



HIGHLANDS
WEALTH ADVISORS

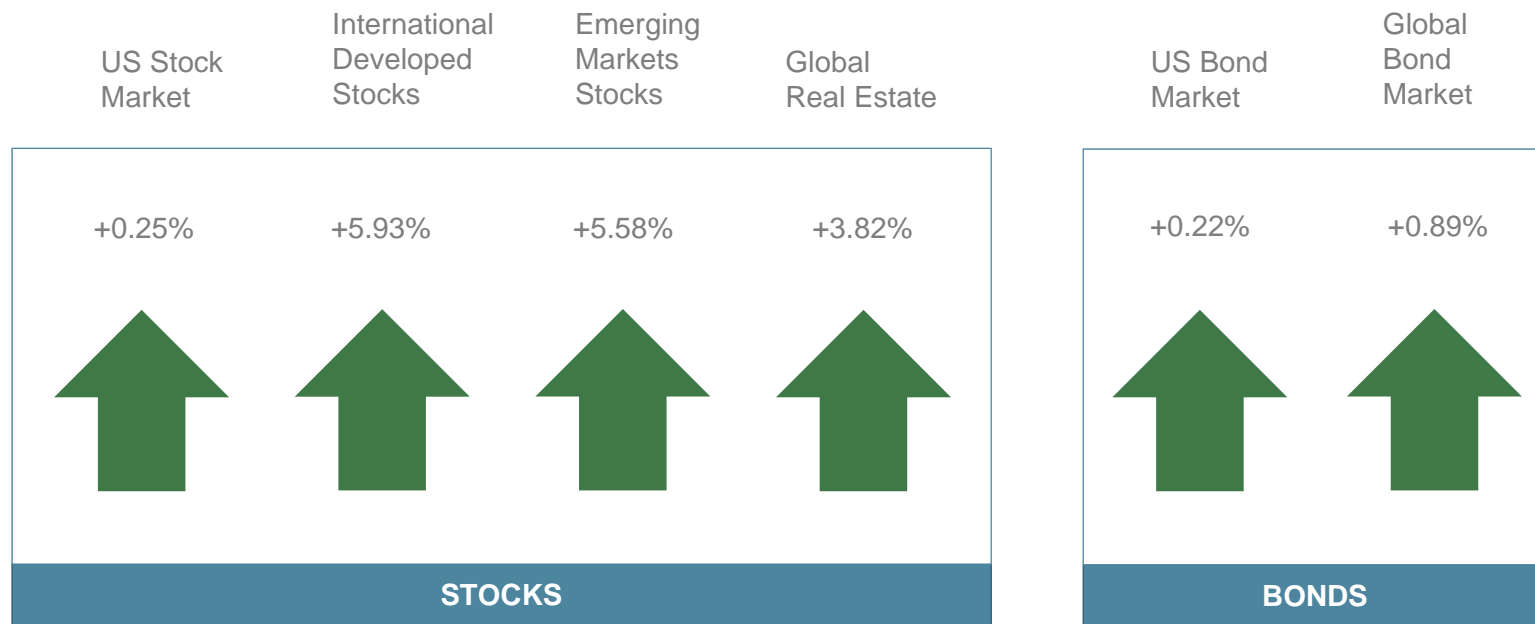
Q4

Quarterly Market Review

Fourth Quarter 2012

Market Summary

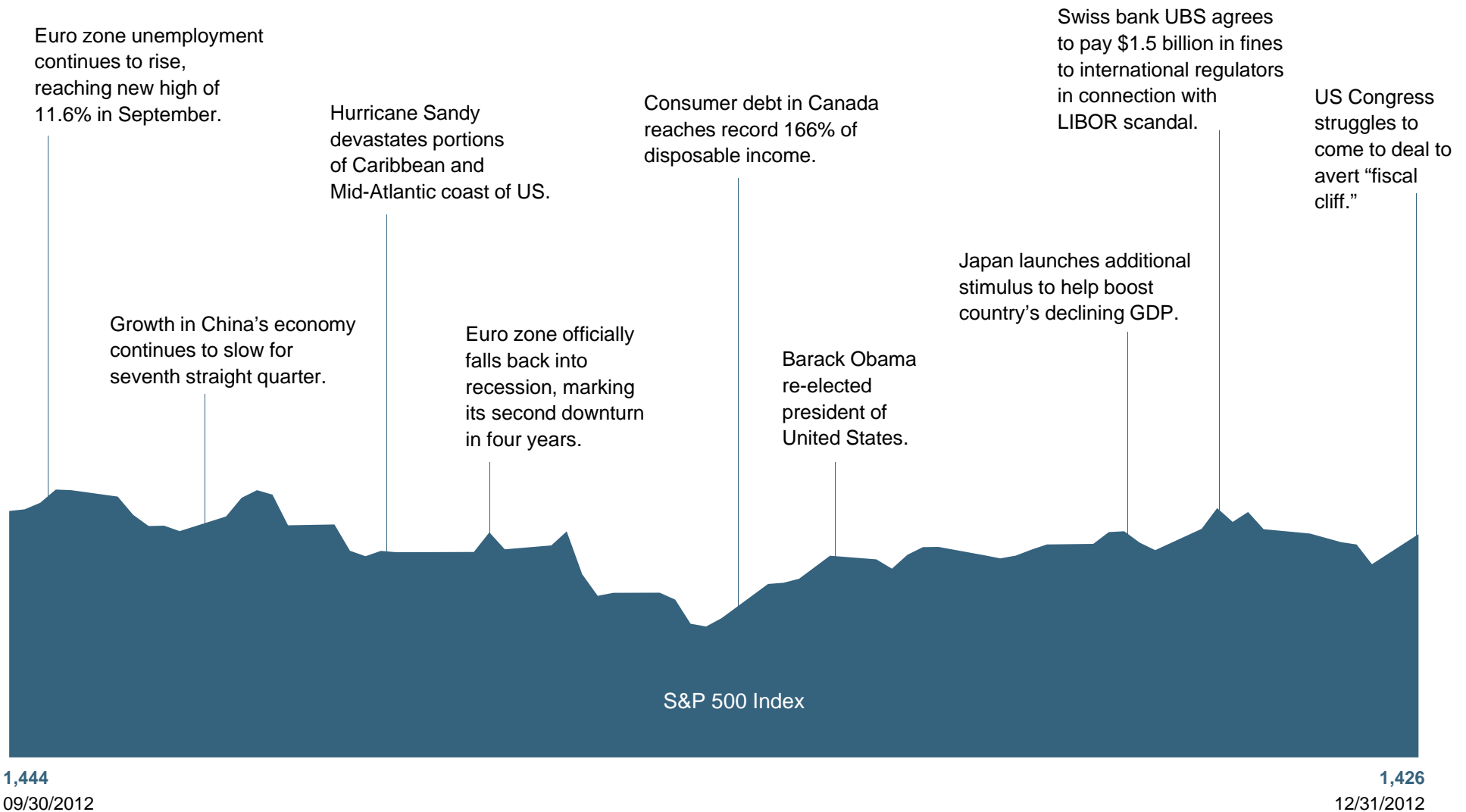
Fourth Quarter 2012 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond Market (Barclays Global Aggregate Bond Index [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

Timeline of Events: Quarter in Review

Fourth Quarter 2012



The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted are not intended to explain market movements.

The Top Ten Money Excuses

Fourth Quarter 2012

Human beings have an astounding facility for self-deception when it comes to our own money.

We tend to rationalize our own fears. So instead of just recognizing how we feel and reflecting on the thoughts that creates, we cut out the middle man and construct the façade of a logical-sounding argument over a vague feeling.

These arguments are often elaborate, short-term excuses that we use to justify behavior that runs counter to our own long-term interests.

Here are ten of these excuses:

1) "I JUST WANT TO WAIT TILL THINGS BECOME CLEARER."

It's understandable to feel unnerved by volatile markets. But waiting for volatility to "clear" before investing often results in missing the return that can accompany the risk.

2) "I JUST CAN'T TAKE THE RISK ANYMORE."

By focusing exclusively on the risk of losing money and paying a premium for safety, we can end up with insufficient funds for retirement. Avoiding risk can also mean missing an upside.

3) "I WANT TO LIVE TODAY. TOMORROW CAN LOOK AFTER ITSELF."

Often used to justify a reckless purchase, it's not either/or. You can live today and mind your savings. You just need to keep to your budget.

