MacMillan Financial
John MacMillan, CRFA, CLTC, CSA
P.O. Box 66
Annandale, NJ, 08801
T: (908) 236-7500
F: (908) 236-7511
WWW.SENIORSBOOMERS.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

November 2009

………'anyone who isn't confused just doesn't understand the situation'……
-Edward Murrow, famous WW II CBS newscaster

The continued rise in stock prices has many investors scratching their heads. The 3rd quarter earnings reports keep on flooding in with much better than expected results. As of this writing, and according to Bloomberg, around 80% of S&P companies that have reported so far have beat their handily beaten estimates; a record for its data going back to 1993. But, I like to make comparisons using real numbers and those paint a slightly different picture.

Earnings are down 18.2% vs 3Q2008 (which were down 22% 2008 vs 2007), and sales are off more than 10% for the same period. The reason why the 3rd quarter 2009 reports look so much better today is because S&P 500 firms are jumping over a 'limbo' stick lying on the ground. Well known market analyst, Stephanie Pomboy calculates that companies have cut labor costs by an astounding $327 billion over the past year. Even with such dramatic cuts, earnings still fell $177 billion. I'm not sure what the next quarter numbers are going to look like. After all, you can only fire the same employee once.

David Rosenberg of Gluskin Sheff (former chief economist for Merrill Lynch) noted in a recent report that on an operating basis the price/earnings ratio of the S&P 500 is up ten (10) full points since the March lows…and now stands at 27.6% for the index. VERY EXPENSIVE. If we step outside the S&P for a moment and look at all the market drivers, what we see is a lot of companies leading this charge without real earnings and a lot of debt.

Morningstar has stated that they thought the market looked cheap in March and that it appeared to be fairly valued by June. It has risen an additional 15% since then. When I look at the charts for the DOW 65 (30 Industrials, 20 Transports, 15 Utilities) it resembles a moon shot…almost straight up since the market rebound. But I'm reminded of a stock market credo: Nothing goes straight up forever.

Next up, we have unemployment. A very disconcerting report came out this morning saying that 6.6 million Americans, 65 or older, are looking for work and can't find any. Since December 2007, we have lost 7.2 million jobs. According to the Bureau of Labor Statistics, at an unemployment rate of 9.8% that equates to roughly 15.1 million people on the dole. Another report indicated that if we used the same measurements for unemployment as was used back in 1930 when the unemployment rate was 16%, our results today would peg our rate at **16.3%.** That means we have more than 30 million Americans needing work.

The Wall Street Journal summed it up best when they wrote, 'even if the job market stated spitting out jobs as fast as it did during the 1990s boom, adding 2.15 million private-sector jobs a year, the U.S. wouldn't get back to a 5% unemployment rate until late 2017' (and that's using the official rate not…the much higher *real* figure).

Residential Real Estate isn't very pretty either. We continue to get *cheerleader* type reports from the National Realtors Association telling us that they think they have spotted a bottom…in some markets anyways. I read these reports and think they are throwing Chanel perfume on a pig wearing lipstick. From January through August 2008, 365,000 new homes were sold. The first 8 months of 2009 produced only 261,000 new home sales. That's a drop of almost 30%.

Then we have the new inventory. U.S. foreclosures exploded to an all-time high of 937,840 in

the 3rd quarter this year. This isn't a sub-prime story any longer. More than half of these are the gold standard PRIME mortgages. This kind of follows other news about consumer bankruptcies, which topped over 1 million through September. Alt-A and Option ARMS are getting ready to reset in 2010 and 2011. It ain't over till it's over!

Our economy is consumer driven. 70% of growth comes from that direction. I don't see the case for a recovery based on a frightened consumer who is now committed to saving, not spending. Spending can only rebound when incomes rise. We're still going in the wrong direction on that score.

How about Commercial Real Estate? Credit Suisse reports that $22.4 billion in commercial mortgages were at least 60 days past due in September. Bloomberg reported that commercial real estate rents fell by -27% in the first half of this year. Office rents have plummeted. The vacancy rate is 16.5%. Renters have turned in 64.2 million square feet of office space in the past 12 months. Vacancy rates for U.S. apartments stand at a 23 year high of 7.8%. Who wants to be a bank holding mortgages – commercial or otherwise?

