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SENIORS/BOOMERS NEWSLETTER

" THE RETIREMENT EXPERTS"

May 2009

'If you can't explain it simply enough, you don't understand it well enough' Albert Einstein

I love this quotation by one of the smartest people ever born. I'm not sure, but maybe Albert was referring to the people in charge of trying to right the boat of our U.S. economy.

I'm struck by the magnitude of the wariness inside the financial world when it comes to the government programs. The TARP program is/was a lifeline for many banks, but came with so many strings attached that they are all rushing to try and pay it back. (which may, or may not, be such a good idea for everyone). To date, eleven banks have repaid the loans and a bunch more are lining up to do the same. Trying to follow all the rule changes with TARP would be like keeping track of IRS amendments. ATT & Verizon were offered broadband TARP funds but refused them for that very reason.

Elizabeth Warren, who heads the Congressional Oversight Panel, had this to say to Tim Geithner at a recent hearing on Capital Hill. 'People are angry because they are paying for programs that haven't been fully explained and that have no apparent benefit for their families or the economy as a whole. Fellow Panel member, John Sununu, added 'you've left more questions unanswered than answered.

The missing ingredients seem to be clarity and transparency. Most people don't want to see a ***change-on-the-fly*** type of strategy. Secretary Geithner introduced the Public Private Investment Plan (PPIP) in an attempt to remove toxic assets off the books of the infected banks. Jamie Dimon of JP Morgan Chase said of the plan: "We're certainly not going to borrow from the Federal government because we've learned our lesson about that". For this program to work, we need better communication. I'm not entirely clear on whether or not there is anything prohibiting banks from buying each other's bad assets from each other using our taxpayer money. What a great idea!

Congress bullied the Financial Accounting Standards Board (FASB) until they caved in and said that they would do away with 'mark to market' accounting at our banks. This essentially will allow the banking community to price their own assets to a value they believe they will be worth at some point in the future. Is this the fox guarding the hen house? Ironically, this accounting rule change may actually negate the need for PPIP. All of a sudden the bank's balance sheets…and profits?!?... looked a lot better for the 1st quarter. What toxic assets? Who me??? Once again, our taxpayer money is hard at work!

The current rally was sparked by all the ***good*** news coming out of the banking sector. I was shocked at a report by a Bloomberg columnist who dug into a major banks' numbers at the end of April. The reporter found an item on the asset side of the ledger for $100 billion described as 'other'. Upon further digging, $55 billion was '*kinda'* accounted for. $45 billion was not. Ergo, the financial institution has $45 billion of 'other-other'. When their entire equity amounts to $38 billion, it begs the question what are the shareholders actually holding?

What I've been saying for quite a while is that the banking community has more than a few more hurdles to get over before we can sound the ALL CLEAR.

• The sub-prime market was estimated at $1.3 trillion. We're still working our way through that mess. But, guess what? The ALT-A and Option

ARM loans total approximately $1.6 trillion…and many are getting ready to re-set.

• Credit card debt is starting to bite deeply into our banker's cost of doing business. The card lenders are all coming to the confessional with statements about losses doubling. One bank actually put aside over $13 billion last month. Several other banks have stated that their write-offs will likely hit 9.5% in the coming quarters.

• Commercial real estate has yet to make its full impact known. General Growth Properties, one of the largest REIT mall owners in the country filed for bankruptcy in April.

• Commercial property values are falling like a stone, so you know there's more banking pain to come.

• Small business loans are defaulting at an alarming rate. More than 4.4% were in 30 day default for the month of March.

• The unemployment rate will probably surpass 10% in the coming months. This will not auger well for the loans that have to be repaid.

In my humble opinion, I don't think we're quite out of the woods yet. But, the markets have shown us some respite over the past month or two. I'm sure we all feel relief at the lack of volatility. There's only so much roller-coaster riding a person can take.

Consumer confidence had a dramatic surge last month. It was still below 50, but it headed north with some conviction. That had me wondering. Can we spend our way out of this mess? I've actually been a doing a lot of thinking about that lately. Could it happen? Could we actually buy our way out of recession? There is enough money sloshing around in the economy to perhaps make it happen. What could happen is that people feel good enough about their finances and job prospects and start spending again. If that were to happen, companies will start reporting profits attracting new investors. More money going into the market will lift stocks further. It could become a self fulfilling prophecy. This, in spite of the precarious and delicate position of our economy, which although not expanding, is showing signs of leveling off.

