

## MACMILLAN FINANCIAL

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# SENIORS/BOOMERS NEWSLETTER

*"THE RETIREMENT EXPERTS"*

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## MARKET SNAPSHOT

"The king is dead. Long live the king". These words were spoken by the Duc d'uzes of France in 1422. Now, let's fast forward to 2009. Bush is out...Obama is in, and all eyes are focused on our new leadership (our kings of commerce) with *great anticipation!*

Who would want the president's position today? Let's face it. This is not a job for the faint of heart. He's got to deal with two wars; many unfriendly foreign powers; the threat of terrorism; budget deficits that reach to Pluto and back; a recessionary economy that is the worst we've seen in 80 years; a housing market that is re-writing the record book on how bad is real estate; a stock market that has made many 50% poorer in the past year alone; unemployment inflicting great pain on many American families; corporate profits that have become invisible...and the list goes on. Anyone purposely going after this post has to be a sandwich short of a picnic...or someone who has the makings of a hero.

It reminds me of an appointment I had a few years ago with a fellow who came into my office and announced: "I'm retiring at the end of the week; I have no 401k; no IRA; no savings; 2 car leases and a large mortgage on my house. This is your chance to become a legend".



### Can miracles happen?

Let's take a look at what Mr. Obama is facing with our economy: *the good, the bad & the ugly.*

### "THE GOOD"

•As bad as things are on Wall Street, there are only three sectors dragging down the S&P 500.

•Thirty-three percent of stocks are currently trading above their 50 day moving average.

•Housing is about as affordable as it was back in the 1980's. At that time median home prices equaled 2.9 times household incomes. To contrast...in 2006 that multiple was 4.5 times; **we've come a long way!**

•The Federal Reserve announced a new program on January 27<sup>th</sup> whereby they would spend \$500 billion in an effort "to avoid preventable foreclosures on residential mortgage assets".

•The Obama stimulus program will pump \$825 billion into the economy over the next 2 years.

•There's still another \$350 billion of TARP money yet to be injected into the financial sector.

•JP Morgan CEO, Jamie Dimon and Bank of America CEO, Ken Lewis have both been personally loading up on their company stock.

### "THE BAD"

•Companies have been cutting dividends at an alarming rate. Since January 1<sup>st</sup>, an unbelievable \$7.5 billion has disappeared. This is more than the entire 5 year period from 2003-2007. If you were counting on dividend income to pay bills, you had better check to see if it is sustainable.

•Stock Market volatility has been gut-wrenching. Since 1950, the S&P 500 has gained, or lost, 4% in one day only 70 times. Almost half

of those swings occurred in the past 4 months. To put this in perspective, in the 5 year period from 2003-2007, there was not a single day that we were jolted this way.

- As of December, only two out of the ten primary leading indicators are expanding: M1 money supply and the yield curve index. Everything else is contracting. Of the six coincident indicators, NONE are expanding.

### “THE UGLY”

- This is the first time in the past 60 years that we have ever had a ten year period of negative returns.

On January 1, 1999 the Dow Jones was 9181.  
On January 1, 2009 the Dow Jones was 8776.

This has been a lost decade for almost everyone!

### “THE REALITY”

- Market volatility is to be expected. Only invest money you won't need for at least 5 years.

- Recessions are painful, but we have always lived through them to see brighter days.

- Most investors sell at market bottoms, and buy near the tops...when all the good news is out! Avoid doing this.

- Don't believe that all stocks are cheap.**

### “2009-YEAR OF THE STOCK PICKER”

- In all the stock research that we perform, what jumps out is that a great many stocks are justifiably cheap. Their earnings don't support a higher stock price.

- When checking out a stock, look at operational cash-flow per share. It frequently uncovers a false EPS (earnings for share) report. Drill down on any company you want to invest in.

- Make sure that you don't have more than a 5% portfolio weighting for any one stock. This can be dangerous, especially in this environment. A missed earnings report; a reduced dividend payment; government intervention, etc. can slice a company's valuation in a hurry. It's also unwise to think that blue-chips are always blue-chips. They can and do fade to grey. There are quite a few stocks in the DOW JONES today that are worth less than they were **10 years ago!!!!**

- I am often asked when it's time to sell a stock. The answer is when you find something better to own. If you constantly *upgrade your portfolio* you should improve your chances of bettering the market.

