

# Janney Update

## President's Message to Clients



As the Spring arrives, we at Janney remain committed to providing fresh, innovative and timely ideas and advice to our clients to help them achieve their goals through sophisticated services and insights from throughout our Firm. We remain confident about the future despite the winds of change that have been reflected in our global economy over recent weeks.

As noted by Mark Luschini, our Chief Investment Strategist, in his enclosed Economic Outlook, the U.S. economy has continued to expand in spite of higher oil prices and inflation concerns in many of the world's economies. While the unfortunate situation in Japan remains fluid, we hope for the best and look upon ongoing efforts to stabilize and restore conditions as a means by which an economic recovery can continue. Mark and our other strategists continue to monitor and publish opinions about these events for their potential impact on the economy and financial markets. However, it is important to recognize positive domestic developments that are often masked by the headlines of the day. The first and maybe foremost are signs of strengthening employment conditions that give us reason to be hopeful about the labor market. Meaningful job creation will help to buttress the economy against the effects of exogenous incidents. The second is that the improving economy has supported higher asset prices in many global markets, a trend that we believe will continue as long as current fundamentals remain intact. I suggest you take a moment to review Mark's perspective on the economy included here—as well as the commentary from all of our strategists available from your Financial Advisor and on our web site, [www.Janney.com](http://www.Janney.com).

As we keep an eye on the global economy and financial markets to understand how they impact our business, we maintain our focus on the needs of our clients and on Janney's business. We are pleased to report that Janney remains in a strong, stable and growing position in the marketplace and had record revenues in 2010 in both our Private Client and Capital Markets businesses. We increased market share, enhanced our service offerings and improved our operating infrastructure. Our Firm has now had over 20 straight years of profitability—in part due to our unwavering commitment to our clients—the focus of our business today and in the future.

As Spring is a time to plant the seeds for future growth, you may find the enclosed article on Retirement Planning to be of particular interest if you are thinking about future retirement income needs. At Janney, we are here to help you plan for all the seasons of your investing life cycle—including the retirement you want and envision. Your Financial Advisor can help you to develop and establish financial and retirement plans—and assist you in accessing services and expertise from throughout our Firm to enable you to implement those plans.

Our parent company, Penn Mutual, remains an excellent partner and has continued its strong financial performance over the last year. I am pleased to report that on February 18, 2011, Eileen McDonnell was appointed as President and Chief Executive Officer of Penn Mutual, succeeding Robert Chappell, who retired after 17 years of dedicated service to the company. Ms. McDonnell also serves as a member of Janney's Board of Managers. We have a great deal of respect for Ms. McDonnell's experience, client commitment, and vision for the future.

As we monitor the developments in the economy and our industry, including financial regulatory reform—and plan for and respond to changes as they affect our business—we remain focused on being a trusted advisor to our clients, providing outstanding service, and remaining agile and responsive. All of us at Janney thank you for your continued confidence and relationship.

Sincerely,

Timothy C. Scheve

*President and Chief Executive Officer*

MARCH  
2011

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## Economic Outlook

Mark Luschini, Chief Investment Strategist

The U.S. economy is in the midst of completing its seventh consecutive quarter of growth, and encouragingly, we expect this momentum to carry throughout the remainder of the year. Importantly, this sequential improvement that is being felt across the broad manufacturing and service sectors is beginning to have a positive impact on employment. We have noted for some time that the test applied to the durability of the economic recovery would be job creation or the lack thereof. Employment is the key to improving consumer confidence, increased spending and saving, and the restoration of stability in the housing market. These variables are the basis for forming a much healthier and sturdier foundation upon which lasting economic prosperity can build.

The most recent survey from the Bureau of Labor Statistics showed 192,000 jobs were created in February, which helped to edge the unemployment rate downward to 8.9%. That has pulled the average monthly payroll gain over the last quarter to 136,000. This is clearly a positive trend that we expect will improve further as we move deeper into the year. In fact, we expect the reduction in the ranks of the unemployed to accelerate as the environment remains intact for businesses to hire in order to support the prospect of better revenues going forward.

The worries we have surfaced in the past, including the European crisis and China's efforts to dial down property speculation and inflation, the latter of which is shared by many countries in the emerging world, have not diminished. However, current headlines are replete with news about the tensions in North Africa and the Middle East and, of course, the exceedingly tragic events in Japan. While countries like Libya and Egypt are not economic superpowers, the unrest in political regimes within these countries and potentially others threatens a supply shock to the flow of oil produced from that region. Circumstances in Japan, while much different, remain fluid, so we turn to historical precedent as a guide. Japan experienced a lethal earthquake about 16 years ago and subsequently recovered in both economic and financial terms. Given conditions that exist at the moment, we do not believe that oil prices at today's level will suffocate growth, nor do we expect Japan to experience so substantive an economic impairment that it would enfeeble the global economy.

