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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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MARKET SNAPSHOT

O.K. Let's start this month's newsletter with a quick quiz. What do the following abbreviations have in common? MBS, ECO, CDO, CDS, EDS, SPE, SPV, ABS, ABCP, CBO, CLO, CDS, CLN, CDN? Aside from looking like a bowl of alphabet soup they are all banking & brokerage derivatives. In fact, there are a couple of *derivatives of derivatives.*

Anyone who tells you that the banking debacle is over and there are blue skies ahead must be heavily intoxicated. Every time I think I've heard all the abbreviations…another one pops up in the financial magazines. In the year 2000, there was some $1 trillion worth of Credit Default Swaps out in the market. Today, that number is $62 trillion. Citigroup has already written off $45 billion of credit losses and is now in the process of trying to sell $400 billion of non-core assets. And, they are still exposed to over $80 billion of mortgage debt.

Our best hope is that there is an orderly unwinding of these weapons of mass speculation. Because the Federal Reserve is taking a more proactive role with the financial institutions and their hocus-pocus ways of trying to make money, there is hope. (Believe it or not, there are actually a couple of institutions out there right now that are worth buying.) Notwithstanding the huge dividends the banks are paying, however, STAY AWAY!

SO, WHERE IS OIL GOING?

Besides through the roof, what are the experts predicting going into the future.

I read an interesting fact: Americans consume 24.5 barrels of oil per person per year. The Chinese use just 1.8 barrels/person/year. India, not even a barrel. There is hope in these numbers. It certainly shows that we have a lot of room to trim.

Everything I've researched indicates that we **should not** believe that oil is going to fall back to $20 a barrel. In fact, it may not even fall back to $75. As a nation, we consume 21 million barrels of oil every day. We are only producing 8. World production is 85 million barrels/day. Demand is 86.5!!! In fact, just about every oil producer is pumping *all out* and simply cannot keep up.

Right now, we should be planning for a lot of inevitable changes coming our way. We all know to expect higher prices at the pump and for heating our homes next winter. But what about other things we use every day. Petroleum products make up a large part of almost everything we touch: Milk jugs, shampoo, tires, boots, toothbrushes, garbage bags, glasses, nylon, hand lotion...and the list goes on. I'm sure you are like me and have seen a significant rise in your grocery bill lately.

Agricultural expenses are heavily dependent on oil for things like fertilizers, pesticides, gas for tractors and transport costs to market. In 1999, when oil was at $16/barrel, it accounted for 22% of farm overhead. At $70 a barrel, it was 50%. At $100…70%!! When you realize that it takes two tons of grain to raise one ton of chicken, and eleven tons of grain to produce one ton of eggs (chickens need to be fed all year), what do you think we'll be paying for eggs in the future?

I'm sure you've noticed. What's going on with each kilowatt of power coming into our houses? 70% of our nations' electricity is produced from coal and natural gas. Higher oil prices are driving the costs to extract and manufacture these resources. It's no surprise then that our electric bills are therefore becoming a heavier part of our budgets.

IS THERE ANY GOOD NEWS?

There's been a lot of discussion about how bad the stock market is, but is it really that bad? Alan Skrainka, chief market strategist for Edward Jones estimates that $3.5 trillion is currently sitting on the sidelines in cash or cash equivalents. This is money that will fuel a new rally. And, as he says, based on a rolling 12 month estimate, corporate profits (less financials) are near 50 year highs.

Standard & Poors reported that 53% of non-financial stocks recorded double-digit profit growth in the 1st quarter 2008. Interestingly, as of mid May, a full 42% of all stocks trading on the NYSE are trading ABOVE their 200 day moving averages. Also, corporate insiders are buying heaps of their own shares, which they wouldn't do if they thought their companies were overpriced.

Nonetheless, the investing landscape is shifting. Normal investing ideas, and buying what used to work in the past, are two philosophies that may need to change. Much higher (and sustainable) oil prices have seen to that. For example, as people drive less, they will buy more on-line and less at the malls. Fewer disposable dollars will mean less discretionary spending. If you don't need it, don't but it. Companies poised to do well will be those with sustained economic advantages. They will have strong cash flows, a great deal of international exposure and be where the *action is.* **We have already identified many of these companies.**

Alternate fuel sources will also take center stage. Oil exploration, deep-water rigs, nuclear energy and wind energy are attracting attention. In fact, legendary oil man T. Boone Pickens recently placed an order for $2 billion worth of wind turbines. Another sector: Food. We need to be looking at companies manufacturing products which will increase the quality and quantity of the food we grow. **Again, we know who the leaders are.**

Warren Buffet recently said: 'The 19th century belonged to England, the 20th century belonged to the U.S., and the 21st century belongs to China. Invest accordingly'. China is only one place to look. Others include Canada, Australia, Russia, and Brazil who all have enormous quantities of natural resources.

One of the best global investments for years to come will be in the supply of infrastructure. After China gets through with the 2008 summer Olympics, they have already stated that they intend to spend $420 billion on expanding infrastructure. The American Society of Civil Engineers estimates that the U.S. needs more than $1 trillion to update our roads, airports, bridges and other facilities.

So, as a retiree, how will these changes affect you and your family? Preparing for change and following through will be your safety net.. Retirees need to be acutely aware that inflation is going to take a lot more of their dollars away for their every day expenses. Food, energy and taxes (I'll be going into that in a coming newsletter) will also cut deeply into your budget. ***The biggest risk…however… is longevity***. Your retirement savings may have to sustain you for another 20, 30 even 40 years. If you are going to invest in safe, fixed income instruments you had better have a lot of money to begin with.

Call my office for a free portfolio analysis.

CAN YOU COUNT ON DIVIDENDS?

One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Possibly, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk losing what could be a significant portion of your income should the company decide to discontinue or reduce their dividend payments. With a diversified portfolio, your regular dividend income stream could continue, buffered by the on-going payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly-regulated markets such as electric utilities are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

Another way to invest in a diversified portfolio of high-quality dividend-paying stocks is to choose a dividend income ETF or mutual fund. A mutual fund, in particular, offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf.

Please note, however, that stocks, ETF's and mutual funds are investments that involve market risk, and investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than the original value.

If you would like to learn more about using stocks for income or dividend income funds, simply complete the reply coupon and return it to my office.

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