Financial Concepts Unlimited, Inc.

30B West Street
Annapolis, MD 21401
Phone: (301) 315-6344
Fax: (301) 315-6343
Toll Free:(866)-444-5122
http://www.fcuinc.com

John R. Taylor Jr.
President & CEO

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Year End Market Review: 2012

Dear Clients,

With the start of a New Year, we would like to wish you much prosperity, and share several themes and ideas from 2012:

There were several key issues that occurred in the past year; the task of resolving our nation's debt crisis, ongoing challenges to the labor market, and finally a presidential election, all of which were covered in detail by journalists, media pundits, and politicians. Investors of all stripes were made aware of these economic and political events as they unfolded.

From an international perspective – the world became increasingly aware of the crisis facing Europe and its debt restructuring. During much of last year, these events consumed the public's attention, while some still continue into 2013.

If you look deeper into these challenges, one may reasonably conclude that there was emotion to the events above, and by sticking to a consistent and prudent way of investing proved to be a wise decision, versus making irrational choices.

Although, the investment committee at Financial Concepts takes all the above factors into consideration, we have always embraced a belief of forming our own views and opinions. We think it is very important not to overreact to the constant stream of available information presented daily to investors. Consumer confidence levels among households seem to still be at levels that need improvement as the recession lingers.

As the economic fundamentals here in the U.S. continue to improve, there is still a large degree of uncertainty and volatility. It is worth noting that during times of duress, the financial markets can offer investors a chance to seize opportunities.

ANNUAL MARKET REVIEW 2012

Resilience in the face of adversity seemed to be the theme for 2012. Hurricanes that shuttered Wall Street for two days and cut oil production, the threat of a "Grexit" from the euro, Europe's record unemployment and second recession in four years, Chinese growth that hit a three-year low, and uncertainty about elections here and abroad--such formidable obstacles slowed the progress of the global economy but didn't bring it to its knees.

Debt-related news out of Europe continued to play a major role in global bond and equities markets. Despite cracks in the French/German alliance, the eurozone finally appeared more willing to take joint action to enforce fiscal discipline. In exchange for fresh austerity measures, Greece got a reprieve on its debt reduction deadline. Despite growth that went from explosive to merely robust, China chose new leaders for the next decade who are considered to favor existing policies.

In the United States, strong U.S. corporate earnings had begun by year's end to show the toll taken by a slowing global economy. Solid if not robust economic growth, an improving housing market, lower unemployment, and low inflation all had to contend with concerns worldwide about the fiscal cliff.

However, that resilience could be tested in 2013. Though a last-minute bargain averted a full-scale plunge off the fiscal cliff, headwinds could pick up if Washington can't reach an agreement (again) on the debt ceiling and spending cuts still scheduled to begin in 2013.

Market/Index	2011 Close	As of 9/28	As of 12/31	Q4 Change*	2012 Change*
DJIA	12217.56	13437.13	13104.14	-2.48%	7.26%
NASDAQ	2605.15	3116.23	3019.51	-3.10%	15.91%
S&P 500	1257.60	1440.67	1426.19	-1.01%	13.41%
Russell 2000	740.92	837.45	849.35	1.42%	14.63%
Global Dow	1801.60	1921.70	1995.96	3.86%	10.78%
Fed. Funds	.25%	.25%	.25%	0 bps	0 bps
10-year Treasuries	1.89%	1.65%	1.78%	13 bps	-11 bps

*Equities figures reflect price changes, not total return.

