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It has proven to be an eventful year thus far, with U.S. market swings, continued economic challenges and significant volatility in the global environment—all

of which have the potential to continue through the end of the year. These factors, along with the anticipation of an election, have sparked many in-depth discussions among you, our clients, and our Investment & Wealth Management associates.

As your partner, we feel we have a responsibility to provide you with the information you need to make informed financial decisions for yourself, your family and your business in a variety of ways. With that in mind, we have developed this quarterly communication to further support our mission. Enclosed, you will have access to timely and educational pieces written by our own industry experts. Of particular interest in this issue is an economic update from CIO KC Mathews, an overview on significant changes that may affect you if the Bush tax cuts are allowed to expire and a best practice article on minimizing your personal fraud risk exposure.

We hope you find this information helpful and informative and look forward to talking with you soon.

Sincerely,

Déjà Vu All Over Again?

Since the beginning of the year, our U.S. forecast has been for a continuation of mediocre economic growth, with global financial dislocations acting as a constraint in the U.S. The first six months looked promising, and then just as in 2010 and 2011, we experienced a mid-year slowdown. Recent data supports a domestic growth rate of only 1.90 to 2.25 percent. Once again, fundamentals of the economy are softening, and we are experiencing another mid-year pause.

KC MathewsExecutive Vice President &
Chief Investment Officer,
UMB

Mixed Messages

Domestically, we are experiencing a tale of two markets. The bond market would seem to indicate that the world is coming to an end. This is due to the European debt crisis and the impact it may have on global markets. The countries with the strongest balance sheets and powerful economic engines, thus the strongest currencies, are offering historically low interest rates. In many cases, the real yield (adjusted for inflation), and to a lesser extent the nominal yield, on these safe harbor sovereign credits are negative. This tells us that investors may be using the bond market as a currency trade. Foreign investors faced with a depreciating currency are searching for a market that offers currency protection and liquidity. The U.S. bond market fits the bill.

The U.S. stock market, using the S&P 500 as a proxy, is sending a very different message. The S&P 500 posted a return of 9.5 percent in the first half of 2012. Corporate earnings in the first quarter were robust, and second quarter earnings, albeit slowing, are still positive. Potential for additional stimulus, or even the discussion of it, will provide support for the equity markets and more than likely move it higher by the end of the year. It doesn't seem like the world is coming to an end according to the stock market.

Global Economic Themes

We think there are three primary risks in the global economy:

1. European debt crisis
2. Potential "fiscal cliff" here in the U.S.
3. China's slowing economy

News on these issues seems to drive daily market action. Central bankers and politicians debate the need for additional stimulus; however, we think additional stimulus here in the U.S. would have a diminishing impact on the economy. Stimulus in the euro zone or China may be more impactful on a global basis.

Gross Domestic Product

The Fed recently released its Beige Book, which is a summary of economic conditions. The report took on a modest tone suggesting there were signs that the pace of the expansion was slowing. When the data portrays a soft economy with little inflation pressures, it increases our confidence that interest rates will be held at a very low level for an extended period of time.

Real Gross Domestic Product (GDP) slowed to 1.5 percent in the second quarter. This was down from its 2.0 percent rate in the first quarter of 2012 and the increase of 4.1 percent in the fourth quarter of 2011. Second quarter figures are based on preliminary data and will be revised; nevertheless, it confirms the mid-year pause.

We anticipate 1.9 to 2.25 percent growth in 2012. Based on a survey of 100 economists, the consensus remains at 2.1 percent annual GDP.

The Fed is more than likely on hold for the time being. Sluggish economic growth will likely bring lackluster earnings growth. We are in the middle of second quarter earnings season and believe earnings could be flat to slightly positive, which will keep the equity markets in a trading range. If the Central Banks were to take action in the form of global quantitative easing, appetites are likely to increase for riskier assets. This hope of stimulus may send the equity markets higher.

