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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

September 2009

Is the advancing stock market for real? ....I'm really trying to be convinced!

Anyone who knows me will tell you that I am an optimist through and through. So with that as a backdrop, you know that I'm looking everywhere for a sign that the unbelievable market recovery that we've enjoyed over the past six months is sustainable. Rather than me bore you with my opinions, I thought I'd share with you the kinds information that I come across through my 60 hours of reading each month.

I came across a great quote by economist Daniel Keen. His likens our current conditions to that of a boxer sprawled on the canvas with a bleeding nose and blurred vision. "The best you can say is that he's not being hit anymore". From what I'm hearing from many economists the worst is probably behind us. I'm worried about what is now in front of us.

Let's break down the news in some key categories:

ECONOMY

34 million Americans are getting food stamps.

The budget deficit will hit $1.5 - $1.8 trillion this year. According to the New York Times, this deficit will represent 13% of GDP (uncharted territory). Government expenditures are running 185% of receipts.

Unemployment hit a level of 14.5 million in August, however; when we include the people who ran out of benefits and/or just stopped looking, we come up with a number closer to 20 million.

The cash-for-clunkers program was a huge success, but did we merely buy cars instead of buying appliances, carpeting, home improvements, etc. There's only so much money floating around that the consumer can spend. Also, did we just advance car sales from the 4th quarter into the 3rd quarter?

The Commerce Department reported a decline in retail sales of 0.1% in July as opposed to the expectation of a rise of 0.8%. This is in spite of the car incentives.

Bankruptcies are on track to hit 1.4 million in 2009 (40% higher than the year prior).

2/3 of our economy is fueled by consumer spending. You can't save money, reduce personal debt, borrow less and spend more…all at the same time.

FINANCIALS

Noted bank analyst, Dick Bove, has said that the banks are 'trading on fumes'. He doesn't see improved earnings in Q3 or even Q4. Although we have had over 80 bank failures so far in 2009, Bove sees another 150-200 set to go.

Another well known analyst, Meredith Whitney felt that number could reach an additional 300.

A Royal Bank of Canada report suggests that there will be thousands of bank failures before the crisis passes.

The International Monetary Fund has predicted that there would be $4.1 trillion in global losses from the financial system meltdown. We've only seen $1.6 trillion up till now.

416 banks are on the FDIC's 'problem list.

FDIC insured banks are sitting on $322 billion in loans more than 90 days past due.

Credit card losses are at a record 9.95%.

If that wasn't bad enough for the banks issuing credit cards, now comes word of a new credit card issuer - RevolutionCard, cutting transaction fees significantly.

REAL ESTATE

According to RealtyTrac, foreclosures in July were up 32% year over year. In fact, 4.3% of all U.S. mortgages are in foreclosure. Delinquent mortgages hit a record 13.15% in the 2nd quarter 2009

More than 15.2 million mortgages (32.2%) were in negative equity position as of June 2009.

STOCK MARKET

Market volume has been ***very light*** throughout this very impressive rise in stocks - going back to March. What's particularly concerning however, is that almost 1/3 of this total 'low' volume has been centered on just 5 stocks: AIG, CITI, Bank of America, Fannie Mae & Freddie Mac. On the whole, financials have gained almost 140% over this period. (go back to the FINANCIAL's recap to see if this fits).

Company insiders are selling their stock at a ratio of 4.16 to 1. Back in March the ratio was 0.72 to 1. Do they know something we should know? As a rule, insiders are considered 'smart money'.

Notwithstanding stellar numbers reported for 2nd quarter earnings (49% beat revenue estimates), revenue performance actually worsened year over year by 16%. The consensus is that the recent profit gains came from much lowered expectations and resulted from non-sustainable factors such as cost cutting, reducing inventory, firing workers and cutting back on advertising.

By the end of August, 93% of the S&P 500 stocks were trading above their 50 day moving average. That, to most, would signal a well-stretched market. There are a lot of nervous hands hovering over the SELL button on their computers.

THE CHINA FACTOR

China is an interesting area. It continues to report strong GDP growth, quarter over quarter. What needs to be recognized however is that their reporting standards do not measure up to those here in the U.S.

Different reports are sending up some 'yellow flags'. According to Hill & Associates, more than 20 million migrant Chinese workers lost their jobs by the end of January this year. Based on official Chinese statistics, unemployment is at 36.8 million workers. The unofficial figure is much higher.