Snapshot 2012

The Markets

- **Equities**: Though equities certainly experienced some volatility during the year, the stomach-churning declines of 2011 gave way to 2012's more moderate fluctuations and dramatically improved performance. Optimism about the prospects for an economic recovery powered equities to year-to-date highs in the fall that lost ground in the fourth quarter as the path to a detour around the fiscal cliff seemed rockier. Helped (and eventually hampered) by some key tech bellwethers, the Nasdaq's Q1 gain of almost 19% helped it set the pace for the domestic indices for much of the year and generally remain above its 2007 high.
- **The Russell** also powered back from 2011's loss, while the Dow--the strongest of the five indices in 2011--took a back seat last year. It was even outperformed by the Global Dow, which benefitted in the year's second half as Europe managed to avoid disaster. And the S&P 500's 13.4% gain for the year was a definite improvement over the 0.0% of the year before.
- **Bonds**: Rock-bottom Treasury yields somehow managed to drop even further as the 10-year bond briefly hit a record low of roughly 1.43% in July. Treasuries, corporates, munis, junk, internationals--bonds benefitted across the board from investor demand and the Fed's stepped-up quantitative easing efforts. Investors who continued to pull money out of stock funds put much of it into bonds, reassured that higher interest rates were at least a couple of years away from affecting bond prices.
- **Oil**: After starting 2012 at roughly $103 a barrel and remaining above $100 through the first four months, oil prices reversed the

previous year's upward trajectory. Despite a slight bump in August/September, mounting concerns about a slowing global economy took oil to $85 a barrel before a year-end rally nudged it back up to end the year at roughly $93 a barrel.

- **Currencies**: After a spring surge pushed the U.S. dollar to the year's high against a basket of six currencies in June, the greenback lost 7.5% over the next three months before rebounding to end 2012 only slightly lower than where it started. Despite a couple of dips, the euro strengthened against the dollar, gaining roughly 2% over the year to end at roughly $1.32.
- **Gold/silver**: After plummeting almost 14% between late February and mid-May, gold spent the summer bouncing along on either side of $1,600 an ounce. By mid-July, a rebound had sent the price to the year's high of just under $1,800 before fading to end 2012 at $1,676. And after spiking more than 60% to a high of $48 an ounce in April, silver prices settled down, ranging between $26 and $37 for the rest of 2012 and ending at $30.

The Economy

- **Unemployment**: The unemployment rate continued to meander downward, ending the year at 7.7%. Though the pace of improvement was frustratingly slow--the jobless rate didn't fall below 8% until September--the employment picture was still better than December 2011's 8.5%. However, the Fed has forecast only minimal improvement in that figure during 2013, and has promised to keep interest rates low until unemployment hits 6.5%.
- **GDP**: Despite a little spring slump, by the third quarter the U.S. economy was growing at an annualized 3.1%--more than double Q2's 1.3% and the fastest growth of 2012--and Q3 corporate after-tax profits were 3.2% ahead of the same time a year earlier. However, there were signs that growth had begun to taper off in the fourth quarter as anxiety about elections and the fiscal cliff mounted.
- **Inflation**: Modest improvements in the economy had little impact on prices at either the consumer or wholesale level. By November, annual consumer inflation was only 1.8%--well within the level the Fed considers acceptable and lower than 2011's 3%. The 1.5% increase in wholesale costs was slightly better, and was far more moderate than 2011's 4.7% wholesale price jump. Consumer spending and retail sales both showed gains for the year, though holiday shopping was reportedly slower than anticipated.
- **Housing**: While not completely healed, the housing market showed signs that a sustainable recovery was under way. By year's end, sales of new homes had hit their highest level since April 2012 and were 15.3% higher than a year ago, while home resales had their ninth straight month of gains. Home prices were up an average of 4.3% from a year earlier, while housing starts, construction spending, and building permits all had strung together several consecutive months of improvement.

In closing,

We want to thank you for your continued support and hope you find this year end market commentary insightful.

Despite the lingering challenges that face our country and the world's financial architecture, the investment committee firmly believes there will be more opportunities to capitalize on; particularly those ideas that embrace a longer term view.

It has often been said that some of the best ideas may come from within, and we like to think our philosophy reflects this. We must never forget that as the financial markets evolve over time, so do the opportunities to create real lasting wealth.

As part of our formal commitment to you, we are determined and focused in finding the best ways to implement them…

Sincerely,

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30 (B) West Street, Annapolis, MD 21401
301.315.6344 office
301.315.6343 fax

866.444.5122 toll-free

Data sources: Includes data provided by Brounes & Associates. Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Dept. of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprices.org (spot gold/silver); Oanda/FX Street (currency exchange rates).

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The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2000 U.S. small-cap common stocks.

The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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Equities data reflect price changes, not total return.

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