

MACMILLAN FINANCIAL

JOHN MACMILLAN, CRFA, CLTC, CSA

P.O. Box 66

ANNANDALE, NJ, 08801

T: (908) 236-7500

F: (908) 236-7511

WWW.MACMILLANFINANCIAL.COM



SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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Hail the (junk) Rally!

Everyone, and especially me, is ecstatic to see this rally put some lost dollars back into our investment accounts. You can hear a collective sigh of relief as the market continues its climb towards the 10,000 mark. Investors, after all, have been drawn and quartered in the past decade. They have lived through two of the worst four bear markets in the past 100 years. You **do** deserve a break today!

But...I continue to have a nagging feeling. Is this the real deal...a bona fide bull market rally...or is it a fake rally? Who needs more cruelty? That said, I've come across some pretty interesting information this month which I'd like to share with you.

Normally, when a good market rally is underway, we like to see strong volume on the NYSE. It shows that everyone -small, medium and large investors- is in there buying stocks with both hands. That's not happening this time around. In fact, according to Thomson Reuters, volume on the exchange is off about 20% from last year and is down even further when compared to 2007.

I saw an interview with one of the Morningstar portfolio managers, and he was discussing the importance of having (what they describe as) a 'moat' around your business. A moat is a competitive advantage which acts as an obstacle, or barrier to entry. So, if you have a moat...especially a WIDE moat, competitors have a difficult time talking business from you. They have to swim past all the alligators and archers to get to get to you, and most of the time they either drown or get eaten. Makes sense!

What we've seen so far since March is that companies with no moats have led the advances.

Year to date the Dow Jones is up around 10%. The S&P 500 (the big guys) is up about 15%. The Russell 2000 Growth Index (the little guys) is up over 30%. The Russell is the index of small cap companies. In other words, the smallest publically traded companies in the country are leading us out of a monumental 'De- Re- cession'. I don't know. Hasn't happened before!

This is why the term '*junk rally*' was introduced. Don't get me wrong. I love small companies. Heck, I'm a small company. But leading the country out of this abyss is going to require some heavy lifting. Heavier than what we're seeing right now! We need the big guys to participate.

I also saw a photograph this past week from an article which appeared in the U.K.'s DAILY MAIL. My eyes almost bugged out. In Singapore harbor there sits a collection of idled cargo vessels which stretch as far as the eye can see. The newspaper caption was:

"The ghost fleet of the recession anchored just east of Singapore"

The newspaper's first paragraph says it all:

'The biggest and most secretive gathering of ships in maritime history lies at anchor east of Singapore. Never before photographed, it is bigger than the U.S. and British navies combined but has no crew, no cargo and no destination - and is why your Christmas stocking may be on the light side this year.'

We continue to see and hear a lot of cheerleading coming from Wall Street and out of Washington. We're being told that things are getting better...but it's this kind of stuff (the pictures) which

keeps me wondering. Let's just say I'm more than a little skeptical.

Here are four other quick bullets that have me concerned:

☉ The Labor Department reported 2,690 layoff events in August that affected 259,000 workers. That's 533 more layoff actions than July.

☉ According to the Wall Street Journal, there are 2.7 million homes that are technically in foreclosure, but yet to be reclaimed by the lender. Some of these homeowners haven't made a payment in over a year. Read this to mean...the lenders haven't put these on their books yet and are delaying the inevitable.

☉ 2nd Quarter earnings fell 27.3% year over year. 3rd Quarter S&P 500 company earnings are projected to fall a further 15.4%. Stock market valuations are all about earnings. So what's driving this market?

☉ Finally, The Federal Reserve left key interest rates alone saying, "consumer spending remains constrained by ongoing job losses, sluggish income growth, lower housing wealth and tight credit". Gosh, what a lineup for a recovery!

The government has thrown a great deal of dollars at the problem of how to re-ignite the economy. However, the First Time Homebuyer Credit ends in November (which accounted for 80% on new home sales this year) and the Cash for Clunkers has now expired.

Speaking of the 'Clunkers' program, here's a very interesting take on the results:

Ed Steer, editor of Gold and Silver Daily, ran some numbers on Cash for Clunkers that ought to brighten your day:

- A clunker that travels 12,000 miles a year at 15 mpg uses 800 gallons of gas
- A vehicle that travels 12,000 miles a year at 25 mpg uses 480 gallons a year

It means the average Cash or Clunkers transaction will reduce gasoline consumption by 320 gallons per year, per vehicle. The government claims 700,000 vehicles were involved in the program. Based on the

example above, that comes out to 224 million gallons of fuel saved per year.

