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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

December 2009

…'I made my money in the market by selling too soon', Bernard Baruch, Wall Street legend

Happy Holidays! I hope that you, your families & friends have a joyous holiday season.

Our quote this month may have you wondering, but I'll explain in more detail in a few moments. Stocks continue their rise and we see more money coming off the sidelines and into the market. Hooray! The government continues to give us their version of all the good news permeating the economy (rising GDP, slowing unemployment claims, hourly earnings rising, new home sales improving, etc). Double Hooray! Wall Street firms are paying out ***fantastic* bonuses** for 2009 which must mean that everything is back to normal. Triple Hooray!!!

O.K. So why am I scratching my head? It seems like every month lately I've been raining on the economic parade and Wall Street jubilation. I guess it's only because I'm a little slow to understand and see what the press seems to be seeing. Or, maybe I just read too much?

I do look for reasons to be optimistic. Just this past week (for instance), I saw the first bit of encouraging news in a while. The American Institute for Economic Research reviewed the leading economic indicators and concluded that they point to a probable expansion going on right now. We won't have conclusive data for a few more months yet, but it's a start. The cloud however, came a little further into the report where they stated that "the long-term trends foretell a rough road ahead for employment".

What keeps me awake at night are things like:

- Small business failures are up 44% for the 3rd quarter 2009 vs. the same period 2008. These are the guys that create 70% of all the jobs in the country. According to a research report by Toluna Research, business owners are not thinking about when they are going to start hiring again…their biggest concern is whether they would still be in business this time next year.

- Jobless claims fell 35,000 last week. This would be fantastic news were it not for the fact that there were still 466,000 new first time claims.

- Although hourly earnings rose in October, the number of hours worked has shrunk to a historic low of 33 hours/week.

- Official unemployment stands at 15.7 million Americans. When we add in people who have dropped out of the workforce and those working part-time instead of full-time, we actually have a number which is truly frightening: 26,900,000 people who can't find work. Mortgages are paid with paychecks not percentage increases in GDP or other Washington rhetoric.

- Unemployment among the 16-24 year olds is at a post WWII high of 53%...which also explains why a new term has been coined – 'boomerangers' -. They are the 13% of grown children returning back to the comforts of their parent's nest.

- Consumer bankruptcies hit 135,913 for the **month** of October (a rise of 27.9% over last year).

- The number of Americans depending on the government food-stamp program is a staggering 35,000,000. If you can, please give generously to the food kitchens, especially this holiday season.

- The latest government reports indicate that **43.4%** of all Americans pay no federal income taxes whatsoever. That's 65.5 million out of 151 million people who file a 1040. The tax burden, obviously, is going to get heavier for those of us still paying into the system.

- New home sales grew 6.2% in October. According to Forbes, new home construction, however, is down 74% from its peak in January 2006. Don't you love statistics?

- By the end of last September, home foreclosures hit a record with one out of seven home loans going bad. And, to top that off there are 10.7 million U.S. mortgages (23% of all mortgaged properties) with negative equity.

- One in 10 mortgage borrowers was at least one payment behind in the 3rd Quarter, according to the Mortgage Bankers Association. When you add in the 4.5% of mortgage borrowers who are in foreclosure, we see that one out of seven people with a mortgage is in trouble.

- According to RealtyTrac, there were 332,292 properties foreclosed in the **month** of October. This was the 8th month in a row with a foreclosure rate of 300,000 or more.

- There are almost 20 million vacant homes in the U.S.A. That's a lot of inventory that has yet to be moved.

- Industry experts are predicting that the FHA will have 1.9 million foreclosed homes in 2010.

- Bank failures, year to date, are now at 124 and counting. The FDIC is broke! Guess who is going to get the bill.

