

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"

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MARKET SNAPSHOT

The "Irrational Exuberance" of 1996 has turned into "Irrational Pessimism" of 2008. This is not to take away from the market debacle that we've witnessed in the past month. As we all know, the market gave up **30% in two weeks**. The last time this *ever* happened was during the 1987 crash when it dropped 31.5% in two weeks. A couple of interesting points here though:

1. The market ended marginally higher in 1987.
2. The 1987 market hit a new all time high slightly less than 2 years later.

In looking at every bear market going back to 1929, it illustrates that the average decline has been 42.8%. Our decline from the October 2007 high was, at one point, 44.4%. The Fear Index (VIX) got over 80 in mid October this year. That level is beyond the nosebleed seats! It's up there talking to the angels.

People have also likened this period to the Great Depression of '29. There are quite a few differences however. Then, the unemployment rate was 25%. Today, it's just over 6%. In 1934, about fifty percent of mortgages were in default. Today, notwithstanding everything we read about in the press, it's about 6%. In other words, 94% of American homeowners are still making their payments!

This market is oversold by almost every metric, and, we are very deep into the sell-off. I also believe that the **big risk** is pretty well washed out at current levels. I can't pick the bottom (no one can) but if we look back a year from now, I think we'll see that we were closer to a bottom than starting a new leg down.

The reason I think we've entered a period of total pessimism is from the recent actions I've seen in the stock market of late. There has been unbelievable

panic selling which we easily determine by the daily swings between highs and lows.

At one point a few weeks ago, a stock I was following, actually sold for a 20% reduction to the price an overseas company is actually going to pay for it. (by the way, I bought it). What this tells us is that many Banks, Mutual Funds and Hedge Funds are all deleveraging right now and are being forced to sell the assets that **they are able to sell**. Those just happen to be the best stocks in their portfolios -*no one is buying much junk these days*. Margin calls hurt!

Mutual fund redemptions have played a major role here as well. When people want to cash in their funds, the manager has to come up with the money...which means more stocks have to be sold to pay the investor. Now take a look at this. In July, mutual fund redemptions (outflows) were \$27.4 billion, which in and of itself is a pretty large number. Certainly, larger than normal. In August, \$19.5B was turned in. September, \$75B. As I write this, and I don't have all the October numbers yet, in the first week October redemptions were \$43B. The second week produced an even large number, \$65B. Now, we're talking some serious money here. This may explain why so many babies are been tossed out with the bath water.

At the depths of the 1973-74 bear market, when the Dow Jones was almost at the market low, Warren Buffet was quoted in Forbes, "I feel like an oversexed guy in a harem". What's Buffet up to these days? Berkshire Hathaway, Buffet's company, started off 2008 with wheelbarrows full of cash...\$44 billion to be precise. By June, he had already invested \$11B. of it in deals with Marmon Holdings, the Mars purchase of Wrigley and the Dow Chemical takeover of Rohm & Haas. In September, he bought Constellation New Energy for \$4.7B. He spent \$5B investing in Goldman Sachs. \$3B in General Electric. He's also been buying more of existing holdings in Wells Fargo and

Burlington Northern. Geez, at this rate the guy's going to be broke (but richer)!!!

According to Barron's October 20th edition, insiders have been buying at a 3 to 1 ratio over insider sellers. That's very significant. Usually a 1:1 ratio is bullish. That same day Warren Buffet penned an article in the New York Times, and I'll quote an excerpt here: "To be sure, investors are right to be wary of highly leveraged entities or businesses in weak competitive positions. But fears regarding the long-term prosperity of the nation's many sound companies make no sense...the market will move higher, perhaps substantially so, well before either sentiment or the economy turns up. So if you wait for the robins, spring will be over".

On a personal note: Remember, for every stock being sold, there's a buyer at the other end of the deal. This market is so attractive, that when I look for investment ideas, I need to wear a bib.

WHAT TO DO NOW:

- 1) **Look for companies with squeaky-clean balance sheets. They don't usually rely on borrowing money so they don't need the financial system to bail them out. Important are**
 - free cash flow
 - little or no debt
 - strong market share
 - solid management
 - good valuation (cheap)
- 2) **Buy companies that are *growing* sales & earnings.**
- 3) **Avoid auto makers, banks, insurance companies, retailers and any consumer discretionary firm.**
- 4) **Be willing to pay up for dividend paying stocks. They represent *real* money in your account every quarter.**
- 5) **I'm seeing unbelievable bargains in the gas & oil pipeline sector right now. These Master Limited Partnerships offer solid earnings (dividends for you) and very attractive valuations.**
- 6) **Ensure that you are correctly asset allocated, and if necessary, re-balance your portfolio.**
- 7) **Depending on the November 4th election outcome, some sectors will do better than others. (see the next article).**

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

Obama vs. McCain. What will the outcome mean to your investing?

