

THE EAST END FINANCIAL GROUP

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Dear EEFG Client:

I waited this year until New Year's Eve to finally write the annual *State of the Agency* letter. Even though I began to collect material and organize the thought process months in advance of sitting down and writing this letter, by waiting until New Year's Eve I would have final 2011 market numbers to use plus I had a few hours to kill before the newest member of the EEFG Team, my grandson JJ and his parents would be here to spend the New Year with us. So for the 32nd time, here we go – my uncensored thoughts on our company, the world and life in general.

Market Summary

In many ways 2011 was a more difficult year for investing than 2008. The extreme volatility seen in the equity markets coupled with the continued depression in the U.S. housing market and the financial crisis in Europe produced negative returns in all major equity indices except the Dow 30. The Dow finished up 5.5% as investors viewed the quality dividend paying stocks as a safe haven. The S&P 500 Index was flat for 2011 with all other indices in negative territory with the deepest losses experienced in the Dow Jones Global Index, off -16.3%.

Our commitment to positions in bonds allowed our clients to experience flat returns or on accounts more heavily invested in fixed income to show gains.

Comparatively some top hedge fund managers lost up to 50% and we again experienced the collapse of a major investment firm, MF Global led by John Corzine. Hopefully I'll never have to say to a client "I really don't know where the money is".

Staffing and Changes

In April we opened our 322 Roanoke Avenue office or as we call it, "The Big Yellow Building". 322 houses Joe and Jack Kosinski and myself and between the two adjacent offices we now have over 5,000 square feet of office space allowing us to have additional staff and grow the company. We look forward to meeting with you in this new facility in 2012.

*Financial Planning ♦ Investment Advisory Services ♦ Retirement Programs
Advisory Services/Financial Planning Offered Through: The East End Financial Group
Securities Offered Through: American Portfolios Financial Services, Inc. MEMBER: FINRA, SIPC & MSRB
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Two new staff members joined EEFG in 2011. In April, Mary LaFemina came to East End after five years working as a top level administrative assistant in a large firm, and another four years working for an independent advisory firm such as ours. You will find Mary to be a highly trained professional who can handle all aspects of administration and service on your accounts.

Our second new hire is James Kenny who joined us in December after spending seven years with Merrill Lynch and Morgan Stanley Smith Barney. Jim's experience is found in service and sales of 401(k) plans, so his joining us provides an experienced advisor to work with our 401(k) clients. His responsibility will be to review each of our 401(k) plans for cost and performance and provide a detailed analysis to the plan trustees. If you have a 401(k) plan with EEFG expect to hear from Jim over the next month. Jim joins our advisory team consisting of Meredith Diamond, Ernie Vorpahl, Jack Kosinski, Joe Kosinski and our investment research analyst Colin Moors.

The balance of the staff remains the same. Annmarie Zilnicki, now in her 28th year with EEFG, heads up the service team. As you already realize, no one does a better job than Annmarie and many of you can attest to that from personal experience dealing with her. Our service team also includes: Margret Leonard-Loper, with us 18 years servicing investments and Vi Nicoll, with us 15 years, servicing insurance and annuity products.

Three new members to the EEFG family joined us in 2011. Colin Moors and his wife Nadine had a girl, Coral, in July and Meredith and Chris Diamond welcomed Owen in November. Our last new member, Jonathan Joseph was born on November 1st to Joseph and Kirsten Kosinski. This was by far the most exciting news in my life for 2011!

Giving Something Back

As most of you know my family runs a 501(c)3 charity, the *Gwen L. Kosinski Foundation*, which raises money for brain cancer research. 2011 was an excellent year for our fundraising and I thank those of you that joined us at the Shelter Island 10K, the Voices Against Brain Cancer 5 mile run in New York City and our annual golf outing at Noyac Golf Club in September. We are now in the process of researching additional grants that we can fund as well as our scholarships at Pace University and Pierson High School.

Besides our foundation we helped to raise thousands of dollars for local and national charities. In May, Joe played 105 holes of golf as a fundraiser for the Timothy Hill Children's Ranch. In April, Colin, Jack and I biked 130 miles from Washington, DC to the battlefield in Gettysburg to raise money for our wounded warriors through the Face of America bike ride. We continue to sponsor numerous youth athletic programs, the East End Collegiate Baseball League and Annmarie was named Rotarian of the Month by the Riverhead Rotary in 2011. My point is a simple one, we have been blessed to work with wonderful clients and we have an obligation and responsibility to assist charities and organizations they support.

What Makes the Difference

You have heard me say many times that the products we offer are the same that you can find at Fidelity, Schwab or any major wire house. The “stuff” as I call it – the mutual funds, ETFs, annuities – are all the same. The difference is only one thing – our culture and commitment to service.

You’ll notice that our staff has been basically the same for many years, the core group remains intact. When you call, the staff member you speak with **knows you**. When you come in for a meeting you’re greeted with a hug or a handshake by an advisor that **knows you**.

Anybody can sell you the “stuff”, but few firms know how to service the client. We have spent our money on more efficient technology and additional staff in order to provide a better service model. When you call, a human answers the phone, when you lose a check, a staff member works with you to provide a replacement, when there is a death in your family, the entire team is available to assist in the maze of paperwork to reregister accounts and change beneficiaries and we do it with empathy and understanding because we know you.

This is what we mean by our “Commitment to Excellence” motto. Provide the client with a predictable service model, answer questions and fix problems. Remember, you can buy the “stuff” anywhere, but call Schwab two years later and get the same advisor on the phone to fix a servicing issue – Good Luck!

The Future

I’ve seen many changes in the financial services industry over the last 39 years, unfortunately many of them negative. It was simple when I started. If you needed insurance you bought term or whole life; mutual funds were purchased as long term investments not for short term trading, and investors focused on goals not weekly rates of return.

Technology has replaced the value of a one-on-one personal relationship. Stand in a line at Starbuck and count the number of people holding Smart Phones – 75% - Why? Does anyone need to know what you’re having for lunch or your thoughts on the Iowa caucus? Our firm has adapted to the times regarding technology – I would compare it to any independent firm that I’ve seen. Technology serves one purpose and only one purpose, to better serve our most valued asset, our clients. Technology will never, however, replace the personal meeting or the phone call with clients.

Our philosophy is not based on greed, otherwise I would have started a hedge fund years ago. Over the 30+ years that I've run this company and dealing with thousands of clients over those years, I have found common characteristics for the majority of our clients. They want to care for and educate their children, pay a fair and responsible amount in taxes to share in the American Dream, retire comfortably and pass their savings on to their children. These traits have nothing to do with gold, ETFs, indexed CDs or absolute return strategies. They have to do with strong family values and beliefs that a disciplined, well thought out investment program, modified as your goals and objectives change, will allow you to achieve your personal goals.

I consider myself to be incredibly lucky. I have a wonderful wife, great kids and many close friends. I get to work each day with my sons, and I now serve as a mentor to the younger advisors that make up our team. I've never felt that I go to work – this not a job. I call and visit clients that have become friends and share in their good and bad times.

Our firm's focus will continue to be to work with our clients to identify their goals and to develop and monitor their investment programs and financial plans to successfully reach their objectives. Thank you for your loyalty and support for the last 32 years, and my best wishes for the New Year.

Best regards,

John J. Kosinski

John J. Kosinski, CLU, ChFC, MSFS
President