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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

August 2009

'If economists are so smart, why aren't they richer' Ross Perot

A large part of my job involves massive amounts of reading about stocks, the markets and the economy on a daily/weekly/monthly basis. I'm always reminded of the pearl quoted in the caption above when it comes time to attempt to decipher the economic reports that are regularly thrown at us.

The latest reports basically say that half the economists agree that the recession has bottomed. The other half…you guessed it…say there is a lot more to come. Being a firm believer in the intelligence of most people, I prefer to look at the available facts which will allow us to reach our ***own*** conclusions.

Some of the facts I quote below are a little scary:

- We have officially amassed our first ever, for a one year period, $1 trillion deficit. This was accomplished in the first 6 months of 2009!

- If the government goes ahead with its health care reform package, (according its own estimates), it is projected that it will increase taxes by $583 billion and cost the economy 5 million jobs (many from small and medium size businesses). In the words of humorist P.J. O'Rourke, "if you think health care is expensive now – just wait until it's free".

- The Federal Reserve's balanced sheet has ballooned its leverage from 24:1 to 53:1. That means its capital is below 2% of assets. The FDIC would normally close banks like that!

- U.S. official debt is $11.3 trillion. **In addition**, Social Security is unfunded by $10.5 trillion; Medicare/Medicaid by $39.5 trillion; RX drug coverage by $8.4 trillion. Scary math!

- Ben Bernanke recently testified in Congress that budget deficits should not exceed 2% of GDP. The Budget Office thinks we will probably hit **13% of GDP** for fiscal 2009.

- According to a recent USA Today article, small businesses are going broke faster than expected. In April of this year, more than 8,000 closed their doors.

- The country has lost 2.7 million jobs so far in 2009-and counting. Many financial journalists feel that this is partially a result of small business owners afraid to hire because of many-changing government rules.

- The effect of the auto industry unemployment (resulting from the permanent closure of dealerships and plants) has yet to be recorded. Many experts estimate that this number will be upwards of 150,000.

- As if unemployment wasn't bad enough, now the recipients are running out of benefits. One report says that by the end of September, this will be the case for more than 500,000 Americans.

- Americans have lost more than $12 trillion of wealth over the past 18 months.

- I believe that the commercial real estate market is the next bubble to burst. If we assume the governments' worst-case scenario for real estate losses through 2010, they could top $450 billion. Other estimates run as high as $800 billion. To put that in perspective, the entire financial sector earned a grand total of $160 billion for 2007. The big banks have an exposure of about 23% to commercial property loans. Medium and Regional banks about 32%.

- There is a report out which states that NYC commercial properties are running close to a 23% vacancy rate. Shoppers aren't shopping much, eating out much, or spending much. In fact the national savings rate is now about 7%. It's hard to envision a strong recovery without consumer spending.

 Independent research by TrimTabs found that insiders of the S&P 500 companies have recently unloaded $2.6 billion of their own stock. Most of the selling pressure is coming from the… financial sector!

 Bank of America, J P Morgan Chase, and other banks have issued warnings about earnings over the next few quarters. Don't forget, they were given 'free money' by Washington and many have repaid those TARP funds. We'll see in Q3 & Q4 how they do without them.

 2nd Quarter earnings have been quite impressive thus far, but from what I've been able to discern, many companies are jumping over a very low bar. Earnings are what stock prices are all about. Most of the profits currently being reported have come from cost cutting...not sales growth.

 Earnings Reality:

2nd Q 2009 is down -36% from 2nd Q 2008

2nd Q 2008 was down -29% from 2nd Q 2007

Earnings estimates have been reduced to the point where breaking even looks good. From my own research, stocks are not cheap. I have 20 or so companies that I've been following and want to put on my Recommended Buy List, but I can't come to terms with paying 30-50 times earnings. We haven't quite turned the 'compelling valuation' corner yet.

Obviously, there are a lot of head winds…but I'm getting encouraged. There is just so much bad news out there that it won't stay that way forever. We could finally see a sustained turnaround later this year or early next. Knight Kiplinger said it best, 'who knows today what world changing technology might boost the U.S. and global economies in the next decade?'

In the meantime:

- Pick your stock purchases surgically.
- Buy companies with majority of sales overseas.
- Dividends…dividends…dividends.
- Inflation is looming, check out commodities.
- Be very wary of municipal bonds.
- Asset Allocate.

Understanding Risk

When you invest money you are accepting different amounts and types of risk. Some investments are considered less risky than others, but no investment is without risk. Some of the main types of risk you should understand are:

Interest rate risk. Income-generating investments, such as corporate bonds, certificates of deposit, and so forth come with the risk that interest rates could possibly fall or rise. If they fall, you might earn less after the investments mature and you try to re-invest the money. If they rise, the value of your account could drop. Furthermore, inflation may be going up as well, so your income might not go as far. Rising interest rates can also hurt stock prices since companies have to pay more to borrow money.

Market risk. Whenever interest rates rise, or bond yields drop, or other events take place, the stock and bond markets react. Some events cause markets to rise; others cause the markets to fall. These are rarely predictable, adding another element of risk to investing.

Political risk. If a country goes to war, implements an embargo, or has a change of government, there may be an effect on markets, and often on inflation and interest rates, too. Again, this is an area of risk that is hard to plan for, but can affect your investments.