Depending upon who wins and who loses the presidential election, there are also going to be winners and losers in various industries. Preparing for this eventuality will help you pick future winners for your portfolio.

Let's start with:

HEALTHCARE

I don't believe that anyone disputes the claim that our health care system needs to be fixed. There are more cracks in it than the proverbial Dutch dike. Both Senators McCain and Obama have proposed health care reform. They agree on several issues but take different approaches when it comes to private vs. public programs.

The Barack Obama plan would allow individuals to choose between public or private insurance and he proposes establishing an insurance exchange to provide pooling and purchasing power. He also proposes that all employers either provide a health plan or pay a penalty. He would force insurers to pay out a reasonable amount toward patient care and ostensibly reduce their profits.

Obama would allow Americans to purchase prescription drugs from outside the USA (presumably from Canada & Europe) at probably about half the cost individuals are paying today. He also wishes to negotiate directly with the drug companies, and intends to push generic drugs for use in Medicare and Medicaid.

John McCain's plan would allow people to purchase insurance over state lines and provide a tax credit of \$2500/individual or \$5000/family. He hopes that by using market forces, it will bring in more competition and reduce costs.

Although McCain favors safe re-importation of drugs and faster introduction of generic drugs, his approach leans more toward a market based solution to these problems, as well as less regulation than is proposed in Senator Obama's program.

- **The Obama plan would favor hospital networks because it would cover more of the uninsured. It would not favor the largest insurance carriers in the country or Big Pharma. It would certainly be a boost for the generic drug makers.**
- **The McCain plan would favor private managed care organizations because it uses tax incentives to expand the pool of insured Americans. His programs would be viewed as more favorable to the big insurance carriers and Big Pharma because he promotes free market forces to create more competition. Again his position would probably boost sales for the *generic drug guys*.**

ENERGY

McCain favors expanding domestic production of oil and natural gas by drilling in the Outer Continental Shelf. He is also committed to building 45 new nuclear power plants by 2030 and will spend \$2B. annually to advance clean coal technologies.

Senator Obama has proposed the creation of 5 million new jobs over the next 10 years by investing \$150 B. on 'clean' new energy. He also wants to see one million plug-in hybrid cars on the road in the next 7 years. He favors a 'windfall profits tax' from the big oil companies to use for alternative energy solutions.

- **Under a McCain administration traditional energy companies and energy services firms would come out as big winners. Nuclear energy contractors and support companies come out as HUGE winners.**
- **An Obama led country would definitely be *green friendly*, and provide a great deal of stimulus to alternative energy sources...wind, solar & biofuels. His term in office would be quite negative for the oil barons and the companies supporting them with infrastructure.**
- **Under either candidate, distribution infrastructure will be critical. Pipelines will be vital to moving oil and natural gas. Master Limited Partnerships are the way to profit from this.**

DEFENSE

The press has pretty well painted McCain as the hawk who would beef up our defense spending and Obama, the dove, would cut expenditures and be a negative for the sector. The actual truth, I believe, is that both candidates will support a pretty healthy defense budget and both have said that our country's defense would be a priority for their administration.

- **The obvious winners here are many. The defense contractors should come barreling out of the gates, but don't forget companies that support Homeland Security. They too will be beneficiaries. Procurement spending with two wars going on will continue to benefit companies in that sector.**

TAXATION

McCain would reduce the top tax rate on corporations from 35% to 25%. Obama would keep it where it is.

Obama wants to raise taxes on dividends and long term capital gains to 20%. McCain would keep them at the current 15%.

- **Under McCain, dividend paying stocks should continue to perform well and a corporate tax cut would tend to benefit shareholders in U.S. companies. Those companies would obviously get to keep a lot more after-tax money which could be returned to shareholders as dividends...or re-invested to spur economic growth.**
- **An Obama administration would probably hurt dividend paying stocks somewhat, but his policy on an automatic sign-up for a company's 401k would be a positive for the market. Higher rates on capital gains would be a benefit for tax-free municipal bonds.**
- **In conclusion, the McCain plan would benefit the wealthiest Americans with the expectation that they will spend this money thereby stimulating the economy. The Obama tax plan would benefit the lower and middle income classes which would support government programs.**

FOR MORE INFO

Mail or Fax back to:

John MacMillan
P.O. Box 66
Annandale, NJ, 08801
T: (908)236-7500 F: (908) 236-7511
www.seniorsboomers.com

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- Portfolio construction.
- Investing after the election.

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

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
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