Speaking of the banks, here's a frightening statistic: Regional banks hold approximately **60%** of the U.S. commercial real estate loans…and the Office of the Comptroller reports that more than 1/3 of those banks hold real estate assets exceeding 300% of their capital. The FDIC has closed down 106 banks so far this year. It's a safe bet more will be added to the list.

In their analysis, Global Financial Stability Report, the IMF is said to be more optimistic about improvements for the global economies coming out of this crisis. Their revised (lowered) bank losses are expected to come in at a $3.4 trillion before all countries are in the clear. Our portion of that total is $420 billion. Now, that's something to cheer about!

We also know that the Federal Reserve has been the biggest buyer of the U.S. debt. They've done this with printing presses running so fast there's smoke coming off the rails. They have effectively monetized our debt. There's only two ways out: 1) Sell the Treasuries they have bought, back into the open market. That would kill the bond market and the stock market and any chance of recovery. Or, 2) Realize that the $1 trillion that they printed is now permanently part of our monetary base. This comes down to Economics 101. When you have more $ chasing too few goods = INFLATION.

Now, this is not what our esteemed politicians will ever tell us. In fact, with all this spending going on, I can already hear their standard retort: "we will pay for these programs by eliminating waste, driving out fraud and weeding out abuse". So, this begs the obvious question. If you can do all that, why haven't you done it already! The federal government is adding $5.5 billion of debt to us, our children, our grandchildren, our great grandchildren…**every single day**. This is going to be a long, slow process to get a healthy economy again. As Warren Buffet once said, "you can't produce a baby in one month by getting nine women pregnant".

So, coming back to my earlier wonderings about what's driving the market, I think I've come up with the answer. Sir John Templeton said, "Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria". The driving force behind the elevated stock prices is obviously not the fundamentals…but the liquidity. We have a lot of optimistic money rushing into the market right now trying to get a piece of the gains. Will this last? Probably not. As I have always maintained, it's not a stock market, but a market of stocks. When you buy a stock you buy a piece of a company. You want to buy something that will make you money. This is done by producing equity for you, the shareholder. So, there you have it. It's all about PROFITS. Sooner or later we'll get back to the basics.

In the meantime, enjoy the roll we're on. Keep a keen eye on the gains you have, and try not to lose them. This market could go 1000 points in either direction very quickly. No one is smart enough to predict with any degree of certainty which it's going to be.

As bleak as the overall picture looks, I would not counsel any investor to head for the hills and bury their money in the back yard. I say this repeatedly - not every stock goes down in every down market. The better ones either hold their own…or go up! In this market environment however, you need to be ***very vigilant*** in watching your holdings and be on the look-out for signs that it's time to lock in profits.

WHAT TO DO NOW

1) **Stick with companies with strong balance sheets, little or no debt, and that make things we NEED.**
2) **For the time being, continue to avoid the banks & homebuilders.**
3) **Buy companies from industries with strong signs of improving business conditions and earnings growth.**
4) **Buy dividend paying stocks. They represent *real* money in your account every quarter. In fact some companies are paying higher dividends than do their bond coupons.**
5) **Corporate, investment grade, bonds are still very attractive.**
6) **Ensure that you are correctly asset allocated, and re-balance your portfolio.**
7) **Diversify your investments among stocks, bonds, countries, commodities, currencies, precious metals, etc.**
8) **A weak dollar strategy should have you investing in multinationals that get most of their revenue from overseas.**

Choosing Among Financial Service Firms is a Matter of Trust

What's most important to you when it comes to choosing a financial services provider? According to the results from several recent surveys, trust was named as the most important factor when evaluating financial services providers; outranking customer service, performance, and range of products.

But how do you judge trustworthiness? Some financial service firms might present their experience and assets under management to convey their commitment to building trust with potential clients. But long histories and billion-dollar portfolios do not necessarily translate into a trustworthy relationship.

The recent scandals in the mutual fund industry exposed some illegal and unethical practices that were going on behind the scenes at some of the biggest and oldest financial services firms in the country. While some of these firms righted their wrongs, the lingering effects of the scandals still lead many investors to ask, "Who can I trust with my money?"

