MACMILLAN FINANCIAL
JOHN MACMILLAN, CRFA, CLTC, CSA
3 WERNER WAY, SUITE 300
LEBANON, NJ, 08833
T: (908) 236-7500
F: (908) 236-7511
WWW.SENIORSBOOMERS.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

October 2007

MARKET SNAPSHOT

Business Cycle Conditions are poor. The Leading Economic Indicators still point to, and are telling us that a contraction of general business activity is occurring with only 3 of the leading economic indicators expanding, 5 are retracting and the other 4 are in neutral.

In September the Federal Reserve came to the rescue of both the credit market and the stock market. The Fed's action has replenished the 'punch bowl' for a while and improved market psychology. But, now that we're in earning's season, corporate profits or losses or disappointments will tell us what direction the market is headed.

Before rejoicing about interest rate cuts, we should keep in mind that they are like a double edged sword. The markets like them because they reduce financing costs. Foreign countries however are not so keen on sliding U.S. rates. Last year we had a total of $1 trillion in net foreign investment come mostly into the US bond market. Lower rates will make our bonds less attractive and a sharp drop in foreign investment would lead to a further slide in the value of the dollar. The Middle East is currently holding $3.5 trillion dollars of our debt. Scary, isn't it!

While the lower dollar on one hand is certainly good news for our exports, it is also a recipe to import inflation. If inflation teams up with a slowing economy which leads to job losses, we could be in for quite a rough patch and a recession.

Now, some good news:

The smart money indicators that I follow in the market are still betting on more upside in the S&P 500.

WHAT TO DO NOW:

1) Diversify your investments.

2) Asset Allocate your investments.

3) Set stop loss trigger alerts for your investments.

4) Dividend paying, large, blue chip, global stocks.

For help with any of these issues, call my office for a free consultation.

A Fixed Annuity Offers More Control over Your Taxes

A recent study concluded that high tax-bracket investors who had held taxable mutual funds were losing 25% of their returns to taxes each year. And bond funds' returns were shown to have lost almost 40% in 2002.

This loss to taxes can be attributed in part to how portfolio managers control the tax liability that is passed on to shareholders. Because every time the fund manager declares a distribution, such as an interest payment or a short-or long term capital gain, it flows through to your taxable income and you get a 1099. This happens even if you never withdraw any money. Therefore, if you presently don't need the income from an investment, why pay taxes on its earnings?

Based on the above study's findings, if you invest $100,000 in a bond fund that yields 6%, you would lose up to 40% to taxes. And you will end up with a 3.6% after-tax return. After five years, your account would be worth $119,344. On the other hand, an investment that allows interest to accumulate tax-deferred, such as a fixed annuity with a five-year 5% rate, would grow to $127,628.

All of this doesn't mean that taxable mutual funds are bad investments. But depending on your present and future needs, a fixed annuity can be good alternative. The interest rate is locked in for a term that you choose, your principal is guaranteed by the claims paying ability of the insurance company, and you control when to pay income taxes.

For our free booklet that describes how annuities could possibly save you thousands, check off and return the enclosed coupon.

Guarantee based on claims paying ability of issuer. Not government or FDIC insured.

A fixed annuity will have surrender charges and withdraw restrictions. Read the prospectus carefully before you invest.

5 Investor Mistakes You Must AVOID

1) NOT TAKING PROFITS.

You must learn to turn your paper profits into real profits. Credo: On Wall Street 'pigs get slaughtered'.

2) NOT KNOWING WHEN TO SELL

If you have an investment that loses 10% of its value, it's time to research it thoroughly and figure out if it's likely to bounce back quickly. If it's not, dump it. If it loses 15%...dump it NOW.

3) OUT-OF-FAVOR-SECTOR

You can own a great company, but if it's sector (eg; housing) is out of favor with the big money…the big money will take everything down…both the good & bad companies. Sell.

4) OVER CONCENTRATION IN 1 STOCK

As good as any one company or mutual fund may be, it is ***never wise*** to have all your eggs in one basket. In fact 10% should be about your maximum. Diversify.

5) BEING EMOTIONALLY ATTACHED

As much as you may love that security that you researched to death and nurtured like a child, there comes a time when its job is done – for better or worse. Again, you have to know when to take profits or reduce your losses. See Mistakes 1, 2, 3 & 4. Sell when you should and diversify as you must.

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Exceptions to the IRA 10% Early Withdrawal Penalty.

There are many people holding IRA's who make mistakes that cost them a 10% penalty with their qualified account transfers and withdrawals. What follows is a list of when an exception to the 10% rule will apply, and when it does not.

EXCEPTION TYPE	RETIREMENT PLANS & IRA	IRAS ONLY	PLAN ONLY
DEATH	✓		
DISABILITY	✓		
72t DISTRIBUTE	✓		
MEDICAL EXPENSES	✓		
IRS LEVY	✓		
ACTIVE RESERVISTS	✓		
EDUCATION EXPENSES		✓	
1ST TIME HOME BUY		✓	
HEALTH INS WHILE NOT EMPLOYED		✓	
AGE 55			✓
SECTION 457 PLANS			✓
DIVORCE & QDRO			✓

Courtesy Ed Slotts IRA Advisor, August 2007