Consumer Spending

As noted in the bullet points below, consumer spending patterns have slowed. This could be a result of the uncertainty created by the looming “fiscal cliff.” If Congress lets us go off the cliff and allows fiscal tightening, the potential hit to the economy is equivalent to 5.0 percent of GDP. We do not expect the economy to tumble entirely over the cliff, but it is more than likely that taxes will rise and consumers will be cautious until they understand how the changes affect them.

- Retail sales in June surprised to the downside at -0.5 percent versus 0.2 percent expectations.
- Personal consumption improved 0.1 percent in June, and spending remained flat.
- Incomes are softening; average hourly earnings were up 2.0 percent year-over-year in June.

Consumer spending is vital to economic growth and represents 70 percent of GDP. In the first quarter, consumers outspent their incomes. This obviously is not sustainable. However, we don't believe the numbers are signaling a recession, and a pause in consumer spending

is normal at this phase of a recovery and expansion cycle, based on historical norms. At present, we are anticipating just another mid-year slowdown.

Employment Data

The labor market that seemed to be healing in the first quarter now shows signs of stress. June data is weak, but it's too early to throw in the towel. Leading indicators, initial unemployment claims and National Federation of Independent Business (NFIB) hiring plans continue to show a recovering labor market. Our unemployment rate forecast is at 7.75 to 8.20 percent for year-end.

- The June payroll employment report disappointed again with only 80,000 new jobs (versus 100,000 median estimates). This was the third consecutive significant upset for this metric. The unemployment rate remained at 8.2 percent, primarily due to the increase in the labor force.
- Initial unemployment claims have been below the critical 400,000 level for 37 consecutive weeks, although they've been drifting upward lately. The most recent reading came in at 350,000, and previous readings have been revised upwards. The current four-week average now stands at 377,000.
- Potential weakness: the government's U6, which includes unemployed, part-time and marginally-employed workers, rose to 14.9 percent after seven months of steady declines. Double-digit U6 readings diminish the effect of some employment gains and could hinder economic growth.
- NFIB hiring plans continue to hold in positive territory.

In 2011, we averaged 162,000 new jobs per month. In the first quarter of 2012, the average was 226,000, and in the second quarter of 2012, we averaged only 75,000 new jobs. Our economy will not return to trend growth (3.3 percent) without the creation of new jobs. There are other risks in the job market; the duration of unemployment is at levels not seen in decades. The longer one is unemployed, the more skill sets and competencies can erode, which could potentially make the person a less desirable candidate.

Confidence

- Gasoline prices have softened, down 10 percent in the last eight weeks, and retail sales have slowed similar to seasonal patterns in an expansion. This data supports GDP growth in the 2.0 percent range.
- According to the University of Michigan, in June, consumer confidence decreased to 73.2—the lowest reading in six months and well below expectations of

77.0. NFIB Small Business Optimism Index broke its uptrend, dropping from 94.4 to 91.4. A level of 100 or greater would indicate robust economic growth.

The continued talk of the three risks we have outlined will increase the uncertainty level that will remain throughout the second half of the year. Consumers appear to be taking a wait-and-see position. This will keep economic growth in check and may put downward pressure on corporate earnings and revenues.

Housing

Housing data, which has been a drag on the economy since 2006, has become the shining star of economic data.

- Housing appears to be developing a floor, but it is premature to call it a rebound. Warm winter weather is clouding data, pulling demand forward. This is good news for homebuilders and banks.
- Homebuilder confidence spiked in June to 35—its highest reading since 2007.
- June housing starts rose nicely to a 760,000 unit annual pace. Building permits are up 20 percent year-over-year.
- Inventory of homes is at a six-month supply or a balanced market. Shadow inventory is unclear (estimated at 3.5 million homes) and could be a drag on recovery and prices.
- Case-Schiller home prices continued to improve, showing a slowing year-over-year rate of decline (the lowest level since 2003). Data suggests distressed home prices are weak and non-distressed home prices are flat.

