-year rally in domestic equities, valuations remain reasonable given the current level of corporate profitability. Furthermore, it is encouraging to note that stocks are cheaper than at any other time a record high was reached since 1980. A relative lack of participation from individual investors also suggests that further multiple expansion is possible, should this trend reverse. With some U.S. political uncertainty alleviated, or at least pushed back, investors can once again focus on the fundamentals underpinning the domestic economy. These include a housing market that has transitioned from a growth hindrance to a tailwind, a surge in energy production, and what we believe is an early revitalization in U.S. manufacturing thanks to a narrowing wage gap and cheaper domestic energy. However, one should remain cognizant of risks that remain. Corporations will need to achieve sales growth in order to help fuel earnings growth, as most efficiency gains have already been made. This, combined with ample cash reserves, fosters an environment ripe for an uptick in M&A activity. With growth in Europe remaining elusive and signs of deceleration in emerging markets, we believe that U.S. equities remain attractive, particularly on a relative basis.

While bonds should play a role in most investors' portfolios, certain areas of this market look unappealing going forward. Government bonds, agency mortgages, and longer-dated bonds, in general, carry sizable interest rate risk and are likely to lose out to inflation over time. Although the junk bond rally has driven yields to a low level in absolute terms, their spread over Treasuries remains much wider than peak levels. Along with subdued default rates and ample credit market liquidity, we still feel that this area remains attractive, but caution that returns could be tamer than in recent years. Floating rate notes, which adjust their payout based upon changes in interest rates, also hold merit as they enjoy a senior position in the capital structure and average bond prices are below levels seen in the high yield market. Overall, after a 30-year bond rally, investors will need to be more selective with regards to fixed income in the future.



Health-care reform legislation passed in 2010 included a new additional 0.9% Medicare tax on wages, compensation, and self-employment income over certain thresholds. This new tax also took effect on January 1, 2013. The 0.9% tax does not apply to income subject to the NIIT. So while you may be subject to both taxes, the taxes do not apply to the same types of income.

Understanding the New Medicare Tax on Unearned Income

Health-care reform legislation enacted in 2010 included a new 3.8% Medicare tax on the unearned income of certain high-income individuals. The new tax, known as the unearned income Medicare contribution tax, or the net investment income tax (NIIT), took effect on January 1, 2013.

Who must pay the new tax?

The NIIT applies to individuals who have "net investment income," and who have modified adjusted gross income (MAGI) that exceeds certain levels (see the chart below). (Estates and trusts are also subject to the new law, although slightly different rules apply). In general, nonresident aliens are not subject to the new tax.

Filing Status	MAGI over ...
Single/Head of household	$200,000
Married filing jointly/ Qualifying widow(er)	$250,000
Married filing separately	$125,000

What is MAGI?

For most taxpayers, MAGI is simply adjusted gross income (AGI), increased by the amount of any foreign earned income exclusion.

AGI is your gross income (e.g., wages, salaries, tips, interest, dividends, business income or loss, capital gains or losses, IRA and retirement plan distributions, rental and royalty income, farm income and loss, unemployment compensation, alimony, taxable Social Security benefits), reduced by certain "above-the-line" deductions (see page one of IRS Form 1040 for a complete list of adjustments).

Note that AGI (and therefore MAGI) is determined *before* taking into account any standard or itemized deductions or personal exemptions. Note also that deductible contributions to IRAs and pretax contributions to employer retirement plans will lower your MAGI.

What is investment income?

In general, investment income includes interest, dividends, rental and royalty income, taxable nonqualified annuity income, certain passive business income, and capital gains--for example, gains (to the extent not otherwise offset by losses) from the sale of stocks, bonds, and mutual funds; capital gains distributions from mutual funds; gains from the sale of interests in partnerships and S corporations (to the extent you were a passive owner), and gains from the sale of investment real estate (including gains from the sale of a second home that's not a primary residence).

Gains from the sale of a primary residence may also be subject to the tax, but only to the extent the gain exceeds the amount you can exclude from gross income for regular income tax purposes. For example, the first $250,000 ($500,000 in the case of a married couple) of gain recognized on the sale of a principal residence is generally excluded for regular income tax purposes, and is therefore also excluded from the NIIT.

Investment income does not include wages, unemployment compensation, operating income from a nonpassive business, interest on tax exempt bonds, veterans benefits, or distributions from IRAs and most retirement plans (e.g., 401(k)s, profit-sharing plans, defined benefit plans, ESOPs, 403(b) plans, SIMPLE plans, SEPs, and 457(b) plans).