That would equal about 5 million barrels of oil – or about 5 hours worth of U.S. oil consumption. Now here's the kicker. At \$70 a barrel, that would equate to a savings of \$350 million dollars.

The U.S. spent \$3 billion on the program. Considering the assumptions above, that equates to a payback period of almost nine years. We destroyed 700,000 operable vehicles for that? *(end of article)*

I'm not trying to depress anyone with this news, however; I think it's important to keep a clear view of the landscape. The market could continue to go UP. Or it could drop like a stone. No one knows. Also, I have no doubt that someday we will emerge from this miserable economy, better and stronger...I just don't think that today is the day.

My best advice for now is,

YOU'LL NEVER GO BROKE TAKING PROFITS

CUTTING HOME HEATING BILLS

With heating season upon us, and the prospects of oil going higher, I thought it appropriate to produce a list of ways to cut home heating bills. The list is long, so here goes (in random order)

- Install a wood burning stove.
- Install an automatic timer on your thermostat so you can turn down the heat at night while you're sleeping.
- Turn down the thermostat and wear a sweater while indoors.
- Avoid using ventilation fans which suck warm air out of your house.
- Reverse the switch on ceiling fans so that they blow upward and re-distribute warm air.
- Upgrade your windows.
- Install storm doors.
- Open up draperies and shades to let the sunlight warm a room.

•Remove or close awnings that cover sun exposed windows.

•Use weather stripping around doors and windows.

•Ensure that all windows have full putty.

•Upgrade the insulation in your attic.

•Close the door to any room you are not using. Heat only the rooms that are in use.

•Dust or vacuum all radiator surfaces.

•Have your furnace serviced before the cold weather arrives.

•Replace your furnace air filter regularly.

•Keep the fireplace damper closed when not in use.

•Electric blankets are cheaper than heating a master bedroom.

•Wrap your water heater.

•Use cold water & a cold water detergent for washing clothes.

•Have your ducts professionally sealed to reduce leakage.

•Set your water heater temperature to 120 degrees down from the normal 140-145.

•Install low-flow shower heads.

•Use electric space heaters.

•Move furniture, rugs and drapes clear from vents.

•If you can, upgrade your old heating system. The government is giving out subsidies for this.

•Check to see if you qualify for direct government assistance with your heating bills.

Now, I have some really good news. You know when a writer gives you a money-saving tip, they usually tell you how many actual dollars you could save if you follow their advice. When I added them all up, I figure you should reduce your heating bill by around \$50,000...give or take. I guess you may want

to send your oil, gas and/or electric company a bill for the difference. Happy heating!

Take the Sting out of Fluctuating Interest Rates

CDs, bonds, and fixed annuities have a common characteristic: interest rate risk. If interest rates go up while you own these investments, your earnings might buy fewer goods because of inflation. However, if you don't lock in fixed returns and instead park your cash in a money market or savings account, you risk losing out in case interest rates decline.

A conservative investor is then left to ask: What are interest rates going to do? Will they go up, down, or stay the same? The experts can't predict exactly what will happen, so how can you?

One strategy to help reduce interest rate risk is to stagger (ladder) the maturity dates of your fixed investments. In the case of fixed annuities, it would mean owning several contracts with different guaranteed rate periods. This way, if interest rates move up, the shorter-term accounts will earn the new, higher rates. Conversely, if the rates drop, part of your fixed-income portfolio will grow at the higher, older rates.

The laddering concept is a form of time and interest rate diversification and is designed to enable you to earn an average interest rate that will outpace inflation over a long period of time. And rising prices can be tougher on older investors than it is on younger ones.

The Consumer Price Index (CPI) rose an average of 3.3% a year from 1982 to 2000. However, the Consumer Price Index for the Elderly (CPI-E), which follows the expenses for consumers over the age of 62, went up an annual average of 3.5%. Therefore, it may be time to rethink your strategies.

I will be glad to show you how to achieve greater diversification and reduce the interest rate risk in your portfolio. Just call my office to schedule a convenient time to get together - NO COST - NO OBLIGATION.

MACMILLAN FINANCIAL 908-236-7500

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

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)

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