So, that's what been keeping me awake at night. Now, here's a list of items giving me bad dreams, after I do fall asleep:

- The U.S. government's 'unfunded obligations' for Social Security, Medicare, Medicaid and the budget deficit was \$79 trillion in 2004, according to Agora Financial. By 2009, it has grown to \$114.7 trillion. That's a 44% increase in 5 years. How are we ever going to pay these bills?

- The global derivatives market has grown from \$100 trillion in 2005 to \$600 trillion in 2009. A derivative can be defined as the action of one bank making bets with another bank. For instance: One financial institution makes a bet with another financial institution that some 3rd party entity (in which neither bank has any financial connection) will default on their debt. There are no controls on this kind of betting…totally unregulated! Makes you kind of wonder what's going to happen the day when one of these contra parties wins BIG and wants to get paid!?!

- Commercial real estate is a real problem now that is going to get much worse in 2010. Vacancy rates for office buildings are 16.5%. Vacancy rates at the malls are 20%. Approximately \$450 billion worth of commercial property needs to be re-mortgaged in 2010. Here's the catch: Commercial lending usually requires a 30% down-payment by the borrower. Property values are down roughly 40% from their peak several years ago. So, not only are these properties under water, they no longer have the required 30% for the down payment. The banks are NOT going to re-finance this real estate. So, what's going to happen to all those strip malls, apartment complexes and suburban shopping malls? Darned if I know, but I don't want to own any banks right now.

- The Federal Accounting Standards has a new law, FAS167, coming into effect January 1, 2010. It's going to force financial institutions to bring bad, off-balance sheet assets back onto their books. This will also force them to deal with the EXTEND & PRETEND loans that will have to come back home to roost. These are loans where instead of the bank realizing the loss as a bad loan, they extend the terms and pretend that the borrower will be able to pay them back in a week…a month…a year. As they say, 'a rolling loan will gather no loss'. That's all about to change. One thing is for sure: Expect **even tighter** credit.

- According to Moody's Investor Service, the U.S. banks have about \$7 trillion of maturing debt that they'll need to refinance between now and 2012. That's a lot of new bond issues with probable long dated maturities. Who wants it?

WHAT TO DO NOW

As I mentioned with the quote for this article, 'I made my money in the market by selling too soon'. You may want to consider taking some money off the table. I would caution every investor not to try and squeeze every cent out of every trade. The axiom I use is the 20/60/20 rule. The 20% of investors who wait to buy at the bottom are generally unsuccessful. The 20% who try to sell at the top will lose profits. If you strive to stay in the

60% range, you'll usually come out ahead, and you'll have time to pick new winners. You'll *never* go broke taking profits. The stock market looks to be a tad frothy at its current level. But, if you remember a quote from several months ago, 'the market can stay irrational longer than you can stay solvent', it won't pay to try and time the market. This is the reason I do not believe it a wise decision to get out. It could still go a lot higher. The trend is your friend…until it's not. Right now, the trend is UP. What you may want to do, however, is get defensive with your asset allocations. I'm sure you don't want a repeat of how you felt during the market implosion of October '08 through March '09.

1) **Buy dividend paying stocks, Master Limited Partnerships and Utilities. They'll help you sleep at night.**
2) **Don't try to hide your cash in Money Market Accounts at your broker. They are currently paying somewhere around the lofty yield of .001%. This rate of 1/10th of 1% means that you can actually double your money in 6,932 years. What a deal!**
3) **Corporate, investment grade, bonds are still very attractive. Make sure you don't go fishing for yield. Stay with investment grade issues.**
4) **As our dollar continues to weaken, buy into companies that get most of their revenue from overseas.**
5) **Be very careful about buying bond mutual funds. It may not be the place to hide either. Many are leveraged so they can buy more bonds with borrowed money. And they generally buy very long dated maturities. This means if interest rates go up, prices are going to get killed.**

MISC. REMINDERS BEFORE YEAR END:

- This is the 'open enrollment' period for Medicare Part D. You have until December 31st to pick a plan. If you need help, feel free to call my office.

