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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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MARKET SNAPSHOT

NEWS FLASH:::::

We're in a recession! Wow, what news! Anyone who has family, friends, neighbors (or knows of anyone sporting a pulse) has known this for quite some time. But now, it's OFFICIAL. Just this week the economists at the National Bureau of Economic Research (NBER) have put out a report saying that our economy reached a peak in December 2007 and that it has been going downhill ever since.

So now what? Well, to begin with, recessions aren't really all that bad. In fact, they generally provide a cleansing effect for the economy and remove imbalances and excesses. This creates an environment where we build a strong foundation for future growth.

According to the same NBER noted above, the average duration for a recession since WW2 has been 11 months. We're already there! There's no getting around it. Things are bad, and likely to get worse...especially on the employment front. In fact, October was the single worse month ever for the U.S. economy.

To date, nearly 40% of the S&P 500 stocks have fallen below the magic threshold of a minimum capitalization of \$4 billion. Hopefully the **S&P 500** doesn't become the **S&P 300**.

The much respected research publication Value Line just put out a report showing that the median price-to-earnings ratio for the 1700 companies they follow have fallen to a never-seen-before level of 10.1. Using their 3-5 year price appreciation projection shows that the market should see a 185% increase to get it back into normal territory.

What's been done, by the powers that be, to get us out of this mess? Let's take a look:

- ✓ More than \$4 **T**rillion (that's with a "T") have already been pumped into the economy and financial system thus far ...with another **\$3T** to come in the form of guarantees.
- ✓ We will likely see a \$1 **T**rillion stimulus package when president-elect Obama becomes president-in-fact Obama.
- ✓ There is a 'bubble' of unprecedented proportion with \$4.5 **T**rillion sitting in money-market accounts. That's worth nearly half the value of the S&P 500 and historically 20% of sidelined cash stimulates a market rally. In addition, with treasuries paying pennies of interest on hundreds of dollars, at some point this money will find its way back onto Main Street. (and just wait 'till the Fed cuts rates by as much as 75 basis points in a couple of weeks).
- ✓ Other nations, including Europe, the U.K. and China have primed the money-pump and have cut lending rates *dramatically*. We're not in this alone.
- ✓ Because of the drop in oil prices, it has created an effective stimulus package worth about **\$135 billion**. Here's the math:
$$135,000,000 \text{ vehicles} \times (1000 \text{ miles/mo} \sim 20 \text{ miles/gal}) \times \$2/\text{gallon of gas savings.}$$
- ✓ According to the Commerce Department, construction of new homes dropped 6.3% in September. Although Wall Street doesn't like to hear shrinking numbers, and punished the sector accordingly, they failed to see the impact of this news. It

means homebuilders have stopped building homes that they can't sell and are concentrating on selling the ones they have already built. What a novel idea. As bad as housing is, we will eventually dig our way out of this hole. Keep in mind that we are still creating a million new households every year....and those folks need a place to stay.

- ✓ Obama is being very proactive in putting Wall Street at ease (they hate uncertainty) by naming key members of his Cabinet. This augers well for 2009.

Not bad. Not bad at all. So there is some hope. After weathering the storm thus far, what you do not want to do right now is sell low and buy high later. Look at what you own and ask yourself if you would still buy it at the current prices.

Here's another list of quick bullets to keep in mind:

- Typically, equities recoup one-third of their bear market losses in the first 40 days of a new bull market rally.
- Since the market crash of 1929, the time needed to recoup **all** your bear market losses has been 22 months on average.
- The strongest time of the year for stocks has always been the November to April period. Hang in.
- The way I see it, one of two things is going to happen:
 1. THE OPTIMIST: All the cash that's being injected into the system, and all the cash sitting on the sidelines, will somehow find its way into the economy and get the market moving higher again. OR
 2. THE PESSIMIST: The money stays where it currently sits due to paralyzing fear with the consumer and investor alike. If this happens it won't really matter about the market because we will enter a global depression accompanied by economic

deflation followed by the end of civilization as we know it.

I'll vote for the Optimist. If the Pessimist is right, we'll all be miserable eventually! Why hurry.

WHAT TO DO NOW:

- 1) **There are significant bargains out there, but be selective. Pick them up with tweezers ...not shovels. Think of this not as a stock market, but as a market of stocks. You have a wonderful opportunity right now of upgrading your portfolio, if you do it carefully. When buying, you'll want to see**
 - real earnings & free cash flow
 - no debt
 - brand name recognition
 - stable management
- 2) **As company share values decline, their dividends often go up. Be cautious here. A big dividend is great so long as it can still be paid. Check out the company balance sheets and look for under-funded pension plans.**
- 3) **Warren Buffet, who I frequently quote, had this to say about gold. "It gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it". Now I hate to disagree with Mr. Buffet, but in times of inflation (which we are creating now with all this economic stimulus) gold is a hedge you may want in your portfolio.**
- 4) **Another potentially good, defensive position right now is to look at TIPS (Treasury Inflation Protected Securities).**
- 5) **Is your asset allocation strategy still appropriate for your time horizon?**
- 6) **Try to see past the day-to-day market gyrations. Continue to think long-term. Turn off the television!**
- 7) **Another Buffet truism: "the stock market is designed to transfer money from the active to the patient".**

What Happens to Bondholders When a Company goes Bankrupt?

