THE EAST END FINANCIAL GROUP

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Dear EEFG Advisory Client,

We have enclosed your quarterly reports for the period ending December 31, 2012. You will also receive, under separate cover, a realized capital gain and loss report in those instances where any personal holdings (excluding retirement and annuity assets) were sold during the year. We have done our best to ensure the accuracy of these numbers but they should be reviewed by your accountant.

Review of the Fourth Quarter and Year of 2012

The final quarter of 2012 saw a mix of small gains and small losses for many types of stock mutual funds. In general, last year was a good one for stock investors, with returns solidly in the double digits despite continuing anxiety about anemic U.S. and world-wide economic growth and debt worries in Europe.

The average U.S. stock fund ended 2012 with a 13.9% return, after an average 0.8% gain in the fourth quarter, according to the Lipper unit of Thomson Reuters Corp. The average international stock fund returned 17.8% for the year, including a 6.2% gain the final three months of 2012.

With the Federal Reserve continuing to hold down U.S. interest rates, returns on most types of bond funds were higher than expected. The largest category, funds holding intermediate-term bonds of investment quality, returned an average of 6.8% in 2012, including 0.7% for the fourth quarter. Diversification into other parts of the bond market paid off, though. High-yield funds, which hold below-investment-grade bonds, returned an average of 14.7% in 2012, while emerging-markets local-currency debt funds returned 15.8% according to Lipper.
(*Note that unless noted all figures represent total rates of return, measuring both price changes and reinvested dividends, supplied by Morningstar)*

Investment Outlook

Investor mood over the fiscal cliff has been in control of the stock market for weeks as traders alternately fretted and cheered negotiations in Washington. Now that Congress has approved a tax deal, a lot of pent-up demand has been released.

The question is whether demand will continue to push prices higher, and right now a lot of technicals, from price action to sector leadership, look good. The problem is that the next crisis looms large. Congress faces spending and debt-ceiling issues soon, and investor mood can change quickly.

It is mood, or sentiment, that we think will drive the markets until there is a comprehensive agreement on economic policy. And that suggests choppy trading rather than smooth trends for quite some time.

Summary

Until some agreement is reached in Washington on our country's spending and debit situation, the equity markets will continue to be extremely volatile. Our team has remained extremely cautious in equity allocations and has taken the necessary steps to reallocate the portions of your fixed income positions to alternative investment programs. These alternative investments can provide high levels of income and hopefully avoid the negative effects to principal value when interest rates do indeed begin to rise.

Again, our year end capital gain/loss reports will be sent out separately in early February, so not to be confused with your investment reports***. It is your responsibility to deliver these reports to your tax preparer for the completion of your 2012 income tax return***.

We look forward to discussing your account and your financial situation during the quarter.

Best regards,

John J. Kosinski, CLU, ChFC, MSFS
President

Joseph Kosinski
Investment Advisor

Annmarie Zilnicki
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