- Ditto for your Medicare Advantage Plan.

- Now is the time for tax-loss harvesting of your capital gains on your security investments. Remember you can offset losses with gains dollar for dollar and, if you still have losses left over, there is another $3000 you can take off your income tax for 2009.

TID-BITS

The health care reform bill continues on its merry way. Looking back in June, the bill contained 615 pages. By the end of July, it had ballooned to 1017 pages. By the middle of October it was up to 1990 pages. And, now, by the beginning of December…WOW…2074 pages. Let me give you a sample paragraph (and I quote)…

: "(a) Outpatient Hospitals – (1) In General – Section 1833(t)(3)(C)(iv) of the Social Security Act (42 U.S.C. 1395(t)(3)(C)(iv)) is amended – (A) in the first sentence – (i) by inserting "(which is subject to the productivity adjustment described in subclause (II) of such section)" after "1886(b)(3)(B)(iii); and (ii) by inserting "(but not below 0)" after "reduced"; and (B) in the second sentence, by inserting "and which is subject, beginning with 2010 to the productivity adjustment described in section 1886(b)(3)(B)(iii)(II)".)

If any of my readers can tell me what this means, please call me. You'll be my ballot 'write-in' next November. This also got me wondering. How many of our Representatives know what's in the bill? How many have read the bill? Do they really care? Do you think they'll vote anyways?

Should You Convert to a ROTH IRA After Retirement?

Should you convert a traditional IRA to a Roth IRA after retirement? With retirees enjoying longer lives these days, a post-retirement conversion to a Roth IRA could have advantages for certain investors.

A Roth IRA can be a good savings vehicle for those still working, thanks to the tax-free treatment of qualified earnings. A Roth IRA conversion can also benefit a retired investor. Because there are no minimum distribution requirements, Roth IRA assets can be invested for a longer period and thus have more time to work for you. For a recent retiree, that could mean your assets could potentially have 10 or 20 years to grow on a tax-free basis.

However, you must weigh the benefit of tax-free treatment against the costs of the conversion (in terms of the federal income taxes paid on the converted amount). Furthermore, a Roth IRA conversion generally works best when an investor has a longer investment time horizon.

Generally, you should only consider a post-retirement Roth conversion when you have assets outside your traditional IRA to pay the taxes on the converted amount. Also, if you would end up paying more taxes on the conversion than you would if you leave the assets in your traditional IRA for withdrawals later in life, then a Roth IRA conversion might not be in your best interest.

Some rules to consider: You are only eligible to convert a traditional IRA to a Roth if your modified adjusted gross income ("MAGI") is below $100,000 and you file a joint return with your spouse or you are single.[1] There are two pieces of good news. 1st the income qualifications go away starting in 2010. 2nd, the amount of traditional IRA converted is not included in your MAGI.

Another rule you should be aware of: If you convert to a Roth IRA after age 70½, you must take one last required minimum distribution from your traditional IRA for the year in which you make the conversion.[1] The remaining assets in your IRA are then available for conversion to a Roth.

Although distributions from a Roth IRA typically come out tax-free upon retirement, you must satisfy a five-year holding period requirement to achieve this benefit. Please also note that early distributions prior to age 59 ½ can be subject to ordinary income taxes and a 10% income tax penalty.

If you would like a free analysis comparing the growth potential of a Roth IRA conversion to your traditional IRA, please call my office.

[1]IRS Publication 590 (2005)

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OR CALL ME AT 908-236-7500

IF YOU HAVE FAMILY OR FRIENDS THAT MIGHT ENJOY MY ARTICLES, FEEL FREE TO PASS THEM ON.

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I would like to order a copy of these booklets (enclose $1 for each)

- ❑ Avoid Mistakes in Buying Long-Term Care Insurance
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- ❑ Helping You Avoid IRA Distribution Mistakes (And Reduce Your Taxes)
- ❑ CD Shoppers’ Guide
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