In order to have a robust economy, we need housing to be healthy. Every 100,000 new housing starts translates directly into 300,000 new jobs. In addition, there is a second derivative on employment creating another 300,000 jobs indirectly.

Inflation

- High unemployment and spare capacity should keep inflation in check. Our 2012 Consumer Price Index (CPI) forecast is at 3.0 percent. Core inflation (x food + energy) is near Fed target.
- Headline CPI was down -0.6 percent in June, but up 1.6 percent year-over-year. Core CPI rose 0.2 percent in June, and 2.2 percent year-over-year.
- 40 percent of CPI calculation is shelter-related. Any rebound in housing prices will impact CPI data.
- The latest Fed data and commentary from the Federal Open Market Committee (FOMC) indicates no inflation concern.

- Retreating gas prices are a positive.
- We are closely watching wage inflation, which has been in downtrend since 2007. Average hourly earnings were up only 2.0 percent year-over-year.

Inflation will not be a threat in the short-run. Shelter (home prices and rents) is 40 percent of the CPI formula. As stated above, home prices are far from escalating at a rapid, inflationary pace. Many investors and asset managers are now concerned about the drought in the heartland, and the impact it will have on agricultural product prices and inflation. Food generally represents only 13.7 percent of CPI. Therefore, if crop prices remain elevated, we don't think it will contribute more than 0.5 percent to overall inflation.

At the macro level, the glass appears to be half-full. Some of the economic data, when viewed on its own, would point to an economy growing at a level below 2.0 percent. However, there are positive signs and much of the catalyst relies on policy issues. We think many of the serious decisions here in the U.S. and abroad will be pushed into early next year. In conclusion, our economy is facing many headwinds. The trump cards are held by our politicians and central bankers, and as we wait for policy decisions, we will see tepid economic growth, low interest rates and volatility in the equity markets. U.S. economic growth of 1.90 to 2.25 percent could still produce satisfactory returns in the equity markets.



KC Mathews joined UMB in 2002. As executive vice president and chief investment officer, Mathews is responsible for the development, execution and oversight of UMB's investment strategy. Mathews has more than 20 years of diverse experience in the investment industry.

Mathews earned a bachelor's degree from the University of Minnesota and a master's degree in business administration from the University of Notre Dame. He also attended the ABA National Trust School at Northwestern University and is a Chartered Financial Analyst (CFA) and member of the CFA Institute.

Sunsetting Tax Provisions – Now is the Time to Plan

In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA). Following closely on its heels was the 2003 Jobs and Growth Tax Relief Reconciliation Act (JGTRRA). These two pieces of legislation made sweeping changes to the tax code, particularly as it related to income tax, alternative minimum tax, capital gains and dividend tax and estate and gift tax. In 2010, just as all these changes were set to expire, the Tax Relief Act extended or modified almost all these code changes for an additional two years. This means these will expire at the close of 2012.

Susan Teson
Senior Vice President &
Senior Counsel, UMB

Barring a major crisis of international economic proportions, the likelihood that any legislation will come to the floor before the lame duck session post-election or the first month of the new Congress is very low. In the meantime, the following explains briefly what current legislation dictates in the New Year and actions individuals and business owners might consider should the tax provisions expire.

Income Taxes

The change that will most likely affect all taxpayers is the income tax rate reversion. Although the brackets will continue to be adjusted upward for inflation, the rates themselves will return to rates not seen since 2001. Individuals should talk with their tax advisor on items to evaluate, such as their elected withholdings, in order to ensure they make any necessary adjustments. Additionally, business owners and the self-employed may wish to seek counsel on ways to minimize impact on their income and receivables, as well as the potential to defer tax deductions to next year.

Exemptions

Many exemption phase outs were increased or eliminated through EGTRRA and JGTRRA, which allowed higher income taxpayers to take advantage of several deductions and credits. The Personal Exemption deduction income threshold was phased out over a period of years, and has been completely eliminated for the past two.

