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# SENIORS/BOOMERS NEWSLETTER

***"THE RETIREMENT EXPERTS"***

**January 2009**

## MARKET SNAPSHOT

Happy New Year!

**2008, good riddance!** Now, the $64 BILLION (call it inflation) question is: Will 2009 be as gut-wrenching as 2008? The head winds, a.k.a. hurricane force winds, are still out there: unemployment is probably heading for +9%; we are in the midst of a raging recession; housing, is still a formidable drag on the economy; banks are still not lending; the automotive industry is almost defunct; retailers are practically giving their stuff away, etc. etc. etc. But…believe it or not, there are reasons to believe that we should see some ***calmer waters*** this year. I realize many of you are probably thinking that I'm a little delusional right about now, but I'll explain.

There is so much fear in the market that Treasury yields are now hovering near 0%. This is not a place to grow your money...it's safe enough, but you're losing significant purchasing power! Mortgage rates are now close to 5%. This makes housing more affordable and, as a result, mortgage applications are rocketing upwards. The U.S. monetary base (bank notes in circulation and bank reserves) almost doubled in 2008. There's been approximately $7.5 TRILLION committed by Washington & the Federal Reserve…and that's before the Obama stimulus package which should inject another $1 TRILLION, or so, into the economy. There's $4.5-5 TRILLION sitting in money market accounts paying next to nothing. The Federal Reserve has cut interest rates to 0%. The government has made it very clear that they **will not** allow the economy to fail. If you want to bet against the house, *which I do not recommend*, go ahead.

The legendary Ohio State football coach, Woody Hayes, once said, 'when you pass the ball only 3 things can happen… and 2 of them are very bad. What you are witnessing right now is the biggest bubble ever seen. Only 3 things can happen. The bubble never bursts, the money never gets spent, our economy never recovers and we all head for the hills and find a cave to live in. Two, the bubble fizzes until all the air is out, some of the money gets spent, the banking system, however, remains paranoid, and our economy muddles through limbo for decades to come. Or three, the bubble bursts with a large *bang* and all this money comes flooding through the system and the economy (and stock market) gets better. This will happen eventually and 2009 could be the year. I just don't see any dam holding back these monetary forces forever. The resulting wave will be huge. Be ready to ride a tsunami. If you wait for the good news to hit the press, you will have already missed the proverbial boat.

What else is going on in other economies? There are still some talking heads on T.V. telling anyone who will listen that the Chinese miracle lives on, and that's the place to invest. Hogwash. What they fail to understand is that until we, in the U.S. get better (and start buying those Chinese goods) Chinese factories have nowhere to ship all the product they're producing. And, seeing as China's exports account for 30-40% of their GDP, their economy doesn't look all that healthy either.

So, where should you invest for the next 12 months? Emerging markets on the whole should be underweighted, at least for the 1st half of 2009. As I just mentioned, I just don't see any country in the world having a good year until our unemployment and housing sectors improve. Over-weight strong American companies in your portfolio.

What about bonds? Yes and No. Bond mutual funds had a ridiculously lousy year last year, and in fact, were a further drain on your portfolio losses. I am avoiding them altogether. There are fantastic deals with investment grade corporate bonds paying upwards of 7%. Again, use caution here and make sure you are buying senior and secured notes. Use them to get you some stability in your portfolio. Because of the monetary problems being experienced with many municipalities (lower taxes and unfunded pensions), I'd stay away from *'munis'*.

Stuff your stockings with dividend paying stocks. This is ***real money*** going into your account every three months. Be careful, however. Not all dividends are safe, or guaranteed. Make sure the companies you go with have the wherewithal to pay you every quarter and, if they have pensions, that they are fully funded.

2009 is shaping up as a fabulous year for some stocks...certainly not all. Bloomberg reported in December that there are 2,267 companies around the world that are trading for **less than their cash value!!!** But, you'll need to pick them up with surgical precision. Look for companies with no debt, growing earnings and a strong balance sheet.