At Risk of Outliving Your Money????

Seniors like bonds because they can possibly provide a steady income, diversify a stock portfolio, and are backed by the insurer's financial strength. But things don't always go as planned. Companies occasionally have financial problems and must file for bankruptcy.

Investors holding bonds in bankrupt companies can at least have the comfort in knowing that as unsecured creditors they are second in line for payment. Secured creditors, those with claims backed by collateral, such as equipment or real estate, are paid first. Stockholders come last. And that is only if there is any money left after the creditors have been paid.

There are two general forms of bankruptcy: Chapter 7 and Chapter 11. With Chapter 7, the company is liquidated and bondholders should file a claim to receive a portion of the value of their bonds. In Chapter 11 proceedings, however, the process is quite different.

Chapter 11 allows the corporation to reorganize. Its bonds might continue to trade, but holders will not receive principal and interest payments. As a result, a default could occur, and the value of the bonds might decline significantly. Or the court may approve an exchange of the old bonds for new ones, which could have a lower value.

How can you find out if a company that you lent money to by purchasing a bond has filed for bankruptcy? TV reports, newspapers, and financial magazines often give an account of companies that recently declared bankruptcy. The company will also send you information on the reorganization plan and ask you to vote on it. And if a financial institution holds the bond for you, it should forward everything from the company.

If you would like a free credit report on bonds you currently own, include the CUSIP numbers and issuers' names on the enclosed coupon and mail it to my office. Along with the report, I will provide a list of investment-grade bonds that I am currently recommending.

Could underestimating your longevity mean you'll run out of retirement money?

At age 65, the average life expectancy is 81.8 years for a man and 84.8 years for a woman. At age 75, the average life expectancy is 85.5 years for a man and 87.6 years for a woman.¹ With recent advances in medical science, it's no longer a stretch to think that you could live to be 100. In fact, the U.S. Census Bureau projects that by 2050, there will be nearly one million centenarians².

No one wants to die *sooner*, so that's great news. The problem: If your retirement plan doesn't recognize the possibility of a long retirement, then you could potentially outlive your money.

Consider the following hypothetical example. Assume you're 64 years old and earn \$60,000 per year. You plan to retire next year at age 65. You've accumulated \$1,000,000 in retirement savings, which you think will return a hypothetical 6 percent per year throughout your retirement.

You have a \$60,000 annual retirement need (excluding Social Security). Now, if you have a 15 year retirement from ages 65 to 80, you'll have no shortfall in retirement funds; in fact, you'll end up with almost \$696,000 to pass on to your heirs.

On the other hand, if you have a 30-year retirement from ages 65 to 95, you'll run out of money at age 88.³ Of course, this example is hypothetical and for illustrative purposes only. It is not meant to represent the performance of any particular product.

Will you run out of retirement money? We can do a complimentary analysis for you. Contact us now.

Source: Burling Bank. Assumes \$1,000,000 in retirement savings has already been accumulated; another \$60,000 is added. The money grows at a hypothetical 6 percent per year; \$60,000 (in today's dollars) in withdrawn each year. This example above is hypothetical and for illustrative purposes only. It is not meant to represent performance of any particular product.

¹ Source: National Center for Health Statistics, as of March 2006 ([http://www.cdc.gov/nchs/data/05.pdf#027](http://www.cdc.gov/nchs/data/hus/05.pdf#027)).

² Source: The US Census Bureau's "National Population Projection," as of July 2004 (<http://www.census.gov/population/www/projections/natproj.html>).

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Please send me information on these items mentioned in your newsletter:

- Corporate Bonds.
- Retirement Analysis
-

I would like to order a copy of these booklets (enclose \$1 for each)

- Avoid Mistakes in Buying Long-Term Care Insurance
- Annuity Owner Opportunities: Tips and Ideas That Could Save Thousands
- Understanding Mutual Funds
- Six Strategies to Help Retirees Reduce Taxes and Preserve Their Assets
- Helping You Avoid IRA Distribution Mistakes (And Reduce Your Taxes)
- CD Shoppers' Guide
- Creating a Retirement Income You Cannot Outlive
- Keep the IRS out of Your IRA
- Leaving a Legacy
- Protect your Investments (a guide to investing without losing a penny)
- Law Points for Senior Citizens (78 page guide)

I think these people would like to receive your newsletter and an invitation to your next public presentation:

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