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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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MARKET SNAPSHOT

The $64 question is: are we in a recession or not? Frankly, for all those folks who have lost their job this year, my guess is that they would say YES. In fact, I just recently read an analyst report estimating that the financial services industry alone will probably lose 200,000 jobs before the credit fiasco is over. So, at this point, from my humble office in Lebanon, New Jersey, I'd have to say our economy has seen better days…semantics aside.

The stock market hasn't fared very well either this quarter. For the first 3 months of the year, the S&P was down roughly 10% and the NASDAQ was off 14%. In fact, from their highs in October, the S&P has retreated 19% (very close to official bear territory) and the NASDAQ is down by 25% (very much in bear territory). These numbers tend to underscore the recession theory and the newly released unemployment figure of 5.1%.

Another $64 question: when will the credit crunch end and we get the economy back up on the rails? My best guess on this point is we still need one more shoe to drop…and that is with Japan. As we all know the Japanese hold a significant amount of our debt. I find it very difficult to believe that within the $586.9 BILLION of USA debt that Japan held as of January 2008, they don't have a *little* bit of toxic waste imbedded therein. Only time will tell.

Now, for some good news. The smart money (institutional) that you often see me refer to, has not abandoned stocks. In fact they are still very much on the buying side right now. Frankly, there are buying opportunities everywhere I look in the stock market. Morningstar, again, reviewed their fair market value estimates for the over 2000 companies that they cover and have proclaimed that the market is the cheapest it's been since October 2002.

This brings up another point. In the type of market we are in today, it pays to be selective with the stocks we purchase. A very common mistake people make in their portfolios is buying good companies instead of buying ***good investments***. By that I mean, a good company may be fully priced to market. A good investment has upside potential. Today, more than ever, the adage applies: Winners cherry pick. Losers bottom feed. As Warren Buffet says: 'be fearful when others are greedy; be greedy when others are fearful'.

Bear in mind, this buying pattern has to be tempered with an understanding of risk. Buying stock in a company with the potential to 'go through the roof' is a great idea, providing it also doesn't have the possibility of 'dropping through the floor.

So far his year, *INSIDERS* have been 'net buyers' of their company stock. This is the first time this has happened since 1995. Very bullish! On a technical basis, the benchmark averages have bounced off their January lows three times. This is also bullish…at least in the short term. Another positive indicator is that the Dow Transports have held up strongly in the midst of the 1st quarter market declines.

There is a much data which suggests that we may see a better second half in 2008. Getting through the next 3-4 months of this roller coaster market, however, is the trick. It helps to maintain the long term view. We must all be investors…not speculators. Diversification remains the key, buying non-correlated asset classes and as well as buying assets outside the USA.

What matters most for a retiree is R.O.I…which in this case stands for '**reliability of income'.** This is how you sleep at night knowing that you are able to maintain your lifestyle now, and in the future. If you know where your income is coming from and it's **secure**, you will be able to see past short term

fluctuations in the stock market. Long term, we all realize, the market will go up as the U.S. economy expands and corporate profits continues to grow.

One final note, and it's a question I often get: if we are all long term investors, and our portfolio is diversified, when do we sell a stock? The answer to this one is really simple. We sell when we find a better investment to put our money in.

WHAT TO DO NOW:

1) **Focus on stocks trading for less than their 'fair value'…and according to Morningstar there are thousands.**
2) **If the market is making you uneasy and keeping you awake at night, you are NOT properly diversified. You are in all probability taking on TOO much risk.**
3) **Buy dividend paying stocks. Right now, there are some which are paying absolutely fabulous returns in the Dow 30.**
4) **With a weak US currency, buy companies with strong earnings overseas which will improve your portfolio performance.**
5) **Municipal bonds currently look particularly attractive.**
6) **Rebalance your portfolio.**
7) **Don't give up. Stay invested.**

For help with creating portfolios that can help you sleep at night, call my office for a free consultation.

Can you afford to wait for the jackpot?

Have you spent years or possibly decades accumulating money for retirement? Perhaps you diligently put part of your paycheck into a variable annuity, mutual funds, or stocks every month. Or maybe you built up some wealth by increasing the equity in your home and now you are ready to scale down and cash out. Regardless of how you got to where you are today, you have probably seen the value of your investments fluctuate widely over the years. But now it's time to think about how much risk you are willing to take with your future.

Those familiar with my Six Money Bucket strategy, know that this system can set up a reliable income stream for 25+ years for you and your family. Part of establishing this guarantee requires working with annuities. Not variable annuities (I don't like these for retirees), but either fixed or immediate.

Annuitizing an investment is the equivalent of getting out of the game and cashing in your chips. Generally this means looking for a steady income and in return giving up the chance of hitting the jackpot in the future. But should you accept the risk of losing an opportunity in exchange for a secure return? The best way to start to answer that question is to look at what is going on around you.