If these are not renewed, some taxpayers may be ineligible for many of the deductions and credits they have enjoyed the past few years, which could significantly affect the amount of income taxes paid. Talking with a professional to proactively adjust planning strategies will help minimize some of these impacts.

Dividend and Capital Gains

In 2003, under JGTRRA tax rates for qualified dividends and long-term capital gains were lowered from 20 percent to 15 percent for high income taxpayers, while taxpayers in the lowest two tax brackets paid no capital gains tax (previously they had paid between eight and 10 percent tax). Items individuals and business owners may wish to evaluate include low basis stock holdings, installment sales, ordinary income conversions and the Accumulated Earnings Tax and Undistributed Personal Holding Income provisions.

Taxes Related to Children

The Child Tax Credit, currently \$1,000, will return to \$500 and no longer offset the Alternative Minimum Tax (AMT) and regular income. Furthermore, the refundable portion of the credit will no longer qualify as income. Finally, the lower dollar amount of the future credit will cause a reduction in the phase out for taxpayers with modified adjusted gross incomes of \$110,000 filing jointly and \$75,000 filing individually.

Credits for child and dependent care, as well as adoption assistance are also changing as are the various expiring incentives related to education. These are significant shifts for parents to discuss with their financial advisor.

Alternative Minimum Tax (AMT)

The AMT was the focus of EGTRRA and several subsequent pieces of legislation, each providing for AMT “patches” that inflated the amount of the exemption, thus shrinking the number of taxpayers subject to AMT. This “fix” expired at the end of 2011, so it will continue to be an issue for those who hold incentive stock options or municipal bond portfolios that provide large amounts of tax-free income. For these taxpayers, a portfolio review with a tax advisor to discuss the potential tax consequences of this lapse is recommended.

Estate, Gift and Generation Skipping Transfer Tax

Perhaps the largest shift from current rules will occur in estate and gift taxation. At expiration, the rates will climb from the current maximum of 35 percent to 55 percent, and the exemption amount shifts from a \$5.12 million dollar exclusion in 2012 to a \$1 million dollar exclusion in 2013. Additionally, portability, which was introduced by the 2010 Tax Relief Act, currently permits the surviving spouse to carry forward the amount of the deceased spouse’s exclusion that remained unused; however, this is also set to expire at the end of 2012.

Those with gifting plans should work with their advisor to determine whether it’s prudent to take advantage of some, or all, of the \$5 million exclusion for gifting before it sunsets at the end of the year. This conversation should include their legal and tax advisors.

The Generation Skipping Transfer (GST) tax exclusion was also increased to \$5 million in 2010 and saw its applicable tax rate shift to 35 percent until the end of 2012 when it too will revert to a 55 percent tax rate. The GST exemption will

revert to approximately \$1.39 million after 2012 (as indexed for inflation).

As such, those who intend to make a gift to grandchildren or later descendants may want to talk about the benefits of doing so prior to year-end to take advantage of the higher GST exemption.

Now is the Time to Plan

It is impossible to predict how these sweeping changes will be handled in the coming months. Rather than trying to guess the outcomes, individuals should schedule time with their trusted advisors so they will be aware of the potentially changing provisions that will most affect them. Taking proactive and strategic steps now will help to ensure the best outcomes for the future.



Susan Teson joined UMB in 1992. As senior vice president and senior counsel, she manages the Investment & Wealth Management legal team. Her team is responsible for reviewing trust and will documents and working with attorneys, clients, trust advisors and bank associates on estate planning and legal issues concerning the administration of trusts, investment management and custody accounts and estates. Teson earned a bachelor’s degree in English from the University of Missouri-Kansas City and a Juris Doctor from the University of Missouri-Kansas City School of Law. She is a Certified Financial Planner (CFP) and a member of the Missouri Bar, the Kansas City Metropolitan Bar Association, the Estate Planning Society of Kansas City and the Kansas City Estate Planning Symposium Committee.