Net investment income is your investment income reduced by certain expenses properly allocable to the income--for example, investment advisory and brokerage fees, investment interest expenses, expenses related to rental and royalty income, and state and local income taxes.

How is the tax calculated?

The tax is equal to 3.8% of the lesser of (a) your net investment income, or (b) your MAGI in excess of the statutory dollar amount that applies to you based on your tax filing status. So, effectively, you'll be subject to the additional 3.8% tax only if your MAGI exceeds the dollar thresholds listed in the chart above.

Example: *Sybil, who is single, has wages of $180,000 and $15,000 of dividends and capital gains. Sybil's MAGI is $195,000, which is less than the $200,000 statutory threshold. Sybil is not subject to the NIIT.*

Example: *Mary and Matthew have $180,000 of wages. They also received $90,000 from a passive partnership interest, which is considered net investment income. Their MAGI is $270,000, which exceeds the threshold for married taxpayers filing jointly by $20,000. The NIIT is based on the lesser of $20,000 (the amount by which their MAGI exceeds the $250,000 threshold) or $90,000 (their net investment income). Mary and Matthew owe NIIT of $760 ($20,000 x 3.8%).*

Note: *The NIIT is subject to the estimated tax rules. You may need to adjust your income tax withholding or estimated payments to avoid underpayment penalties.*

Two Social Security Strategies for Married Couples

For more information about your options and the benefit application process, contact the Social Security Administration at 800-772-1213 or visit: ***[www.socialsecurity.gov.](http://www.socialsecurity.gov)***

Every situation is unique, and these strategies may not be appropriate for all couples. When deciding when to apply for Social Security benefits, make sure to consider a number of scenarios that take into account factors such as both spouses' ages, estimated benefit entitlements, and life expectancies.

Deciding when to begin receiving Social Security benefits is a major financial issue for anyone approaching retirement because the age at which you apply for benefits will affect the amount you'll receive. If you're married, deciding when to retire can be especially complicated because you and your spouse will need to plan together. Fortunately, there are a couple of strategies that are available to married couples that you can use to boost both your Social Security retirement income and income for your surviving spouse.

File and suspend

Generally, a husband or wife is entitled to receive the higher of his or her own Social Security retirement benefit (a worker's benefit) or as much as 50% of what his or her spouse is entitled to receive at full retirement age (a spousal benefit). But here's the catch--under Social Security rules, a husband or wife who is eligible to file for spousal benefits based on his or her spouse's record cannot do so until his or her spouse begins collecting retirement benefits. However, there is an exception--someone who has reached full retirement age but who doesn't want to begin collecting retirement benefits right away may choose to file an application for retirement benefits, then immediately request to have those benefits suspended, so that his or her eligible spouse can file for spousal benefits.

The file-and-suspend strategy is most commonly used when one spouse has much lower lifetime earnings, and thus will receive a higher retirement benefit based on his or her spouse's earnings record than on his or her own earnings record. Using this strategy can potentially boost retirement income in three ways: 1) the spouse with higher earnings who has suspended his or her benefits can accrue delayed retirement credits at a rate of 8% per year (the rate for anyone born in 1943 or later) up until age 70, thereby increasing his or her retirement benefit by as much as 32%; 2) the spouse with lower earnings can immediately claim a higher (spousal) benefit; and 3) any survivor's benefit available to the lower-earning spouse will also increase because a surviving spouse generally receives a benefit equal to

100% of the monthly retirement benefit the other spouse was receiving (or was entitled to receive) at the time of his or her death.

Here's a hypothetical example. Leslie is about to reach her full retirement age of 66, but she wants to postpone filing for Social Security benefits so that she can increase her monthly retirement benefit from $2,000 at full retirement age to $2,640 at age 70 (32% more). However, her husband Lou (who has had substantially lower lifetime earnings) wants to retire in a few months at his full retirement age (also 66). He will be eligible for a higher monthly spousal benefit based on Leslie's work record than on his own--$1,000 vs. $700. So that Lou can receive the higher spousal benefit as soon as he retires, Leslie files an application for benefits, but immediately suspends it. Leslie can then earn delayed retirement credits, resulting in a higher retirement benefit for her at age 70 and a higher widower's benefit for Lou in the event of her death.

File for one benefit, then the other

Another strategy that can be used to increase household income for retirees is to have one spouse file for spousal benefits first, then switch to his or her own higher retirement benefit later.

