Galecki Financial Management's

Financial Sense

Newsletter Second Quarter 2012

	Last Month	Last 3 Months	YTD
S & P 500 Index	**3.96%**	**-2.90%**	**9.31%**
Russell Midcap Index	**2.81%**	**-4.40%**	**7.97%**
Russell 2000 Index	**4.99%**	**-3.47%**	**8.53%**
Dow Jones Industrial Average	**4.05%**	**-1.85%**	**6.83%**
Morgan Stanley EAFE Index	**7.05%**	**-6.85%**	**3.38%**
Barclays Aggregate Bond Index	**0.10%**	**1.32%**	**1.99%**

Index Returns

The second quarter of 2012 saw most equity indices decline in value. We stated in our last newsletter that stocks were due for a correction. In fact the S&P 500 produced a 9.9% correction during the middle of the quarter.

The S&P 500 was down 2.90% in the second quarter. Mid-cap stocks as measured by the Russell Midcap Index were down 4.40%. Small-cap stocks as measured by the Russell 2000 Index were down 3.47%. The Dow Jones Industrial Average was down 1.85%. International stocks were hit the hardest with the MSCI EAFE index down 6.85% and the Emerging Markets Index declining 8.78%.

Bonds recovered in the second quarter with the Barclays Aggregate Bond Index rising 1.32%. Global bonds were also positive for the quarter with the Barclays Global Aggregate Bond Index increasing 0.62%.

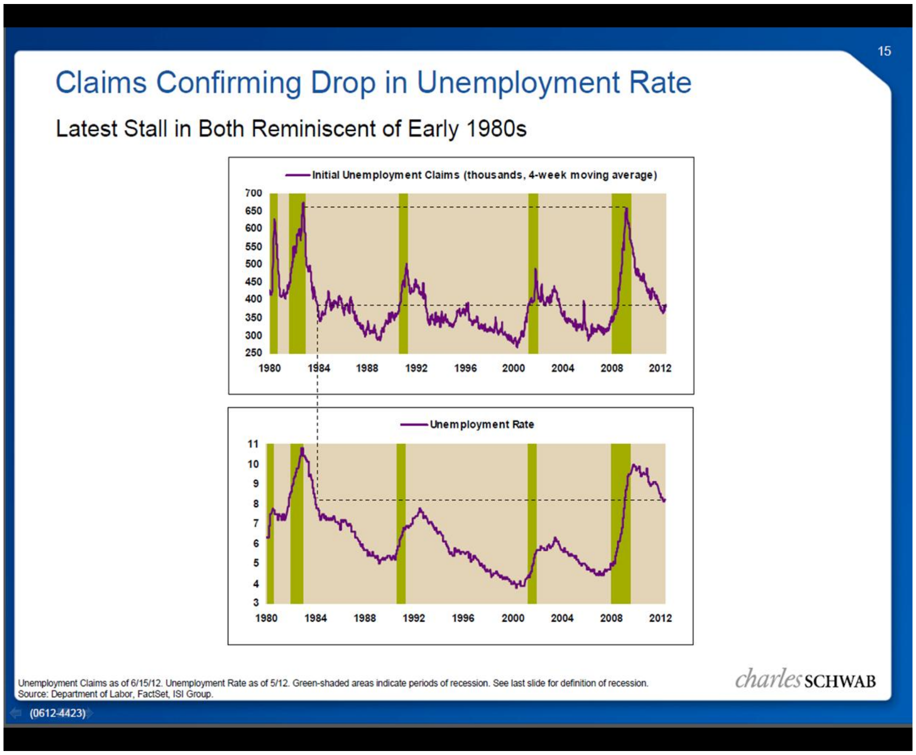
Economic Review and Outlook

The economy grew in the fourth quarter at an annualized rate of 1.9%. This is positive economic growth, but it is clearly not an overheated economy. Early estimates for the second quarter are showing that the economy is continuing to expand, but at a much slower pace. Second quarter GDP is expected to be between 0.5% ï 1.5%.

The Index of Leading Economic Indicators rose 0.3% in May. This is an indication that the economy should continue to see slow economic growth. Industrial production declined in May by 0.1% but remains 4.7% higher from a year ago.

The labor market is improving but at a very slow pace. The U.S. economy has added over 4.4 million jobs since the last recession. Weekly initial unemployment claims are below the key 400,000 level but have recently trended higher. The overall unemployment rate is stuck at 8.2%. According to the recent Job Openings and Labor Turnover Survey report, there were 3.4 million job openings in the U.S.

