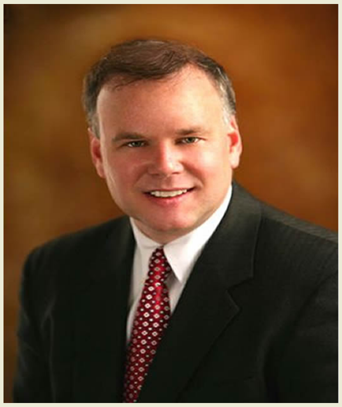


Johnston Investment Counsel
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com

February, 2012

Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.

Keeping Market Volatility in Perspective

When markets are volatile, sticking to a long-term investing strategy can be a challenge. Though past performance is no guarantee of future results, it might help you keep the ups and downs in perspective to see how recent market action compares to previous market cycles.

Bears versus bulls

Corrections of 10% or more and bear markets of at least 20% are a regular occurrence. Since 1929, there have been 18 previous 20%-plus bear markets (not including 2011 market action). Losses on the S&P 500 in those markets ranged from almost 21% in 1948-49 to 83% during 1930-1932; the average loss for all 18 bears was 37%.*

However, since 1929, the average bull market has tended to last almost twice as long as the average bear, and has produced average gains of about 79%.* Individual bull market gains have ranged from 21.4% at the end of 2001 to the nearly 302% increase registered during the 1990s.* The worst annual loss--47%--occurred in 1931, but the all-time best annual return--a capital appreciation gain of just under 47%--happened just two years later in 1933.**

Points of reference

Last year's volatility rattled even seasoned investors. For example, during a single week in August, 2 of the Dow's 11 best days in history alternated with 2 of its 11 worst daily point losses ever.***

While by no means normal, the highs and lows are hardly unprecedented. Even though the 634-point drop on August 8 felt historic, it didn't begin to match the real record-holders. The single biggest daily decline occurred in September 2008, when the Dow fell 778 points. The biggest percentage drop was October 1987's "Black Monday," when the Dow fell almost 23%; that makes the Dow's 5.5% loss on August 8, 2011, seem relatively tame by comparison. And August 8 was followed by the Dow's 10th best day ever, with a gain of 430 points. While that upward movement may seem exceptional, the Dow's best day ever came during the dark days of October 2008, when a 936-point move up on October 13 represented a gain of more than 11% in a single day.***

Stocks versus bonds

The last decade has been a challenging one for stocks. Between 2001 and 2010, the S&P 500 had an average annual total return of just 1.4%, while the equivalent figure for Treasury bonds was 6.6%.**** For much of that time, interest rates were falling, helping bonds to outperform stocks. However, interest rates are now at record lows, and rising rates could change the relative performance of stocks and bonds.

While there may be ongoing volatility in the markets that needs to be monitored, it's important to keep things in perspective. Your ability to meet your goals could be affected if you change your overall long-term game plan with every new headline.

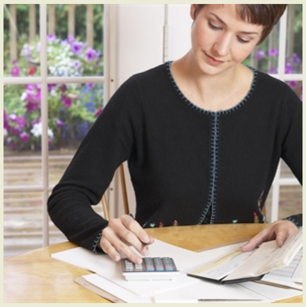
Past performance is no guarantee of future results. Market indices listed are unmanaged and are not available for direct investment. All investing involves risk, including the risk of loss of principal, and there can be no guarantee that any investment strategy will be successful. The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The Standard & Poor's 500 is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.

*DATA SOURCES: *Bull and bear market time frames, gains/losses: all calculations based on data from the* Stock Trader's Almanac 2011 *for the Standard & Poor's 500.*

***1931 and 1933 annual stock returns: based on Ibbotson SBBI data for capital appreciation of S&P 500.*

****Based on data from the* Stock Trader's Almanac 2011.

***** 10-year rolling stock returns: based on Ibbotson SBBI data for annual total returns between 2001 and 2010 of S&P 500 and an index of U.S. Treasury bonds with an approximate 20-year maturity.*



Certain debt payoff strategies can reduce the time payments must be made and the total interest paid. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any penalties for prepayment.

Debt Payoff Strategies

In these uncertain economic times, you may be thinking of reducing your debt load. There are a number of strategies for paying off debt that you might consider. However, before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any penalties for prepayment.

Minimum payments

You are generally required to make minimum payments on your debts, based on factors set by the lender. Failure to make the minimum payments can result in penalties, increased interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you may have to pay large amounts of interest over the life of the loan. This is especially true of credit card debt.

Your credit card statement will indicate the amount of your current monthly minimum payment. To find the minimum payment factors, you will need to review terms in your credit card contract. These terms can change over time.