4) "I DON'T CARE ABOUT CAPITAL GAIN. I JUST NEED THE INCOME."

Income is fine. But making income your sole focus can lead you down a dangerous road. Just ask anyone who recently invested in collateralized debt obligations.

5) "I WANT TO GET SOME OF THOSE LOSSES BACK."

It's human nature to be emotionally attached to past bets, even losing ones. But, as the song says, you have to know when to fold 'em.

6) "BUT THIS STOCK/FUND/STRATEGY HAS BEEN GOOD TO ME."

We all have a tendency to hold on to winners too long. But without disciplined rebalancing, your portfolio can end up carrying much more risk than you bargained for.

7) "BUT THE NEWSPAPER SAID..."

Investing by the headlines is like dressing based on yesterday's weather report. The market has usually reacted already and moved on to worrying about something else.

8) "THE GUY AT THE BAR/MY UNCLE/MY BOSS TOLD ME..."

The world is full of experts; many recycle stuff they've heard elsewhere. But even if their tips are right, this kind of advice rarely takes your circumstances into account.

9) "I JUST WANT CERTAINTY."

Wanting confidence in your investments is fine. But certainty? You can spend a lot of money trying to insure yourself against every possible outcome. While it cannot guard against every risk, it's cheaper to diversify your investments.

10) "I'M TOO BUSY TO THINK ABOUT THIS."

We often try to control things we can't change—like market and media noise—and neglect areas where our actions can make a difference—like the costs of investments. That's worth the effort.

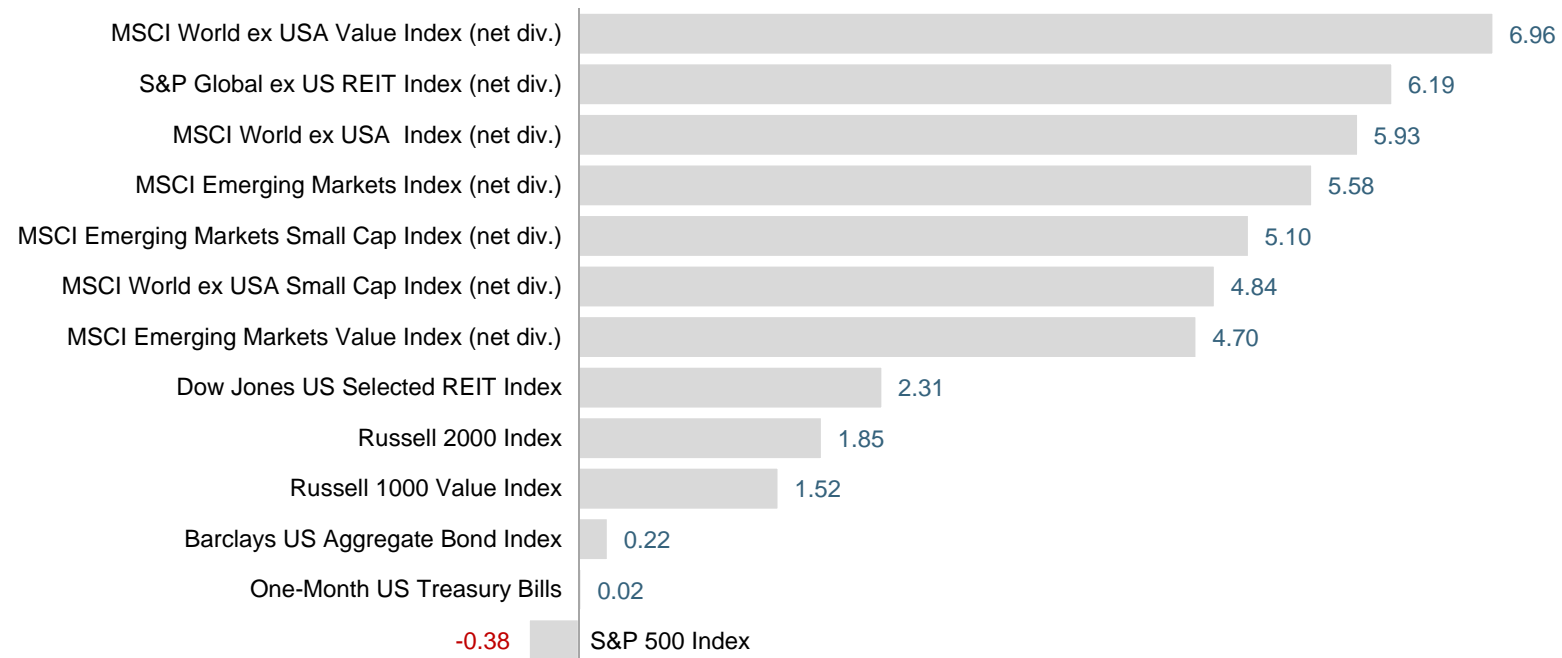
Given how easy it is to pull the wool over our own eyes, it can pay to seek independent advice from someone who understands your needs and circumstances and who holds you to the promises you made to yourself in your most lucid moments.

