THE EAST END FINANCIAL GROUP

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Dear EEFG Advisory Client,

We have enclosed your quarterly reports for the period ending September 30, 2012. Please continue to file these reports in your East End Financial Group portfolio binder.

***Review of the Third Quarter of 2012***

All three major averages posted robust gains for the month and the third quarter, boosted by a flood of central bank actions. Equities rallied in anticipation of more central bank and government intervention in the face of the massive debt overhang in Europe as well as the sudden and sharp slowdown in global growth expectations. In a historical and unprecedented move, the Federal Reserve announced an unlimited quantitative easing program (QE3) and other major central banks (the European Central Bank, People's Bank of China and Bank of Japan) initiated new stimulus programs. For the quarter, the S&P rallied 9.7%, the NASDAQ increased 9.36% and the MSCI EAFE Index (representing Europe, Australia, Asia and the Far East) was up 9.91%.
(*Note that unless noted all figures represent total rates of return, measuring both price changes and reinvested dividends, supplied by Morningstar)*

***Investment Outlook***

Policymakers are now making it clear that they will save Europe and defend the Euro at all costs. Similarly, the Federal Reserve has implied that they will stimulate the U.S. economy until employment and housing stabilizes. China has launched an infrastructure stimulus program in order to increase growth which should have a positive effect on China-dependent countries such as Australia and Brazil. The Middle East remains a wildcard as there is political disarray, social strife and concern about Iran's nuclear ambitions.

With respect to Europe, the U.S. and the emerging markets, central banks appear intent on stoking asset inflation. In other words, they are attempting to boost the prices of stocks, real estate, and commodities. There are several purposes to this strategy. For example, higher stock prices tend to create a "wealth" effect making consumers more willing to spend. Higher stock prices also influence investors to switch from fixed income investments such as bonds, CDs and savings accounts into stocks. The same can be said for higher real estate prices. There is a cost, however, in that central banks are gambling with the prospect of inflation. The Federal Reserve has actually stated that they would like to see higher inflation as real estate and unemployment are creating a deflationary drag on the economy. The great unknown is whether inflation expectations will become unhinged as they did in the late 1970s. While many people misunderstand inflation and believe that it cannot occur in a weak economy, there have been many examples in history of high inflation/low growth economies. Because high inflation acts as a tax on consumers, it can create a vicious cycle of low growth.

At this point, it's too early to determine how the current policy actions will affect the markets and global economy over time. It does appear though that this should create a floor underneath risky assets such as stocks and commodities. This does not mean that stocks will move in a straight line - they never do- but it seems that some near-term risk has been lowered in the markets. The current market focal point is the November election. While a great deal has been, and will be, written and said about the impact of the presidential election on the markets, the most important effect will be the clarity it provides upon resolution.

***Summary***

As we begin our 4th quarter and year end phone reviews and meetings, we find ourselves in a very uncertain tax and investment environment. The outcome of the election will determine what taxation on investment income will be in in 2013, as well as what the ultimate estate tax credit and rates will be. When we review your accounts, our recommendation will focus on current tax policy but provide enough flexibility to make shifts that may be necessary to create more tax efficiency in 2013.

We look forward to these discussions before year end.

Best regards,

**John J. Kosinski, CLU, ChFC, MSFS**
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