For credit cards, the minimum payment is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or some minimal amount (such as $15). For example, assume you have a credit card with a current balance of $2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a minimum amount of $15. The initial minimum payment required would be $70 [greater of ($2,000 x 2%) + ($2,000 x (18% / 12)) or $15]. If you made only the minimum payment each month, it would take you 114 months to pay off the debt, and you would pay total interest of $1,314.

For other types of loans, the minimum payment is generally the same as the regular monthly payment.

Make additional payments

Making payments in addition to your regular payments or the minimum payments can reduce the time payments must be made and the total interest paid. The additional payments could be made periodically, such as monthly, quarterly, or annually.

For example, if you made monthly payments of $100 on the credit card debt above (the initial minimum payment was $70), it would take you only 24 months to pay off the debt, and you would pay total interest of just $396.

As another example, let's assume you have a current debt on which you owe $100,000, the interest rate is 7.125%, the monthly payment is $898, and you have a remaining term of 15 years and 3 months. If you make regular payments, you will pay total interest of $62,247. However, if you pay an additional $200 each month, it will take you only 11 years to pay off the debt, and you will pay total interest of just $44,364.

Another strategy is to pay one-half of your regular monthly mortgage payment every two weeks. By the end of the year, you will have made 26 payments of one-half the monthly amount, or essentially 13 monthly payments. In other words, you will have made an extra monthly payment for the year. Furthermore, payments are made earlier than required, thus reducing the total interest you will have to pay.

Pay off highest interest rate debts first

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt, and then allocate any remaining dollars to the debts with the highest interest rates.

For example, let's assume you have two debts, you owe $10,000 on each, and each has a monthly payment of $200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments, it will take you 94 months until both debts are paid off, and you will pay total interest of $10,827. However, if you make monthly payments of $600, with the extra $200 paying off the debt with an 18% interest rate first, it will take you only 41 months to pay off the debts, and you will pay total interest of just $4,457.

Get a debt consolidation loan

If you have multiple debts with high interest rates, it may be possible to pay off those debts by getting a debt consolidation loan. This type of loan will typically be a home equity loan. Therefore, the interest rate on it will often be much lower than the interest rates on the debts being consolidated. Furthermore, if you itemize deductions, interest paid on home equity debt of up to $100,000 is generally deductible for income tax purposes, thus reducing the effective interest rate on the debt consolidation loan even further. However, a home equity loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

Note: *All examples are hypothetical and for illustrative purposes only.*

The FAFSA relies on financial information from your previous year's federal income tax return; for example, a FAFSA completed in 2012 will rely on information contained in your 2011 return.

Q & A on Filing the Federal Financial Aid Application

The federal government's Free Application for Federal Student Aid, the FAFSA, should be filed as soon after January 1 as possible in the year your child will be attending college. The reason is that some federal aid programs operate on a first-come, first-served basis, so filing the application early ensures your child has the best chance of receiving the most favorable aid package.

Here are some common questions and answers regarding the application process.

What documents will I need to fill out the FAFSA?

The FAFSA relies on financial information from your previous year's federal income tax return; for example, a FAFSA completed in 2012 will rely on information contained in your 2011 return. So the papers and statements you use to file your tax return are generally the same ones you would need to fill out the FAFSA, such as Social Security numbers, W-2 information, and information on savings, investments, and business assets. Your child will also need to have this information.

But here's a dilemma: since most parents probably won't complete their federal income tax return in January, how can they fill out the FAFSA, which relies on figures from their tax return? There are two possible solutions. The first is to prepare your tax return earlier. The second is to prepare (or hire a tax professional to prepare) an estimated tax return, which can then be used to complete the FAFSA--a practice the federal government deems acceptable. If you use an estimated tax return, keep in mind that you will need to provide a final tax return later on.

Tip: *Even if you don't expect your child to qualify for federal aid, you should still consider filing the FAFSA because colleges often require it as a prerequisite for students to be eligible for the college's own institutional aid.*

How do I file the FAFSA?

You can complete a paper FAFSA or file it electronically. The way you submit the FAFSA does not affect your child's eligibility for aid.

You can get a paper FAFSA at your child's high school or your local library. Once it's complete, you should make a copy for your records and mail it in the preaddressed envelope that comes with the form.

You can file an electronic FAFSA at www.fafsa.ed.gov. You'll need to apply for a PIN before you can actually start filling out the online application. Electronic FAFSAs offer several advantages over paper FAFSAs: detailed online help screens, an online chat option with a customer service representative, built-in error detectors, confirmation that the application was transmitted successfully, and faster processing--one week as opposed to two to four weeks for paper FAFSAs.

Tip: *If you've previously filled out the FAFSA4caster, the federal government's online financial aid forecasting tool, the online FAFSA will be automatically populated with your data.*

What happens after I file the FAFSA?