When evaluating financial service institutions, such as brokerage houses, insurance companies, mutual funds and independent firms, there are several considerations that can help determine who is worthy of your trust.

According to Liz Pulliam Weston, feature writer for MSN Money, one of the most important words to look for with your advisor is ***fiduciary.***

She says, "It's a $10 word, but not knowing it could cost you a fortune"...in the world of money it means someone who's committed to putting your financial interests ahead of his or her own".

Ms. Weston further explains, "The word is important because true fiduciaries are harder to find than you might think. Most of the people who want to give you advice about your money aren't held to that high standard. At best, they're held to a *suitability* standard, which means they're supposed to recommend investment and insurance products that they deem appropriate for your situation. Just 'appropriate'...not…'the best choice' or 'in your best interests' .

She goes on to say: " let's say the advisor could earn a fat commission for recommending a higher-cost investment being promoted by his financial services firm…instead of netting 8% a year, you might net 6%". The effect this could have on a portfolio could represent a decrease in performance of over ***35%!!!***

"People who are stock brokers or insurance agents are allowed to put their own interests and those of their firm, ahead of yours" Finally, Ms. Weston states, "in the financial-services world, there are three job titles that automatically connote a fiduciary standard: Attorney, Certified Public Accountant & Registered Investment Advisor.

MacMillan is a Registered Investment Advisory firm.

Should You Consider a Managed Account?

As your investment portfolio grows in value, it becomes more critical to make the right moves with your assets. For many individuals with investable assets of $500,000 or more, a managed account provides an effective solution to the challenges faced when running a large portfolio. But, who do you hire?

According to Jack Waymire, founder of the Paladin Registry (a free public services firm for investors) author of **'Who's Watching Your Money?'**

when it comes to hiring an advisor, "millions of investors use very subjective processes: likeable personalities; sales pitches or selecting advisors from brand name financial services companies because they feel safer". But, he goes on to explain…"advisors from brand name companies may not be the safe choices investors think they are for five reasons":

- Their companies are publicly owned, so their first responsibility is to shareholders and not to investors.
- In their companies' quest for profits and higher share prices, the advisors have more conflicts of interest than other financial professionals.
- The companies have a long history of abusing investors to maximize profits.
- The companies have paid billions of dollars in fines for cheating investors. Thousands of their executives and advisors have gone to jail, were fined or were forced to leave the industry.
- The companies have spent billions of dollars on lobbyists who make sure new legislation favors companies and not investors

He concludes with, "If these facts aren't enough to raise concerns, then another telling statistic is the thousands of advisors who left brand name companies so they could do what was best for their clients…most of these breakaway advisors started their own Registered Investment Advisory firms."

By hiring a Registered Investment Advisor to manage your assets, you can gain access to sophisticated investment strategies and a higher level of personalized service that is not typically available in large financial services firms.

Whenever securities are purchased and sold from a portfolio, be it in a mutual fund or a separate account, the potential for tax consequences arises. One of the primary benefits of a managed account is that securities can be sold in the most *tax efficient* manner. A simple example is that selling a security after a 12 month and one day hold will avoid short term capital gains.

Another example is, specific securities that have sustained net losses in your portfolio can be sold in order to offset any potential capital gain tax liability. Conversely, in a mutual fund, securities are typically bought and sold without consideration of the tax ramifications to the individual fund shareholders. In addition, redemptions by other fund shareholders can result in a tax liability as well if the fund manager has to sell some of the fund's holdings in order to meet these redemption requests.

Fees paid to the advisor are usually based on a percentage of the assets in the account. In contrast, mutual funds generally have annual management, distribution and administrative expenses. Be sure to compare fees, liquidity, and investment objectives prior to investing.

If you have been looking for a more personalized investment approach for your portfolio, a managed account may make sense for you. Please complete and return the enclosed coupon for additional information.

FOR MORE INFO

Mail or Fax back to:

John MacMillan
P.O. Box 66
Annandale, NJ, 08801
T: (908)236-7500 F: (908) 236-7511
www.seniorsboomers.com

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