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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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MARKET SNAPSHOT

The economy continues to muddle along. Of the 12 leading economic indicators, only 2 are showing expansion, 4 are in neutral and **6 are contracting**. There is so much bad news everywhere you look, many investors are naturally fearful of the whipsawing they continue to get in the stock market. "Do I stay in, or should I get out?"

What I'd like to do this month is try to put some perspective on where we are, and where we're headed. To begin with, even if we are in a recession (and six major financial firms have already gone on record saying that we are), remember 2 key points:

- Recessions do not usually last long. In fact, since 1982 none have lasted longer than 8 months.
- All stocks do not go down together.

In our last recession between March-November, 2001 we had 2000 stocks go down...**2000 went up!!!** Pretty even if you ask me. What we're seeing in the stock market today, may be one of the best buying opportunities of this decade.

We will, in all likelihood see another 50 basis point rate cut by the Federal Reserve on March 18th and the stimulus checks will be going out in May. Corporate profits, less financial companies, are still growing. Morningstar is very bullish on the market. This past month they said that according to their estimates, the DJIA fair value is 14,000. Their future prognosis: they see it hitting 18,510 by year 2011.

No one knows when the market is going to take a decided turn for the next leg up, but I can tell you emphatically that it will. Right now, what it's doing is shaking out the weakest of investors.

WHAT TO DO NOW:

- 1) **Turn off CNBC and Bloomberg. TV is entertainment, not financial advice.**
- 2) **Be a long term investor.**
- 3) **Stick with your original strategy.**
- 4) **Keep emotions in check.**
- 5) **Stay diversified.**
- 6) **Rebalance your portfolio.**
- 7) **Buy market leaders selling basic necessities.**
- 8) **Avoid consumer discretionary companies.**
- 9) **Love dividend paying stocks.**
- 10) **Don't try to time the market.**
- 11) **Talk to your advisor.**

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

Dividends..And Why They're So Important.

Jeremy Siegel did a great deal of research on this subject which he shared in his book, "The Future for Investors". Here's what he says about dividends and their reinvestment back into their own stock:

- Since 1871... 97% of the total *after inflation* market returns came from dividends
- To illustrate this point, he looked at the crash of 1929 through the Great Depression. It took twenty five years for the Dow to get back to the pre crash level of 381. The year was 1954
- Someone who re-invested all their dividends for this 25 year period actually showed an annualized return of 6%!!! Case closed!
- Another BIG plus. Currently dividends are taxed at 15% and not as ordinary income.

I will be hosting a retirement workshop on March 15th in Flemington. Please join us. If you can't make it, feel free to pass on the invitation to friends who may have retirement concerns.

Is it time to bottom fish FINANCIALS & HOMEBUILDERS?

Ahh....NO. But that is not to say NEVER. I think we are going to see screaming deals in these two sectors in the next 12-18 months. Once all the sub-prime debacle and write downs work their way through the financial system, and the buyers return to the housing sector, it will be a GO. What you should look for are the tell tale signs that indicate that the time may be right to start backing up the truck.

- **In Financials.** In 1990 the sector had a trailing price/earnings ratio of 6. This occurred in a period similar to today where we have seen decreasing earnings. At that time (and perhaps like today) this was coupled with a recession that same year. As of December 2008 the sector sports a P/E of 10. We're not as low as we can go.
- **In Homebuilding stocks.** Inventories of single family homes, right now, are running about 10 months. The norm over the past 25 years has been closer to 6. It was actually around 4 months during the period of 2000-2005. Still not enough buyers yet.

Inflation & Seniors

As many of you know, I do comprehensive financial analysis on income and expenses for my clients. One of the constant questions I get has to do with the impact of inflation on retirees. The logic basically says that as a person gets older their spending will actually go down...not up. Right...Wrong!

In the November/December issue of the magazine, Health Affairs, they noted that a growing share of Medicare beneficiaries' income is being spent on health care. The median spending increased from 11.9% of income in 1997 to 15.5% in 2003. They also went on to say that forty percent of participants were actually spending 20% of their income on health expenses. Staggering.

It gets worse. According to the Bureau of Labor Statistics, the things that matter most to seniors are rising much faster than the CPI number we keep hearing about. For example, food is rising at a rate of 5.7% per year. Home energy 5.5%. Gasoline 34%.

Airline flights 8.9%. Hospital services 8.5%. And the list goes on.

Failing to factor in the ***real inflation rate*** and its effect on retirement funds can mean the difference between making sure spending coincides with available resources...or ***running out of money***.

Are You at Risk of Outliving Your Money?

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

Let's take a look. 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. And, you have a \$60,000 annual retirement need (excluding Social Security). 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

1 Source: National Center for Health Statistics, as of March 2006 (<http://www.cdc.gov/nchs/data/hus/hus05.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>).

3 Source: Burling Bank retirement calculator, <http://www.burlingbank.com/calculators/calcs.htm>.

For expert help calculating your true 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.