After your FAFSA is processed, you will receive a Student Aid Report (SAR) either in the mail or electronically (depending on how you filed the FAFSA). This document summarizes data from your FAFSA and indicates your official expected family contribution (EFC), which is the amount of money the government expects your family to contribute to college costs for the current year to be eligible for financial aid. For example, "EFC25000" means that your expected family contribution is $25,000.

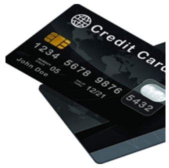
You should review the SAR carefully to make sure it contains your correct income and asset information. Any corrections should be made immediately and sent back for reprocessing. If you have questions, you can contact the Federal Student Aid Information Center at 1-800-433-3243.

Tip: *If there is an asterisk (*) next to your EFC figure, you have been selected for verification. FAFSAs are selected for verification randomly, or because the FAFSA is incomplete or contains estimated tax information. If you are selected for verification, you will need to provide additional documentation that might include a final tax return, household information, or appraisals for certain assets listed on the FAFSA. Not all families selected for verification will need to submit the same documents.*

The SAR is also sent to each college you listed on your FAFSA. Once the college receives your child's SAR, the financial aid administrator at each school that has accepted your child will craft an aid package that tries to meet your child's financial need (remember, colleges aren't obligated to meet all of it). To determine your child's need, the administrator subtracts your EFC from the cost of attendance at that particular college. Your child will then be notified of the college's aid package in an award letter sent out in the spring. The package typically includes various combinations of federal and college loans, grants, scholarships, and work-study jobs.

Ask the Experts

Johnston Investment Counsel
Gregory A. Johnston, CFA, CFP, QPFC, AIF
President & Chief Investment Officer
331 Fulton
Suite 429
Peoria, IL 61602
309-674-3330
309-685-6957
gjohnston@jicinvest.com
www.jicinvest.com



Can reducing my credit card debt actually lower my credit score?

Most lenders use an automated credit scoring system to help determine your creditworthiness. The higher your credit score, the more creditworthy you appear.

One of the factors built into credit scoring systems is your credit card balance-to-limit ratio (the amount of debt you owe compared to your total credit limit for all cards). Lenders like to see ratios indicating you're indebted for balances approximating no more than 30% of your total limit. Generally, if your balance-to-limit ratio is higher than that, then reducing your debt will improve your credit score. But how you reduce your debt can make a difference.

You may have heard that you should consolidate several credit card balances on one card with a low interest rate, then close the paid (usually higher-rate) accounts. Doing so, the claim goes, not only minimizes the risk that you'll "dig the hole" of indebtedness even deeper, it also reduces your exposure to identity theft through the fraudulent use of inactive open lines of credit.

But if you do this, you could:

- Lower your total credit limit available without lowering your total debt, thus raising your balance-to-limit ratio--and potentially lowering your credit score in the process
- Make your credit history appear shorter by canceling accounts you have had open longest--and a shorter credit history also may lower your credit score

While it makes sense to transfer balances subject to high interest rates to accounts with lower rates (and then concentrate on paying down what you owe), consider waiting to close the paid accounts. Keeping them open may actually improve your credit score by lowering your balance-to-limit ratio (since you'll have the same amount of debt, but a higher total credit limit) while maintaining the longevity of your credit history.

How can I tell if I have too much debt?

It may sound like a bad joke to say that you have too much debt when you find you're unable to borrow more, but there is more truth than humor in the flippancy.

In determining your ability to repay debt, lenders will examine your debt-to-income ratio. Calculating this ratio can involve a couple of different variations. Your "debt service ratio" compares your total monthly debt payments (including your mortgage payment) to your gross monthly income. Your "debt safety ratio" compares your monthly consumer debt payments (not including your mortgage) to your take-home income.

You will generally qualify for a conventional mortgage if your debt-to-income ratio (including the potential mortgage payment) is 36% or less. Federally guaranteed mortgage programs may allow debt-to-income ratios of up to 41%. And unsecured lenders (like credit card companies) allow even higher debt-to-income ratios--and then charge you higher interest rates to compensate themselves for the potential risk you represent to them.

To be on the safe side, however, your debt service ratio should ideally be 25% or less and should be no greater than 35%, while your debt safety ratio shouldn't exceed 20% and should preferably be 15% or less.

While it can be difficult to live in today's society without incurring debt, it also can be difficult to live with too much debt. Here are some warning signs indicating that you may be too close to the edge:

- You can't maintain an emergency fund to cover 3 to 6 months of normal expenses
- You make only minimum monthly payments on your consumer debt
- You're at or near your credit card limits
- You use credit cards to pay for things you used to buy with cash (this may not be a concern if you're paying off your credit cards every month)
- You take cash advances against your credit cards to pay other bills

Johnston Investment Counsel
LIFE THE WAY YOU PLANNED IT.