DFM
Diversified Financial Management, Inc.

80 Washington Street • Suite O-54 • Norwell, MA 02061
781.792.0440 • Fax 781.792.0606
dfm@dfmwealth.com

Post-Election Market Update

November 2012

In the three days following Barack Obama's election victory for a second term as President of the United States, the U.S. stock market fell 3.4% and is continuing to drift lower. Investor concern centers around the impending "fiscal cliff" which can be summarized as follows: over $500 billion dollars of increased taxes and reduced government spending that would automatically go into effect on January 1, 2013.

While a plunge over the fiscal cliff by the U.S. economy would be viewed negatively by global markets, the probability of that dour an outcome is low. A more likely result would be for Democrats and Republicans to reach a compromise in December or, less ideally, find agreement early in 2013. Conceivably, the compromise would take the shape of a ten-year plan, and gradually phase in austerity measures such as higher tax rates for wealthy Americans, coupled with substantial reductions in government spending which would include both discretionary and entitlement program outlays.

Given that the Presidential and Congressional election results changed very little in the overall political landscape (Democratic President coupled with a split Congress), and knowing that the origins of the fiscal cliff date back to August of 2011 (the Budget Control Act of 2011), the same daunting challenges remain. However, on a positive note, the political rhetoric has softened somewhat and the economic recovery continues, led by a healing housing market, strong automobile sales, and healthy corporate profits.

Although tax increases are near certain, it would be ill-advised to make radical investment changes until more information is available. At this time, we are assessing each client portfolio and investment holding, and will proactively bring to your attention any issues that we believe require action before the year is out. As always, we encourage you to contact us if you would like to discuss any of these current events in further detail.

Bill and Calvin