Once a spouse reaches full retirement age and is eligible for a spousal benefit based on his or her spouse's earnings record and a retirement benefit based on his or her own earnings record, he or she can choose to file a restricted application for spousal benefits, then delay applying for retirement benefits on his or her own earnings record (up until age 70) in order to earn delayed retirement credits. This may help to maximize survivor's income as well as retirement income, because the surviving spouse will be eligible for the greater of his or her own benefit or 100% of the spouse's benefit.

This strategy can be used in a variety of scenarios, but here's one hypothetical example that illustrates how it might be used when both spouses have substantial earnings but don't want to postpone applying for benefits altogether. Liz files for her Social Security retirement benefit of $2,400 per month at age 66 (based on her own earnings record), but her husband Tim wants to wait until age 70 to file. At age 66 (his full retirement age) Tim applies for spousal benefits based on Liz's earnings record (Liz has already filed for benefits) and receives 50% of Liz's benefit amount ($1,200 per month). He then delays applying for benefits based on his own earnings record ($2,100 per month at full retirement age) so that he can earn delayed retirement credits. At age 70, Tim switches from collecting a spousal benefit to his own larger worker's retirement benefit of $2,772 per month (32% higher than at age 66). This not only increases Liz and Tim's household income but also enables Liz to receive a larger survivor's benefit in the event of Tim's death.

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Please remember to contact Condor Capital Management if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing, evaluating, or revising our previous recommendations and/or services. Please also advise us if you would like to impose, add, or modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement as set forth on Form ADV Part II A/B continues to remain available for your review upon request.

I'm going on a cruise--do I need to purchase travel insurance?

It depends. The decision to purchase travel insurance really comes down to whether the financial benefit outweighs the cost of the policy premium. For example, if you had to cancel your trip, could you afford to lose the money you paid for the trip? If not, a travel insurance policy might be right for you. You can purchase travel insurance from a travel agency, tour operator, cruise line, car rental company, or directly from an insurance company. There are a number of different types of travel insurance, and the type of coverage offered, policy terms, and cost will vary.

The most common type of travel insurance policies are those that offer trip cancellation/trip interruption coverage. This type of coverage will reimburse you if you have to cancel your travel plans before you leave or cut your trip short due to an unforeseen event. Covered contingencies can include anything from a hurricane to your cruise line operator going out of business.
Other types of coverage that are marketed to travelers include baggage protection, which provides 24-hour protection for your belongings, and accidental death and dismemberment insurance (AD&D), which compensates you if you lose a limb or eye or compensates your beneficiary(ies) if you die in an accident. Keep in mind that before you purchase travel insurance, you'll want to make sure that you don't already have other types of insurance that offer duplicate forms of coverage. For example, your homeowners policy may cover your belongings if they are lost or stolen while you are traveling, or your life insurance policy may provide coverage for accidental death and dismemberment.

Finally, whenever you travel, you should make sure that you'll be adequately covered by your health insurance policy. If you aren't covered or if the coverage provided is limited, you should consider purchasing a temporary health insurance policy. These policies pick up where your current health insurance coverage leaves off and provide coverage if you are hurt, injured in an accident, or get sick while you are traveling. They can even provide coverage for medical evacuations--something that is especially important if you are traveling outside of the United States.

My laptop was stolen and my personal financial information was stored on it. How can I protect myself against identity theft?

You are right to be concerned about identity theft since identity thieves can use your personal financial information to access bank accounts and credit cards, and make unauthorized transactions in your name. As a result, it's important to act fast in order to protect yourself from any potential attempts at misusing your financial information.

Your first step should be to contact one of the Three major credit reporting agencies, i.e., Equifax, Experian, or Transunion, and place a fraud alert on your credit report to prevent someone from opening a new account in your name. The agency you contact will then forward your information to the other two agencies. You can also find out if your state allows you to "freeze" your credit report, which will prevent any unauthorized access to your credit information. Once you place a fraud alert on your credit report, you are entitled to a free copy of your report from each of the credit reporting agencies. Review each of your credit reports and notify the agencies of any fraudulent or suspicious activity. You should also contact any financial institutions or credit card companies with which you have accounts. Ask to have your current accounts closed and open new ones with new account numbers. If possible, you should also request that your new accounts include additional safeguards such as password protection.

Finally, if you suspect that your financial information has already been misused, you'll want to consider taking the following steps:

- Contact the appropriate financial institution and dispute any unauthorized charges or transactions as soon as possible. Generally, your liability will depend on how quickly you notify them.
- Consider filing a complaint with the Federal Trade Commission (FTC), which will entitle you to certain identity theft protections. You can go to www.ftc.gov for more information.
- File a police report with your local law enforcement agency. A police report can be helpful when filing an extended fraud alert or disputing unauthorized transactions.