People are living longer. The most recent figures put out by the Centers for Disease Control state that a 65-year-old person is expected to live 17.9 years. Fifty years ago that number was 13.9 years. Thus the possibility of you outliving your savings is greater now than ever. And further medical advances will only improve your chances of living a long, active life. A fixed or immediate annuity may provide a steady income that you cannot outlive. (Guarantees are based on the claims-paying ability of the annuity company. The purchase of an annuity may incur substantial fees and charges. Be sure to understand these fully.)

Additionally, income from annuitization may possibly be taxed more efficiently. This may give you more money to spend when compared to other ways of generating revenue. This is so because part of the proceeds from an immediate annuity is considered a return of your initial investment. Therefore, it is tax-free. The "exclusion ratio" is determined by your age and the length of the payout schedule you select. (IRAs and other retirement plans might not qualify for the exclusion. Consult with your tax professional.)

For expert help calculating your true income needs in retirement, call my office for a free consultation.

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IF YOU HAVE FAMILY OR FRIENDS THAT MIGHT ENJOY MY ARTICLES, FEEL FREE TO PASS THEM ON.

Common Pitfalls Investing in ETF's

Exchange-traded funds (ETFs) can allow you to invest in a number of companies unified by a particular

investing theme (such as the Dow Jones Industrial Average). Some investors like them because they are not actively managed, which tends to reduce their fees. There are some potential pitfalls to watch out for however. Let's review a few.

Is your ETF really an ETF?

According to the Securities and Exchange Commission (SEC)[1], an ETF is a type of investment company whose objective is to achieve the same return as a particular market index. In some respects, an ETF is similar to an index mutual fund in that it will primarily invest in the securities of companies that are included in a selected market index [2]. However, don't let yourself be fooled by investment vehicles that purport to be an ETF. For instance, they might be traded on an exchange, but are in fact actively managed. This is where a little due diligence is needed.

Are you over-concentrated?

When selecting an ETF, be sure it's a suitable investment for your portfolio. For example, if you already hold a number of large-capitalization, dividend-paying stocks, you might not want to buy shares of the Dow Jones Industrial Trust ETF. That could create an undesirable portfolio overlap which could open you up to more concentration and accompanying risk than you're ready to accept.

ETFs and Index Mutual Funds.

ETFs represent shares of ownership in either funds, unit investment trusts, or depository receipts. They will hold portfolios of common stocks that closely track the performance and dividend yield of specific indexes, either broad market, sector, or international [3]. ETFs can also give investors the opportunity to buy or sell an entire portfolio of stocks in a single security. While ETFs are similar in some ways to index mutual funds, they are different in significant ways. Unlike index funds, ETFs are priced, and can be bought and sold throughout the trading day. Furthermore, ETFs can be sold short and bought on margin.

The table on the right highlights a number of important similarities and differences of ETFs and index mutual funds:

Product Attribute	ETF	Index Mutual Funds
Diversification	Yes	Yes
Traded throughout the day	Yes	No
Can be bought on margin	Yes	No
Can be sold short	Yes	No
Tracks an index or sector	Yes	Yes
Tax efficient/low turnover	Yes	Sometimes
Low expense ratio	Yes	Sometimes

Source: www.TradersEdgeIndia.com (2005)

It's important to emphasize that ETFs and index mutual funds are both investments that fluctuate with market conditions, and both involve risk. Therefore, when the shares of these products are redeemed, they may be worth more or less than their original cost.

How much is the ETF costing you?

ETFs have recurring fees and expenses, including annual operating expenses and certain shareholders fees. Additionally, you will usually pay a brokerage firm to trade an ETF. For example Barclays, a sponsor of ETFs called "iShares", show how their expenses compare. It's important to realize that fees can, and do, vary among sponsors.

Morningstar category	Avg. active fund %	Avg. index fund %	iShares fund (%)	
US Taxable Bond	1.13	0.44	0.15	iShares Lehman 1-3 Year Treasury
			0.15	iShares GS $ InvesTop™ Corporate
Large Blend	1.35	0.69	0.39	iShares S&P 500
Large Value	1.43	0.85	0.20	iShares Russell 1000 Value
			0.18	iShares S&P 500/BARRA Value
Small Blend	1.55	0.83	0.20	iShares Russell 2000
			0.20	iShares S&P SmallCap 600
Diversified Foreign Equity	1.81	1.07	0.35	iShares MSCI EAFE
			0.75	iShares MSCI Emerging Markets
Specialty Equity	1.84	1.04	0.60	iShares Dow Jones U.S. Sector Series

The annual management fees of iShares Funds may be substantialy less than those of most mutual funds. iShares Funds transactions will result in brokerage commissions, but the savings from lower annual fees can help offset these costs. Source: Morningstar, BGI analysis, 12/04.

We can help you avoid some of the common pitfalls of investing in ETFs. We can also take a look at your portfolio and suggest which ones would be suitable for you. Simply call our office or send in the attached card.

[1] Source: http://www.sec.gov/answers/etf.htm (2005).

[2] Source: http://www.sec.gov/answers/etf.htm (2005).

[3] Source: www.TradersEdgeIndia.com (2005)

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