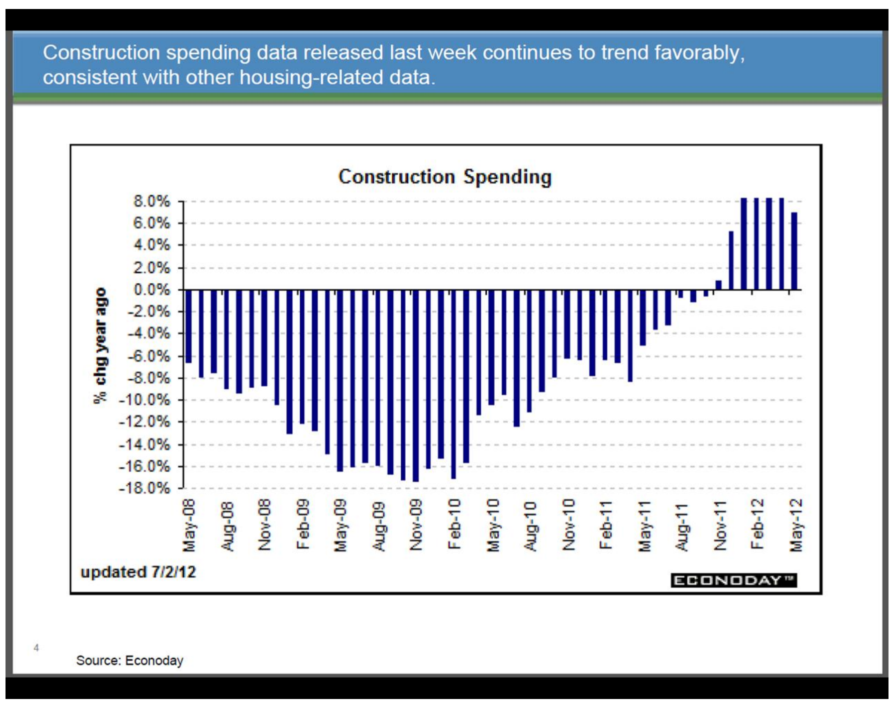
GALECKI FINANCIAL MANAGEMENT, INC.
A FEE ONLY Financial Planning Firm
7743 West Jefferson Blvd Fort Wayne, Indiana 46804
Ph: (260) 436-8525 www.galecki.com



The slowdown in the labor market is not uncommon when looking at prior economic recoveries and expansions. As you can see by this chart, the economic expansion that occurred in the 1980s featured a very similar stagnating unemployment claims period with a flat unemployment rate. This occurred for a short time before the economy got a second wind in the expansion.[1]

The ISM manufacturing index dropped below 50 last month. A reading below 50 suggests a contraction in this area. However, the ISM Non-Manufacturing index is still above 50 which indicates strength in the service sector.

U.S. corporations have been running very lean and consumer demand has remained strong. First quarter earnings came in at $24.24 for the S&P 500 companies. In addition, corporations are sitting on $2.2 Trillion in cash waiting to be deployed when confidence rises.



Housing has continued to be a bright spot for the U.S. economy. The NAHB/Wells Fargo Housing Market Index increased one point to 29 in June, its best reading since 2007. Housing starts have risen 26% over the past 12 months. Building permits (an indication of future construction) increased 7.9% in May to an annual rate of 780,000. In addition, new home sales are up 19.8% over the past year.

[1] Liz Ann Sonders ï Chief Market Strategist for Charles Schwab

GALECKI FINANCIAL MANAGEMENT, INC.
A FEE ONLY Financial Planning Firm
7743 West Jefferson Blvd Fort Wayne, Indiana 46804
Ph: (260) 436-8525 www.galecki.com

12

Fiscal Cliff Coming!

Worst-Case Scenario Unlikely

Estimated US Fiscal Drag in 2013					
	% of GDP				
Budget Drag by Item*	CBO Projected Budget Drag	Scenario 1: Obama with GOP House & Senate	Scenario 2: GOP Sweep	Scenario 3: Status Quo	Scenario 4: Democratic Senate, GOP House & President
Payment Rates for Physicians	0.1	0	0	0	0
Bush Tax Cuts and AMT	1.4	0	0	0	0
Troop Deployment and High-Income Tax Increase**	0	0.1	0	0.4	0
Other Tax Provisions	0.5	0.1	0.1	0.1	0.1
Discretionary Appropriations at Inflation Rate	0.4	0.4	0.2	0.4	0.4
Payroll Tax Cut and Emergency Benefits (passed on 2/22/12)	0.3	0	0	0	0
Effect of Automatic Enforcement in Budget Control Act	0.4	0.4	0.2	0.4	0.2
Other Items	0.8	0.8	0.8	0.8	0.8
2013 Estimated Fiscal Drag	**3.9%**	**1.9%**	**1.3%**	**2.2%**	**1.5%**