Email Safety

Phishing scams

Phishing email – email that tricks you into sharing your confidential information – is sent by online criminals with a single goal – to steal your information! Although many scams are not reported, research shows that financial loss due to phishing email has exceeded into billions of dollars for consumers and businesses alike.

How does this happen?

We are quick to respond and offer information via email. Phishing email preys on our human nature to help someone or believe there is some type of good deal or financial reward.

Phishing email is sent via desktop or laptop computer, tablets, cell and smartphones. Often we are in such a hurry that we click on a link or respond to an email even if that email is unsolicited or we don’t know the sender.

Be mindful that laptops and desktops aren’t the only device receiving phishing emails

Cyber criminals are using cell and smart phones, social media sites and other digital and electronic devices to send phishing emails riddled with computer malware.

Responding to suspicious phone messages or personal messages in your social media account could also compromise your information and security.

How to detect a phishing email

Phishing emails are unsolicited and ask you to take some type of action – click on a link, open an attachment – all for the purpose of harvesting private information (password, financial accounts, and sensitive information) Phishing emails often create a tone of urgency. Things to help you detect a phishing email:

- Click the attachment to win your prize (if it's too good to be true, it isn't).
- Your account is being closed! Click on the link and enter your information.
- Win a new computer by completing the attached form!

Common scenarios

Often when a national crisis, such as a weather catastrophe happens, there are phishing emails that promote donations. Before donating, close the email and go to the official Web site.

Another scenario is when online criminal online criminals send an email asking recipients to “update” or “validate” billing information in order to keep their accounts active. The email usually directs the recipient to a “look-alike” Web site of the legitimate business, further misleading consumers into thinking they are responding to a bona fide request. Again, google the company and find the appropriate link yourself to a company's web page.

The result of these emails is that consumers unknowingly submit their financial information — not to the businesses but — to criminals, who use it to order goods and services, compromise accounts, redeem funds, and obtain credit. In this way, criminals can also steal your identity.

What can I do to help from becoming a victim of a phishing email?

- Don't trust email addresses – especially if you don't know the sender – verify the sender before sharing or opening any attachments or clicking on links within the email.
- Make sure you have a strong password on your email account – a strong password has upper and lower case letters, numbers and special characters and doesn't include your home address, family names and other information that identifies you.
- Avoid filling out forms in email messages. You can't know with certainty where the data will be sent and the information can make several stops on the way to the recipient. Instead, contact the company cited in the email using a telephone number or by visiting a Web site you know to be genuine or choosing one from your “favorites” list.
- Avoid clicking on links in an unsolicited or suspicious email message from a company. Too many online criminals create a company Web site that looks like the real thing. Instead, confirm the validity of all requests for sensitive personal, financial or account information, particularly if they are made with an urgent or threatening tone.
- Never send your personal information via unsecured email or Web page. Check to see if there is an 's' after the http in the address bar and a padlock symbol at the bottom of the screen Remember: Legitimate companies will never ask you to send confidential information via email.

- If you want to do business online, don't click on an email link. Go to the company's Web site yourself and fill out information there.
- Always sign off from Web sites or secure areas of Web sites (for example, online banking) for which you use an ID and password to enter.
- Make sure you have installed security software to help protect your computer or mobile device. Software companies provide security updates to their products on an ongoing basis. To learn more about keeping your computer security current, get tips and information from the National Cyber Security Alliance.

Help reduce the amount of phishing email spam you receive:

- Do not display your email address in any type of public or online forum.
- Avoid submitting your address to Web sites that sell your address.
- Use two email addresses — one for personal business and a second for newsgroups, chat rooms, etc.
- Use an email address that combines letters and numbers. Most email spam is targeted to addresses that spell out names and words.
- Use an email filter. Check your email provider to see if it provides a tool to filter out potential spam or a way to channel spam into a bulk email folder. You might want to consider these options when choosing an Internet service provider.

How do I know if my computer is compromised?