Inflation risk. This is a field of risk that can be better managed than others, but still affects you—perhaps more than any other area. If the majority of your retirement income comes from dividends and interest, and meanwhile inflation rises, your effective income falls, and that cuts deep into your finances.

Credit risk. CDs are FDIC insured for up to $250,000 per account, while corporate bonds are backed by the financial stability and credit of the issuing company. Should a company go bankrupt, secured creditors are typically first in the asset distribution/liquidation priority, followed by the bondholders. Shareholders are typically last in line.

You can help manage risks by:

- Spreading your money among several different asset classes. This way, if one group is adversely impacted by the market or other conditions, another one may possibly react just the opposite (asset allocation will not guarantee against the risk of loss in a declining market).

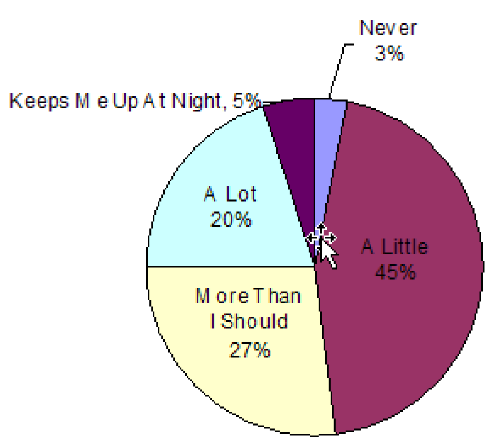
- Become familiar with the types of risks within your portfolio. For instance, do you own several mutual funds that have large holdings in the same stock? This could unnecessary expose you to an over-concentration risk if that particular company runs into problems.

Overseeing investments involves more than picking the best performing current assets. It also includes managing risks to help preserve your money. If you are not sure whether you are minimizing risks in your portfolio, please check off and return the enclosed coupon.

Are you Worried About Your Finances?

Do you find yourself worrying about your finances? While you may think that your situation is unique, you may, in fact, be among the majority of retirees and/or seniors who worry excessively about money.

A survey by the publishers of *Senior Market Advisor* revealed several retirees/seniors' responses to the question "How much do you worry about money?"



Another study that came out last month has re-affirmed these findings. Those very worried about their finances has doubled over the past year. Nearly one in two retirees said they felt less secure than when they first entered retirement.

43% stated that they were ***less risk tolerant*** than the year before. Their reasons:

-concern about the economy 79%

-concern about future inflation 45%

-not enough time to recover losses 39%

-change in house value 28%

Notwithstanding these statistical findings, financial worries do not have to control you. A more secure retirement is possible, with smart and prudent financial planning solutions to these common retirement worries:

Retirement savings shortfall. Upon reaching retirement, some seniors are surprised to discover that their retirement savings will come up short. Instead of pursuing leisure activities, they find that they must curtail their spending habits in order to make their savings last. But even in retirement, you can put your savings to work for you with investment strategies that are designed to help you achieve your growth and income objectives. For example, do you find that your investments are heavily concentrated in CDs and bank account deposits? Although these investments are often a very good source of liquidity and are insured by the FDIC, an over concentration in these safe investments could expose your portfolio to inflationary risks.

Loss of investment value. If you have been invested through the 2 stock market corrections we've had this decade you know what a loss of investment value can do to your financial situation. Unfortunately, market corrections are a fact of life and can show up at any time. However, there are things that can be done to help you weather these storms: 1) diversifying your portfolio, 2) rebalancing your holdings, and 3) following asset allocation strategies designed to reduce your exposure to market risk. Although asset allocation does not guarantee against the risk of loss in a declining market, it can help you to reduce the overall volatility of your portfolio. Has your portfolio been reviewed lately? If not, now might be a very good time to do this. Call my office for a no obligation review.

Do You Know What You've Got With Your Variable Annuitiy?????????????

Do you understand the features of the variable annuity? These include death benefits, guaranteed minimum income benefit, bonus credits, long-term care insurance, and more. Could you purchase any of those features, such as long-term care insurance, at a lower cost, and with a separate policy? These additional benefits are also subject to recurring fees and charges.

Do you understand all of the fees and expenses that the variable annuity charges? These include surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses, and fees for other special features and riders.

How long do you intend to remain in the variable annuity? Be sure your investment horizon is long enough to avoid paying any excessive charges for early withdrawals.

Does the variable annuity offer a bonus credit? If so, does it also come with higher fees and charges? Will you lose the credit if you make early withdrawals? Does the bonus credit outweigh these additional considerations?

Do you know the effect of the variable annuity on your income tax situation? There are tax consequences of purchasing a variable annuity, including the effect of annuity payments on your federal income tax status in retirement. Withdrawals from variable annuities are taxed as ordinary income and any withdrawals prior to age 59 ½ are subject to 10% penalty. State income taxes could also apply.

Are you exchanging your variable annuity? If so, do the benefits of the exchange outweigh the costs, such as any surrender charges? If the replacement product offers some additional benefits, do you need these benefits? Also, how do the fees, expenses, and investment options of the proposed replacement product stack up against your current annuity?

If you can't answer all of these questions, call my office or return the attached coupon. We can send you some additional information about these products.

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- ❑ Variable Annuities

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- ❑ 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
- ❑ Keep the IRS out of Your IRA
- ❑ Leaving a Legacy
- ❑ Protect your Investments (a guide to investing without losing a penny)
- ❑ Law Points for Senior Citizens (78 page guide)

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