As bad as housing is, the number of homes for sale fell 5.2% in March; a seven year low. We're also down to 10.7 months of inventory…not a good number but the lowest reading in eight months. A web-site, www.willow.com , tracks your homes' value based on sales in your area. For the past two months the service has reported that my personal residence has gone up in value. This is very encouraging for all homeowners in general…and me in particular.☺

Banking…Housing…Unemployment are all tied together at the hip. Maybe a 'happy pill' for everyone will solve the crisis. I'm optimistic, but realistic.

Is the market 'cheap'?

Dow 8000 and most people figure it's downright cheap. We're down more than 6000 points from its all time high, so it must be cheap. But is it? Based on the current earnings (or lack thereof) the Dow Industrial Average is actually trading at 30 times earnings! That my dear reader, is ***very expensive.***

So, now we know that not all stocks are cheap after all…but some are. You have to be very selective in this type of market and you, and/or your advisor, must perform a good deal of due diligence before buying shares in any company.

We used to be able to rely on dividends to keep our retirement accounts growing, but no longer. According to Standard & Poors, a record 367 firms cut dividends by $77 billion in the 1st quarter 2009 alone.

Then you have the question of what dividends are *really* safe. Check the companies out very carefully. Can they afford their dividend payout? One alarming statistic says maybe not. According to the S&P, at the end of 2007, the money set aside for future obligations for Defined Benefit plans (pensions) among the S&P 500 companies totaled $1.4 trillion. By the end of 2008, that amount had shrunk to $1.1 trillion. That $300 billion shortfall is significant, especially when you look at the 500 companies whose **combined earnings** were all of $132 billion for the entire year of 2008.

The place to look for whether or not a company can make their dividend payment is to check their payout ratio. This is the percentage of earnings the company pays to its shareholders. For example if a company earns $2/share and pays out $1, the payout ratio is 50%. The other 50% is used to pay for its operations and perhaps retained earnings. If it earns $1.50/share and still pays $1 to the shareholder, you have to question how they are going to pay their bills with only half the money they need. Something has got to give and it will usually be the dividend check. If you wish to check on a company's payout ratio you can go to:

http://moneycentral.msn.com and then click on FINANCIAL RESULTS. It's all there for the world to see.

As the markets recover, you may wish to look to specific sectors for leadership in the rebound. Basic materials, oil, commodities should all do well. Emerging markets should be considered. Growth stocks will probably do better than value (especially in light of all the dividend cuts). Don't be shy about investing in bonds…but try to keep the durations short and stay with the investment grade variety. If you ***really*** feel the urge to get involved with the financials, go with their bonds….not the stock.

In an effort to protect profits, one of the simplest rules is to watch daily volume on your stocks. Any stock price decline on heavy volume is usually a signal that the institutional investors are getting out, and so should you.

Is There a Better Way to Manage ……………..YOUR Portfolio…………… With 'ups & downs' in the market?

If you have been a "buy-and-hold" investor through the most recent bull and bear markets, you are probably aware of the shortcomings of this strategy. A buy-and-hold strategy seems to work out well in a bull market when the stock market, as a whole, is rising. But in a bear market, the buy-and-hold strategy could require you to sit, wait and hope that the bull market returns soon so you can try to recover your losses. Younger investors may have the time to ride out market dips, but in some cases senior investors do not.

There is another alternative. A number of professional investment managers take a different approach to stock market investing. Instead of sitting and waiting, they seek out investment gains whenever and wherever they may appear in the market, and attempt to avoid investments that could spell trouble down the road. These managers practice an investment strategy known as "tactical asset allocation."

Some of these strategies, for example, will manage your portfolio moving from stocks to bonds to cash depending on where the investment manager believes the best opportunities for returns will be found. Other strategies may rotate your holdings among different sectors of the market (e.g.: energy, technology, healthcare, etc.) or different types of stocks (e.g.: growth or value, large-cap or small-cap.) It depends on what areas the manager believes will do well given the current market and economic conditions.

One possible advantage of using a tactical asset allocation strategy is that your portfolio is under constant supervision during all phases of the market cycles. A tactical asset allocation manager evaluates conditions in the financial markets on a regular basis to determine where the best opportunities and the highest risks could potentially lie. Then, the manager invests your portfolio in different investments based on this evaluation. The manager also monitors performance to help your portfolio remain on track to meet its objectives.

Tactical asset allocation strategies do not come without risks. There is always the risk that the manager could be wrong about the market and may miss out on gains or suffer losses. Plus, a tactical strategy may trigger more capital gains and result in higher income taxes. For some investors these strategies work better in a tax-deferred account.

A tactical asset allocation strategy can be used by itself or may complement the "buy-and hold" portion of your portfolio. Either way, tactical asset allocation provides a disciplined strategy for managing risks and seeking out returns in an ever-changing market environment.

If you would like free information on the tactical asset allocation strategy, please complete the enclosed reply coupon or call my office.

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