Should circumstances convalesce in some form that restores calm to the markets, the story unfolding in the economy should regain attention. In our opinion, that means well placed investments in the equity markets can advance on growing profits, particularly in sectors such as energy, technology, health care and consumer staples. We also favor commodities on the expectation that the world's growing economies demand more investment in food and infrastructure. We would also prepare for a period where interest rate behavior may be uneven, causing areas in the bond market to underperform. In the aggregate, we look toward a climate that is conducive to prudent investment in which better returns are generated from equities than bonds or cash. ■

## Retirement Planning: Addressing the Changing Face of Retirement

How do you envision your retirement years? Do you think of peaceful time spent by the ocean, travel, gardening, golfing—or enjoying children and grandchildren? What is your dream? Will you be able to comfortably enjoy this dream?

Janney has provided many clients with a retirement plan—so our clients can know if they are on track to meet retirement goals, or if positive changes can be made today to help meet retirement goals tomorrow. The objective is to understand how well assets and income will last through retirement years. The earlier this review is done, the better—as proper adjustments made early typically have the greatest effect on later years.

### What the Research Shows

Research shows that the economic trends of the last three to four years have changed the “face of retirement” for the U.S. population. This also affirms the value of planning—and knowing where you stand today—relative to the rest of the U.S. population.

A recent report by the Employee Benefit Research Institute (“EBRI”) shows that many Americans are not well prepared for retirement (please see Chart 1 below). These figures are based on minimum expenditures (a “combination of basic expenses from Bureau of Labor Statistics’ Consumer Expenditure Survey and some health insurance and out-of-pocket health-related costs plus expenses from nursing home and home health care expenses, at least until the point they are picked up by Medicaid”).

**Chart 1: Prospects of Running Short of Money in Retirement, by Income Quartile**

	10 Years of Retirement	20 Years of Retirement
Lowest-income quartile	41%	57%
2nd income quartile	23%	44%
3rd income quartile	13%	29%
Highest-income quartile	5%	13%

Source: July 2010 EBRI Issue Brief, [www.ebri.org](http://www.ebri.org)

As stated above, these figures reflect covering only basic needs. That may not leave much room for the many individuals who viewed retirement as the “golden years” and envisioned leisure rather than uncertainty.

One of the problems—if it is a problem—is life expectancy. According to a U.S. Census Bureau report published in 2008, the number of Americans age 100 and over is projected to be 601,000 in the year 2050. With an assumed planned retirement age of around 65 years old, it is important to ask how many envision the possibility of 35 or more years of retirement and whether present plans are adequate to support this possibility.

Developing a plan, with “what if” scenarios, is the best way to know where you stand relative to meeting your retirement goals and dreams. You may find that you are perfectly on track, or be able to implement changes that will help to move toward your retirement objectives.

### Investing for Retirement

Where does a retiree—or an individual planning for retirement—invest? Not to sound wishy-washy, but it depends. It is prudent to look at expenses and determine what cash flow is needed to sustain a desired lifestyle, keeping a “buffer” for unexpected events.

In addition to fixed income securities, we see possible investment options to include exchange-traded funds, mutual funds, closed-end funds, annuities, insurance and—especially—high quality, dividend-paying stocks.

What we find most intriguing today are investments that have a history of increasing dividends. The reasoning is simple. Imagine a fund or security that pays 4% and grows its dividend by 10% per year. Over a period of just over 26 years, the dividend component of what you receive every year would be half of your initial investment. Now, look at a stock like McDonalds and consider a hypothetical investment made on Jan. 2, 1980. On that date, McDonalds was paying \$0.14 per share as a quarterly dividend on their stock (which was selling at around \$43 per share). Thanks to stock splits, an investor today would be receiving over \$98 in annual dividends—more than double what was paid for the original investment. This shows the power of dividend growth. We will ignore the McDonald's stock growth discussion under which \$100 invested that day would have grown to nearly \$7,000 based on a recent close.

### Conclusion

The demographic shift toward an aging population is being recognized by the U.S. Congress and investors alike. It is up to individuals—with sound professional guidance—to undergo an inventory of what they hold (reviewing retirement accounts, Social Security Statements, insurance policies and other items), typically through a financial plan. It is often said that an individual spends more time planning a one-week vacation than a possible 30-year retirement. Sadly, this is often found to be correct.

While investors strive to protect what they have saved; a portion should also be in a vehicle that grows—to help protect against inflation. This is why we often repeat our view that a “get paid while you wait” strategy of having some investments in high quality, dividend-paying stocks is prudent.

When planning for retirement, a personal choice always needs to be made with regard to risk tolerance based on individual circumstances. A one-size-fits-all solution is rarely a wise choice.

Your Janney Financial Advisor can help you to plan for retirement, and can also provide you with the complete report published by Janney and titled “*The Changing Face of Retirement.*”

The time to gather papers together and take an inventory of what you have and what you need is now. Your golden years—and your retirement dreams—await. ■

## How SIPC Protects You

The Securities Investor Protection Corporation (SIPC) is a nonprofit, membership organization, funded by its member broker-dealers, and designed to help investors in the event of a brokerage firm failure. By investing with a firm that is a SIPC member, like Janney, a client is protected in the event the firm should ever fail.