It can be challenging to detect an infected computer. More often it's a hijacked account that lets you know there is an issue. Signs of a compromised computer

- Often you will see new icons in the lower blue tray of your computer. That could have happened when you downloaded software and there may have been a check box asking if it's ok to install a new program and often it's checked already and you don't notice it.
- Often your friends and family will receive emails from you that don't make sense. If this happens, immediately change your password. The Web sites for your Webmail will provide instructions on their homepage.
- If your computer is running exceptionally slow, this could be a sign of a hacker taking over your computer. Contact your computer vendor and work with them to re-image your computer.

Other signs:

- Your inbox is full of MAILER-DAEMON rejection notices for messages you didn't send.
- People you know are getting emails from you that you didn't send.
- There are outgoing messages in your Sent, Drafts or Outbox folder that you didn't create or send.
- Your account folders (Sent, Deleted, Spam, Inbox, etc.) have been emptied or deleted.
- Your Address Book contacts have been erased.
- During sign-in or when sending a message, you're asked to pass an image challenge.
- Emails you try to send are suddenly getting refused and returned to you.

- There are contacts in your Address Book you didn't add.
- You keep getting bumped offline when you're signed into your account.
- Your email signature suddenly has a link you didn't put there.
- You're not getting new mail or your new mail is going straight into your Saved IMs folder.

Let's review some tips to help with a safe computer and keep your accounts safe:

- Do not check "Remember Password" on your accounts.
- Make sure you have anti-virus and other security software installed. Some include:
McAfee Norton Trend AVG
- Don't respond to a pop-up box telling you to install security software or enter information
- Avoid clicking on ads in Websites.
- Create a strong password for your Webmail account – a password that contains upper and lower case letters, numbers, special characters, and does not reflect you, your family or information that identifies you and could be easily guessed.
- Make sure your computer has the latest software and operating system updates.

- Regularly check your accounts and keep important phone numbers with you in case you need to contact someone.
- Be mindful of using your account in public places (coffee shops, airports, hotel lobbies). Public Wi-Fi means everyone is using the same network for their use. Although convenient, easy method for a hacker to steal your information.
- Change your password every 20 – 30 days and make sure you create your own security question that only you would know.
- Use two email addresses – one for personal business and a second for newsgroups, chat rooms, etc.

If you suspect you have been taken advantage of by email fraud:

- Contact all three credit bureaus immediately. The following are links to their Web sites:
Experian Equifax TransUnion
- File a complaint with the FTC online at www.ftc.gov. Complaints will help the FTC find and stop people who are using spam to defraud consumers.

Information on email safety was compiled by UMB's Information Security team.

Economic Indicators

2012 Outlook by the Numbers

	2010	2011	Current	2012 (Estimated)	Year End Target
Real GDP Growth Rate	3.0%	1.8%	1.5%	1.90% - 2.25%	
Housing Starts	526K	681K	760K	700K	
Unemployment Rate	9.4%	8.5%	8.2%	7.90% - 8.20%	8.2%
Projected Fed Funds Rate	0.25%	0.25%	0.25%	0.25%	0.25%
Projected 10-Year Treasury Rate		2.0%	1.42%	1.25% - 2.50%	1.75%
S&P 500 Price	1257	1257	1331	1200 - 1450	1375
S&P 500 Operating EPS Growth	47.0%	15.1%	8.1%	5.0% - 8.0%	
Inflation - Core CPI (Year-over-Year)	0.8%	2.2%	2.3%	2.1%	
Core PCE Deflator (Year-over-Year)	0.9%	1.9%	1.9%	1.8%	

2012 Global Economic Growth Forecasts

Areas	Average 1990-2007	2011	2012 (Estimated)
U.S.	2.90%	1.70%	2.10%
Eurozone	1.90%	1.50%	-1.50%
Japan	1.60%	-0.50%	0.00%
Developed World	2.40%	1.10%	0.70%
China	10.20%	8.50%	7.00%
Emerging Economies	6.50%	6.80%	5.50%
Total World	3.60%	2.90%	2.30%

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