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"

May 2008

MARKET SNAPSHOT

Where's the market going? Where's the economy going? These are two great questions! The answer is obvious. Who Knows??? Among the 30 or so financial magazines I read every month, in addition to a couple of hundred stock market e-mails I get every day, I came across a piece of logic that is a thing of *beauty* because of its simplicity.

Typically, financials lead the way out of bear markets and/or recessions. It has to do with banks lending money and helping people and businesses buy and build things…which expands our economy. The problem we face today in the banking industry is that banks are NOT wanting to lend money. And that's the crux of the problem.

When investing becomes a little scary, many people pull back and look for safe places to put their cash. CD's right now are paying sub 4% so they're not much good. In fact, they are considerably below the inflation rate (more on this later). Dividend paying stocks of blue chip companies, on the other hand, are great places to ride out a *shaky* patch in the market. And guess what. There are some fantastically, high paying dividend stocks available right now. They just happen to belong to every bank in the country. Oh, you don't want to buy bank stocks. BINGO! You don't. I don't. They don't. That's the core of that problem and why we're not at the bottom yet. There is a severe lack of confidence in our financial institutions.

Banks can be strange. I almost choked when I read a news report I got from Reuters back on April 22nd . It said that the CEO of Citigroup declared a quarterly dividend of 32 cents per share. This, when they have recently written off $10 B. in the 4th quarter '07 and another $14 B. in the 1st quarter '08. I used to think that dividends came out of profits. (I can be so old fashioned sometimes)! As a backdrop to this news, I hate to mention that the bank had to raise over $30 B. just to keep their reserves in line. This is like selling the cow to buy milk.

I have clients ask me why mortgage rates aren't going down to match all the Federal Reserve's rate cuts. Falling mortgage rates would certainly help both the banking & housing industries. What is actually occurring, however, is that mortgage spreads are widening. They used to run between 1.5 - 2.0 percentage points above the 10 year Treasury note. Now they average 3.3%. The banks are trying to recover some of their sub-prime mortgage losses in rather big bites.

How is the housing market doing? The latest reports show that the national inventory of unsold homes in now up to a staggering 11 months. We are witnessing record level foreclosures. Homebuilders are in full retreat. Whew. If you were ever in the market for another house, this is probably not a bad time to stick a toe in the water. Real estate is an asset class that might fit well into a diversified portfolio.

Oil. At $120 a barrel, its effect at the gas pump is **very noticeable**. Unfortunately, the price of oil is probably destined to go higher. Oh, it may fall as commodity prices correct, but its trajectory is pointing higher long term. It's marketing 101. Supply vs. Demand. From everything I've read this problem is not going to go away any time soon. China & India and the new middle class that has been created in these countries, will see to that.

Inflation. According to John Williams of Shadow Government Statistics, inflation is considerably higher than what's being reported. Mr. Williams has devised a system of reporting the ***real*** number, the way is used to be computed back in 1980 (when food and energy still counted). Today's real inflation rate is….7.3%. That kind of number rings true to me.

So, is there any **good news?** Well, let's see. To begin with, The American Institute for Economic Research has a mathematical model that gauges and quantifies the economy. They rate the 12 Primary Leading Indicators; the 6 Coincident Indicators and the 6 Lagging Indicators. The AIER think tank is one of a very few who accurately predict economic downturns and upturns. Right now the economy scores a 50 out of 100 (up from 44 last month). This means that we are just as likely to see expansion as we are to see contraction. This is not what we're being fed by the media.

Wal-Mart, which for all intents and purposes, is the biggest & best indicator for the retail sector in general, and the consumer in particular, had 2 pieces of interesting news. 1. It recently hit a 52 week high in the stock market. 2. Its stock is up 18% so far in 2008. When a company has a market cap of $220 billion, 18% represents more than pocket change. It amounts to about $40 B. give or take, and it signals that the consumer is not quite dead yet.

Stock buy-backs are very strong. For the past 13 quarters, going back to 2004, S&P 500 companies have repurchased **$1.44 trillion** of their own stock. Companies don't usually buy their stock when it's over valued! But, not only are companies buying their stock, insiders are very much in on the act. According to Vickers Weekly Insider Report, insiders are sending very bullish signals. The last time they were buying so much of their own stock was in November 2002- the end of the 2000-2002 bear market. Do they know something we don't?

Finally, the institutional investors (the smart money) are buying. The majority think that stocks are undervalued and that bargains now abound. A full 87% expect to be net buyers for the balance of the year. They are also backing this up with their buying of futures contracts. On the whole…bullish.

I hope this adds some balance to all the hype in the media.

WHAT TO DO NOW:

1) **Focus on fundamentals.**
2) **Buy quality.**
3) **Get & stay diversified.**
4) **Buy stocks with strong overseas earnings.**
5) **Stay away from banks & housing stocks.**
6) **Look at oil & gas exploration companies.**
7) **Get help from your advisor…or call my office for a complimentary consultation.**

Will Your Income Last a Lifetime?

Many seniors can recall when Social Security was regarded as the basis for a retirement income plan. The government guaranteed the lifetime payments with occasional cost-of living increases. Then corporations stepped up to the plate and provided defined benefit plans that assured employees a lifelong income during retirement.

With these two revenue sources, it became easy for retirees to feel confident in their financial futures. But times have changed. In the late '70s and early '80s, high interest rates and inflation meant Social Security and pension plan checks would not buy as much as they had before. And scores of people were forced to live on less.

Then in the '90s, many companies did away with their pension plans to give workers more control of their retirement dollars and offered 401(k)s and similar defined contribution plans. The stock market surged, and employees invested their money. Of course, we all know what happened afterwards.

Your employer may have cancelled its pension plan before you retired. And the future of Social Security is always a popular subject for the politicians to debate. However, there is no reason that you cannot create your own personal pension plan to fill a possible gap in your lifetime income plan.

A fixed immediate annuity can provide an income that you cannot outlive and supplements Social Security and investment income. In addition, options such as inflation protection and survivor income are available to meet your specific needs.

For a free illustration on how the lifetime income from an immediate annuity can add to your retirement plan, call my office for a free analysis. All we need is your date of birth and the income you want to receive or amount of possible investment.

I will be hosting a retirement workshop on May 10th and 17th (see attached). Please join us. If you can't make it, feel free to pass on the invitation to friends who may have IRA, retirement and pension concerns.