MACMILLAN FINANCIAL
JOHN MACMILLAN, CRFA, CLTC, CSA
P.O. BOX 66
ANNANDALE, NJ, 08801
T: (908) 236-7500
F: (908) 236-7511
WWW.SENIORSBOOMERS.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

January 2008

MARKET SNAPSHOT

Happy New Year!

Fasten you seat belt for another wild ride in 2008. After spending half the time in '07 with euphoric expectations, the other half was spent with our stomachs in our mouths. The result was basically a year which was close to being flat in the stock market. A 3% return on the S&P 500 was only garnered because we had a handful of sector winners bailing out a bucket load of sector losers.

We start the year with the same market worries that we ended on… a weak dollar, rising CPI, slowing corporate earnings, the Fed trying to flood the market with cheap dollars but the banks not willing to lend at any price (ergo: credit crunch), many companies trading near 52 week lows, consumer confidence withering, optimism among corporate CFO's at its lowest level in 6 years, the real possibility of a Democratic victory for the White House combined with a Democratic-controlled Congress would most probably create a recipe for tax increases, including those on dividends and long term capital gains. Persistent talk about a recession.

Along with this we continue to see weak Business Cycle conditions. In December, as was the case for the past several months, only 3 of the leading economic indicators are expanding, 5 are contracting and the other 4 are in neutral. Corporate profits are not expected to be very robust for the 4th quarter. In fact, according to Thomson Financial, we are on track to see the second straight quarterly decline in earnings going back to the 4th quarter of 2001, and the 1st quarter of 2002. Also, for the first time in the past 12 months, I'm seeing the *smart money* slowly heading for the exits.

When we boil all this down, the question we should ask is: If wages are only rising about 3% and *real* inflation is running at 4 ½ -5%; weak corporate profits could put the stock market in neutral or reverse; falling house prices and tighter lending all but eliminate the possibility of getting more money out of that piggy-bank; **so, where is growth going to come from in 2008?** This is a bleak picture, but not insurmountable. All this uncertainty might even make you want to sit out the year.

Don't do it! Trying to time the market is a sure fire way to have sub-standard returns.(see newsletter last month) Remember, no matter what direction the market goes in … not everything rises in a bull market…not everything falls in a bear market. We just have to be **very selective** with our investments. I'm devoting this month's newsletter to the Top 12 Investing Mistakes you have to avoid in 2008!

WHAT TO DO NOW:

1) Stay away from financials and the consumer discretionary sector (big ticket items).

2) Add bond funds & defensive stocks (staple and health care), to your line-up.

3) Look for large cap companies with strong exposure to overseas markets & earnings.

4) Your safety will be found in asset allocation along with a re-balanced portfolio.

5) Look overseas for non-correlated investments.

I will be hosting a retirement workshop on January 26th in Lebanon, NJ (see attached flyer). Please join us. If you can't make it, feel free to pass on the invitation to friends who may have retirement concerns. They won't be disappointed!

The 12 *MOST COMMON mistakes Investors make… and what not to do in 2008!*

Mistake No. 1: Procrastination.
Waiting for the right time to get into the market can ruin your investment results over your lifetime. Procrastination can take on many forms. The irony is the longer you wait, the less time you have. Every day you delay is a day of opportunity that you can never get back again

Mistake No. 2: No written plan.
Different articles published in *Fortune* magazine, Money Magazine, MSN Money, and others have stated that people with written financial plans covering their investments end up with two to five times more money during retirement than those without written plans. If you don't have an investment plan that's right for you, developing one should be a top priority in 2008.

Mistake No. 3: Taking too much risk.
Investment risk is not a theoretical concept. There is a very real possibility that you will lose money in the market. Investing, by definition, requires taking some risk. Some however, take on too much. Most investors don't understand what could go wrong with an investment when they make it… and they don't have a plan for what to do if things go badly.

Mistake No. 4: Taking too little risk.
Some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low return. If you put your emergency money in a bank account and earn 1, 2, 3, even 4 percent, you may think you're taking no risk. But in fact you are taking on the very real risk that inflation will rob your money of its purchasing power…not to mention the taxes you'll have to pay on the little interest you did earn.

Mistake No. 5: Paying too much money to others.
Mutual fund investors essentially throw a lot of their money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's. In addition, far too many investors pay far too little attention to the annual expenses these funds charge. Investment expenses take away a significant portion of an investor's annual returns in order to pay the fund managers and the sales commissions first.

Mistake No. 6: Trusting institutions.
BANKS: A classic conflict of interest. Your best interests are served by accounts that pay the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually!
Brokerage houses also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders…not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might…the brokerage house, probably not. And, guess who the broker work for and gets paid by?

Mistake No. 7: Believing publications.
"Best Funds for Next Year and Beyond"
"The 100 Best Mutual Funds"
"These Stocks are Real Steals"
"Star Funds: Six Standouts You've Never Heard of"
Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class. Don't get sucked in!

Mistake No. 8: Failing to take little steps that can sometimes make a big difference.
Some examples:

- People fail to fund their IRA contributions at the start of the year.
- People leave money in taxable accounts when it could appropriately go into IRAs, Roths and 401(k) plans and save taxes by growing tax deferred.
- People don't maximize their 401(k) plan savings.
- People have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.
- People don't move their money from a checking account to a money-market deposit account at their bank.
- People don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

Mistake No. 9: Accepting investment advice and referrals from amateurs.

If you had a serious illness, I hope you'd consult a doctor, not somebody on the street who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.

Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts.

Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.

The two most powerful forces driving Wall Street trends are greed and fear. There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak – and since everybody seems to be selling at the same time…prices go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. For instance, if it sounds too good to be true, it probably **is too good to be true.** Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

Mistake No. 11: Focusing on the wrong things.

It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds. Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns!

Mistake No. 12: Not understanding how investing works.

Diversification…diversification…diversification
(putting together non-correlated asset classes).

The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others. This year's asset class winners may be next year's asset class losers. Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably stayed way too long.

For help with creating strategies to overcome any of these mistakes, call my office for a free consultation.

I have many clients ask about electronic transmission of my monthly newsletter. If you would prefer to receive your copy by e-mail, send me a message and on the subject line, type "via e-mail" and send it to john@seniorsboomers.com

Next month, that's how you'll receive your copy!

If you have family or friends that might enjoy my articles, feel free to pass them on.