As of 5/12. Numbers may not add up due to rounding. *From CBO (Congressional Budget Office) Budget and Economic Outlook 2012. Potential GDP of $16,828b is used for 2013 GDP calculations. Individual budget drag items are rounded. **Assumes troop reduction of 45,000 by 2015 for contingency operations (0.12% drag) and expiration of Bush tax cuts for income earners above $250k (0.30% drag). Source: BCA Research, Inc.

charles SCHWAB

(0612-4423)

The fast approaching ñFiscal Cliffò could have a dramatic impact on the domestic economy. The expiring Bush Tax Cuts, AMT, Payroll Tax Cut, and the Automatic Enforcement cuts are expected to drop GDP by an estimated 3.9% at the beginning of 2013. With an economy growing at roughly 2%, this would pull our economy into contraction territory.

We believe that some of the issues will be addressed and resolved or at least delayed until 2014. However, we could still be in for very anemic GDP growth over the next 2-6 quarters.

The European region continues to be a major concern. The Euro has declined in value versus the U.S. Dollar from $1.32 to $1.22. Most of the region appears to be in contraction territory. Additional austerity measures and bank tightening will make growth difficult to achieve in the near term. From an economic perspective, the region still contains many risks.

Emerging economies have also shown some weakness. Chinaôs exports to the Eurozone have slowed. This slowdown is having an impact on their overall growth as their second quarter GDP grew at a 7.6% annualized rate, down from 8.1% in the first quarter. China cut their interest rates in June in an attempt to spur additional lending. We will see if demand for loans picks up over the next few quarters.

Equity and Bond Markets

Since 2007, $500 Billion has flowed out of equity funds and $800 Billion has flowed into bond funds.[2] This is a record spread. This massive flow of money into bonds and US Treasuries has forced the 10-year Treasury yield to plummet to 1.5%. With inflation running just north of 2%, the real rate of return for 10-year Treasuries is actually negative.

When we wrote the first quarter newsletter in early April, we suggested that stocks were due for a pullback. The S&P 500 was up 24% in six months and investor sentiment as measured by the NDR Crowd Sentiment poll was in extreme optimism territory (a contrarian indicator).

The second quarter delivered a 9.9% correction in the S&P 500 index. Along with the correction, investor sentiment plunged back down into extreme pessimism territory. Remember that stocks tend to climb a wall of worry, so this plunge is a good thing for equities. Although volatility will remain elevated for the remainder of the year, we believe equities are poised to move higher.

[2] Liz Ann Sonders ï Chief Market Strategist for Charles Schwab

We recommend that you review your overall equity and fixed income allocation to make sure it is appropriate for you given your risk tolerance and time horizon. Remember to keep a long-term focus and not worry about the short-term fluctuations.

Portfolio Management

The first half of 2012 was one of the most difficult environments to manage portfolios that we can remember. The Eurozone crisis is quite serious with long term solutions not yet in place. The U.S. is quickly approaching the current debt ceiling. The upcoming Fiscal Cliff will clearly slow the economy which is already operating at a very slow growth rate. Yet businesses remain lean, consumers are spending, and profits are strong. Add in incredibly low equity valuations with the S&P trading at roughly 13 times earnings and you realize that a fair amount of negativity is built into prices.

After sitting on our roughly 10% cash position for nearly six months (This was created when we sold half of our developed international stocks in the first week of the year), we finally put it back to work near the end of June. We decided to put the money into U.S. mid cap growth stocks given their current very low valuations. We believe this new position will complement the overall portfolio allocation nicely and should help returns over the next few years.

Financial Planning

Because of an increased number of fraudulent Homestead Exemption claims, Indiana legislature now requires Indiana homeowners to ñverifyò the validity of their Homestead Exemption. The Homestead Exemption allows for a significant reduction in real property taxes on a principal residence for Indiana homeowners. The verification process must be completed by December 31, 2012 or the homeownerôs property taxes will increase significantly in May 2013.

Verification forms were sent to Allen County residents with their most recent property tax bill. Allen County residents can also verify their homestead exemption online at http://www.allencounty.us//auditors-office-home. To complete the verification process, resident homeowners will need their SSN and driverôs license number.

For Indiana residents not in Allen County, contact your local Auditorôs Office for instructions on filing the homestead exemption verification.

- *Galecki Financial Management Investment Committee*

GALECKI FINANCIAL MANAGEMENT, INC.
A FEE ONLY Financial Planning Firm
7743 West Jefferson Blvd Fort Wayne, Indiana 46804
Ph: (260) 436-8525 www.galecki.com