- Make sure your selling is as **tax-efficient** as possible.

- Before selling your shares outright, check to see if selling covered calls may not be a better option. It's an excellent way of generating income on stocks you don't want.

*If you need help evaluating your portfolio, feel free to contact my office for a free consultation.*

## What Happens to Bondholders when a Company Goes Bankrupt?

Seniors like bonds because they can possibly provide a steady income, diversify a stock portfolio, and are backed by the insurer's financial strength. But things don't always go as planned. Companies occasionally have financial problems and must file for bankruptcy.

Investors holding bonds in bankrupt companies can at least have the comfort in knowing that as unsecured creditors they are second in line for payment. Secured creditors, those with claims backed by collateral, such as equipment or real estate, are paid first.

Stockholders come last, and that is only if there is any money left after the creditors have been paid.

There are two general forms of bankruptcy: Chapter 7 and Chapter 11. With Chapter 7, the company is liquidated and bondholders should file a claim to receive a portion of the value of their bonds. In Chapter 11 proceedings, however, the process is quite different.

Chapter 11 allows the corporation to reorganize. Its bonds might continue to trade, but holders will not receive principal and interest payments. As a result, a default could occur, and the value of the bonds might decline significantly, or the court may approve an exchange of the old bonds for new ones (which could have a lower value).

How can you find out if a company that you lent money to by purchasing a bond has filed for bankruptcy? TV reports, newspapers, and financial magazines often give an account of companies that recently declared bankruptcy. The company will also send you information on the reorganization plan and ask you to vote on it. If a financial institution holds the bond for you, it should forward everything from the company.

**If you would like a free credit report on bonds you currently own, include the CUSIP numbers and issuers' names on the enclosed coupon and mail it to my office. Along with the report, I will provide a list of investment-grade bonds that I am currently recommending.**

## **Questions You Should Ask BEFORE Buying a Variable Annuity**

Any retiree who has come into my office and showed me a variable annuity clearly knows my views on VA's. They are great for thirty & forty something's...but with few exceptions...DO

NOT belong in a retiree's, or near-retiree's portfolio. According to the Securities and Exchange Commission (SEC), questions you should ask are:

**How will the variable annuity fit into your retirement picture? And do you have any other way to do that?** For most investors, it's advantageous to make the maximum allowable contributions to Individual Retirement Accounts (IRAs) and 401(k) plans before investing in a variable annuity. It's also important to remember that variable annuities are typically suited for long-term investors who are using the annuity to save for their distant retirement.

**Are you investing in the variable annuity through a retirement plan or IRA?** If you are, you're not receiving any additional tax-deferral benefit (which is often an important reason to purchase a variable annuity) since you have them already.

**Are you willing to expose your account to market risk if the underlying investments perform badly?** Variable annuities can lose money. Although some companies offer a rider to help protect your principal, there are additional costs for this guarantee. It's also important to remember that such guarantees are backed by the claims-paying ability of the insurance company. Therefore, it's always a good idea to check out the financial strength of the insurer prior to investing your money.

**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 surrender 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 before you make a change, please call our office or send in the attached coupon. We can send you some additional information about these products.**

*Carefully consider investment objectives, risks, charges, and expenses before investing. For this and other information about any mutual fund investment please call the funds provider to request a prospectus, read it carefully before you invest.*

**IF YOU WOULD PREFER TO RECEIVE YOUR NEWSLETTER BY E-MAIL LET ME KNOW AT [JRM@MACMILLANFINANCIAL.COM](mailto:JRM@MACMILLANFINANCIAL.COM).**

**OR CALL ME AT 908-236-7500**

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

## Valuable Free Newsletter Information

### Mail or Fax back to:

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### Please send me information on these items mentioned in your newsletter:

- Portfolio Evaluation
- Bonds & Bondholders
- Variable Annuities

### 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
- 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)

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

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