Call it the "no more excuses" strategy.

World Asset Classes

Fourth Quarter 2012 Index Returns

Global equity markets followed a strong third quarter with positive returns in the fourth quarter, as most major global indices ended the year with gains. Developed markets outside the US led equity returns, followed by global REITs.



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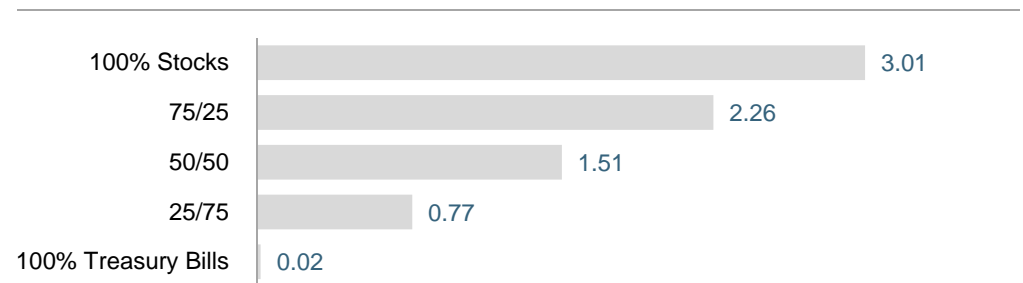
Global Diversification

Fourth Quarter 2012 Index Returns

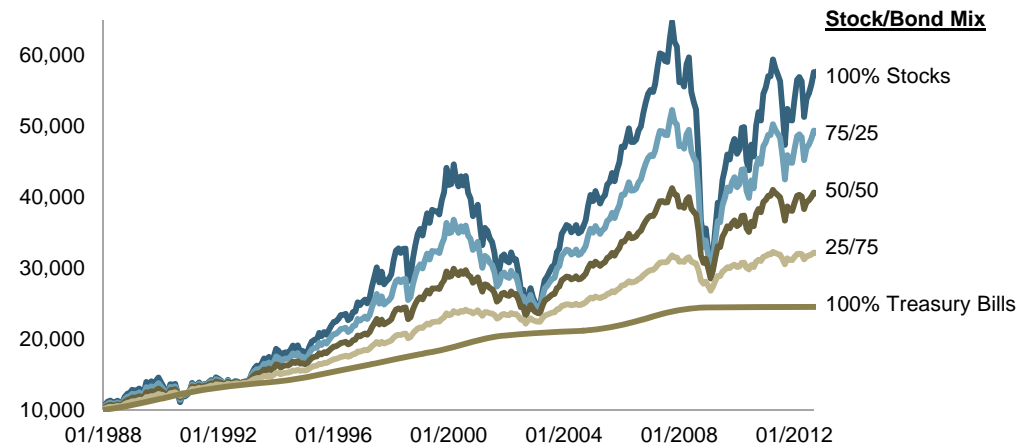
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Period Returns (%)		* Annualized			
Asset Class	1 Year	3 Years*	5 Years*	10 Years*	
100% Stocks	16.80	7.19	-0.61	8.66	
75/25	12.57	5.66	0.10	7.16	
50/50	8.37	3.95	0.50	5.48	
25/75	4.19	2.09	0.59	3.64	
100% Treasury Bills	0.06	0.07	0.40	1.65	

Ranked Returns for the Quarter (%)



Growth of Wealth: The Relationship between Risk and Return



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