In the case of a financial failure of a SIPC member firm, SIPC coverage would ensure delivery of the portfolio assets to each eligible account up to \$500,000 in value (not more than \$250,000 in cash). In addition and as applicable, excess insurance for your account will be obtained through a major insurance company. In the highly unlikely event that our firm should ever fail and should your client assets not be recovered through the firm or under the SIPC protection limits, this additional insurance becomes available to cover your account subject to a limit of \$24.5 million per client and up to a firm aggregate loss limit of \$100 million. If you maintain more than one account at Janney in separate capacities (i.e., individually, jointly, as a trustee), each account would be protected by SIPC and insurance coverage in excess of SIPC. For more details on your investor rights as they pertain to SIPC, we encourage you to call SIPC at 202-371-8300, visit [www.sipc.org](http://www.sipc.org) or request an explanatory brochure from your Janney Financial Advisor. ■

## Payment for Order Flow

Janney receives compensation or other consideration for directing customer orders to various market centers or broker-dealers. Janney monitors these orders for best execution. The source and nature of any compensation received in connection with a particular transaction will be furnished upon written request. Further information is available at [www.janney.com](http://www.janney.com). ■

## Investor Education & Protection

Any investor who wishes to learn about the professional background, business practices and conduct of FINRA member firms or their brokers may request disclosable information by calling the FINRA Regulation Public Disclosure Program Hotline Number, (800) 289-9999, or by visiting the FINRA Regulation web site at [www.finra.org](http://www.finra.org). An investor brochure that includes information describing the Public Disclosure Program is also available at your request. ■

## Privacy Notice

Janney's Privacy Notice is also enclosed with your statement. Our Privacy Notice is published annually and explains the policies and procedures for protecting your personal information. The Privacy Notice, which Janney has updated to reflect recently issued regulatory guidance regarding format and language, also provides you with contact information for Janney's Privacy Officer, in the event you have any questions or concerns. ■

## Cost Basis Reporting: Covered Securities Are Now Displayed on Client Statements

Chart 2: Janney Client Statement Example

PORTFOLIO DETAILS									
EQUITIES - STOCKS & OPTIONS									
Description	Symbol/ CUSIP	Quantity	Purchase Date	Cost Amount	Unit Cost	Current Price	Current Value	Unrealized Tax Gain (Loss)	Term
ABC COMPANY	ABC	130	<sup>C</sup> 1/18/11	5,866.77	45.1290	45.2900	5,887.70	20.93	ST

A **covered** tax lot will display the purchase date with a superscript "C"

As reported in the December, 2010 edition of *Janney Update*<sup>1</sup>, recent changes in federal law have resulted in changes to cost basis reporting to the IRS *beginning in tax year 2011*. This does not affect tax year 2010 tax reporting.

### What Is Cost Basis and What Are Covered Securities?

Cost basis is the original amount paid for a security. Due to the change in IRS regulations, starting with the 2011 tax year, when you sell a **"covered"** security, Janney will be required to report to the IRS the adjusted cost basis when such a security is sold or redeemed. **Any security purchased before 2011 is deemed "uncovered" by the IRS, and therefore, no cost basis information will be reported to the IRS when the security is sold or redeemed.** The chart below shows the schedule for IRS reporting of covered securities for 2011, 2012 and 2013.

Chart 3: IRS Schedule of Cost Basis Reporting

Tax Year	Provided below is a schedule for IRS cost basis reporting of covered securities in 2011, 2012 and 2013:
2011	IRS cost basis reporting will begin for sales of equities, both common and preferred, exchange-traded funds, and real estate investment trusts purchased in 2011 and thereafter.
2012	IRS cost basis reporting will begin for sales of both open- and closed-end mutual funds purchased in 2012, and securities purchased through dividend reinvestment plans in 2012 and thereafter.
2013	IRS cost basis reporting will begin for sales of bonds and other fixed income securities, master limited partnerships, unit investment trusts, and all other tradable securities purchased in 2013 and thereafter.

**For your information, Janney has begun displaying covered securities and their corresponding tax lots on all client statements.**

### How Will Covered Securities Be Shown On Client Statements?

Any security that has been deemed a covered security will include a superscript "C" next to your Purchase Date in the Portfolio Details section of your statement. This is to show you that when that security is sold or redeemed, the cost basis information will be reported to the IRS as required, and will be shown in the 1099-B section of your annual tax statement along with the cost basis information to be reported to the IRS for that tax year. Future purchases of covered securities will also show the covered indicator as securities are purchased relative to their cost basis reporting phase (as detailed in Chart 3).

If you have questions on cost basis reporting or covered securities, please contact your Janney Financial Advisor. ■

<sup>1</sup>The December, 2010 edition of *Janney Update* is available on our web site at [www.janney.com](http://www.janney.com).

## Statement of Financial Condition

Janney Montgomery Scott LLC is subject to the Uniform Net Capital Rule of the Securities and Exchange Commission and is required to maintain a minimum amount of net capital. As of December 31, 2010, Janney's Net Capital and Net Capital Requirement were \$71,145,164 and \$6,438,876 respectively. You may obtain a copy of this Statement of Financial Condition as of December 31, 2010 at no cost by accessing our web site at [www.janney.com](http://www.janney.com) or by calling our toll free number at 800-526-6397 and requesting a copy. ■



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