Gold deserves some consideration. Once the money bubble floods the economy, we are very likely to see a good deal of inflation (which beats the heck out of deflation or recession). Inflation rises-gold rises. Although gold is trading in the mid-high $800 range, it could go much higher. If we take the 1970's gold price of $800 and adjust it for inflation, the value would be $2,250 in 2009 dollars.

Be careful investing in consumer discretionary companies. Luxury, travel, spas, pricier dining, entertainment and leisure will all take a back seat until the economy improves. Even durables, such as cars, appliances, furniture are sure to see a downturn.

Healthcare, U.S. exporters, food producers and defense companies will probably outperform this year. Consumer staples also do well in any kind of weather. Buy things that people need…not want. No matter how bad the economy gets, everyone still needs to brush teeth, shave, wash clothes, and buy drinks, (especially liquor in hard times). Smokers don't usually quit just because we're in a recession. If anything they may smoke more.

Good luck and happy hunting for 2009.

**If you need help with any of these issues, feel free to contact my office for a free consultation.**

## The 12 *MOST COMMON mistakes Investors make… and what <u>not</u> to do in 2009!*

**Mistake No. 1: Procrastination.**
Waiting for the right time to get into the market can ruin your investment results over your lifetime. Procrastination can take on many forms. The irony is the longer you wait, the less time you have. Every day you delay is a day of opportunity that you can never get back again

**Mistake No. 2: No written plan.**
Different articles published in *Fortune* magazine, Money Magazine, MSN Money, and others have stated that people with written financial plans covering their investments end up with two to five times more money during retirement than those without written plans. If you don't have an investment plan that's right for you, developing one should be a top priority in 2009.

**Mistake No. 3: Taking too much risk.**
Investment risk is not a theoretical concept. There is a very real possibility that you will lose money in the market (as experienced in 2008). Investing, by definition, requires taking some risk. Some however, take on too much. Most investors don't understand what could go wrong with an investment when they make it… and they don't have a plan for what to do if things go badly.

**Mistake No. 4: Taking too little risk.**
Some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low return. If you put your emergency money in a bank account and earn 1, 2, 3, even 4 percent, you may think you're taking no risk. But in fact you are taking on the very real risk that inflation will rob your money of its purchasing power…not to mention the taxes you'll have to pay on the little interest you did earn.

**Mistake No. 5: Paying too much money to others.**
Mutual fund investors essentially throw a lot of their money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's. In addition, far too many investors pay far too little attention to the annual expenses these funds charge. Investment expenses take away a significant

portion of an investor's annual returns in order to pay the fund managers and the sales commissions first.

**Mistake No. 6: Trusting institutions.**

BANKS: A classic conflict of interest. Your best interests are served by accounts that pay the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually!

Brokerage houses also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders…not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might…the brokerage house, probably not. And, guess who the broker works for and gets paid by?

**Mistake No. 7: Believing publications.**

"Best Funds for Next Year and Beyond"
"The 100 Best Mutual Funds"
"These Stocks are Real Steals"
"Star Funds: Six Standouts You've Never Heard of"

Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class. Don't get sucked in!

**Mistake No. 8: Failing to take little steps that can sometimes make a big difference.**

Some examples:

- People fail to fund their IRA contributions at the start of the year.
- People leave money in taxable accounts when it could appropriately go into IRAs, Roths and 401(k) plans and save taxes by growing tax deferred.
- People don't maximize their 401(k) plan savings.
- People have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.
- People don't move their money from a checking account to a money-market deposit account at their bank.
- People don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

**Mistake No. 9: Accepting investment advice and referrals from amateurs.**

If you had a serious illness, I hope you'd consult a doctor, not somebody on the street who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.

Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts.

**Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.**

The two most powerful forces driving Wall Street trends are greed and fear. There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak – and since everybody seems to be selling at the same time…prices go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. For instance, if it sounds too good to be true, it probably **is too good to be true.** Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

**Mistake No. 11: Focusing on the wrong things.**

It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds and timing the market (which you cannot do). Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns!

**Mistake No. 12: Not understanding how investing works.**

Diversification…diversification…diversification (putting together non-correlated asset classes).

The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others. This year's asset class winners may be next year's asset class losers. Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably stayed way too long.

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