Power output (electric consumption) has declined by 8% which lends credence to another report which said that 67,000 factories were shuttered in the 2nd half of 2008. According to well known economist, Nouriel Roubini, "China is in a recession regardless of what the highly massaged official numbers claim".

China can't sell what American & European retailers can't buy. The mood of western consumers has been more of saving rather than spending. As a result Chinese exports were down 22% in July. This kind of places another ? over reported GDP growth.

PROGNOSIS

As I said at the outset, I am an outright optimist. I am looking for signs for when we can ring the all-clear bell. I try to ignore all the hype we get from TV and radio talking heads. They tend to confuse, rather than illuminate the issues. Being a simple person, I keep a simple view of the economy and the markets.

I am encouraged by the recent uptick in rail traffic reported in June…up over 4%. It also corresponded with a similar increase of 2.1% for the trucking industry. Being a leading economic indicator, this to me signals factories, mines, farmer's fields filling more orders. I'll be watching this closely in the coming months.

Less bad numbers, to me, don't signal a healthy economy, company or stock market. We need to see **good** numbers. When we buy stocks, top line revenue, sales and profit growth is what we pay for. Cost cutting has its limits and won't continue to show profits that aren't based on improving the top and bottom lines together.

The markets today are not cheap by any measure. Based on valuations such as P/E, P/EG, Book Value, etc, I am finding it difficult to identify many good values out there right now. If you have decent profits on some of your stocks today, you may consider booking your gains by selling…or at the very least keep a close stop loss so that your profits don't disappear in a market downturn.

Careful analysis needs to be worked into everyone's routine before investing. The S&P 500 is lower today in '*real terms'* than it was in 1998. That's 11 years with negative growth. The Japanese NIKKEI 225 is seventy-five percent (75%) **lower** than it was twenty years ago. History doesn't always repeat..but it often rhymes.

Even in bad markets, money can be made. Jeremy Siegel of the Wharton School of Business studied data from 1871 through 2003. He discovered that 97% of the real return on stocks came from…..REINVESTED DIVIDENDS.

Another oft ignored sector is Commodities. Many investors ignore commodities, including precious metals for their portfolios because these may seem complicated or exotic. They are not. Also, they stand up over time. I would encourage you to look into this Asset Class for profits and safety.

Are You At Risk: Outliving Your Money?

Could underestimating your longevity mean you'll run out of retirement money?

At age 65, the average life expectancy is 81.8 years for a man and 84.8 years for a woman. At age 75, the average life expectancy is 85.5 years for a man and 87.6 years for a woman.[1] With recent advances in medical science, it's no longer a stretch to think that you could live to be 100. In fact, the U.S. Census Bureau projects that by 2050, there will be nearly one million centenarians.

No one wants to die *sooner*, so that's great news. The problem: If your retirement plan doesn't recognize the possibility of a long retirement, then you could potentially outlive your money.

Consider the following hypothetical example. Assume you're 64 years old and earn $60,000 per year. You plan to retire next year at age 65. You've accumulated $1,000,000 in retirement savings, which you think will return a hypothetical 6 percent per year throughout your retirement. And, you have a $60,000 annual retirement need (excluding Social Security). If you have a 15-year retirement from ages 65 to 80, you'll have no shortfall in retirement funds; in fact, you'll end up with almost $696,000 to pass on to your heirs. On the other hand, if you have a 30-year retirement from ages 65 to 95, you'll run out of money at age 88.[2] The table below illustrates. Of course, this example above is hypothetical and for illustrative purposes only. It is not meant to represent the performance of any particular product.

Hypothetical retirement savings

Age	Savings	Retirement savings needed
64	$1,000,000.00	$0.00
64	$1,059,999.94	$0.00
66	$1,058,028.28	$61,860.00
67	$1,053,905.60	$63,777.66
68	$1,047,439.82	$65,754.77
69	$1,038,425.39	$67,793.17
70	$1,026,642.42	$69,894.76
71	$1,011,855.72	$72,061.50
72	$993,813.88	$74,295.41
73	$972,248.18	$76,598.57
74	$946,871.51	$78,973.12
75	$917,377.18	$81,421.29
76	$883,437.69	$83,945.35
77	$844,703.39	$86,547.66
78	$800,801.08	$89,230.64
79	$751,332.50	$91,996.79
80	$695,872.80	$94,848.69
81	$633,968.79	$97,789.00
82	$565,137.20	$100,820.46
83	$488,862.75	$103,945.90
84	$404,596.18	$107,168.22
85	$311,752.06	$110,490.44
86	$209,706.59	$113,915.65
87	$97,795.12	$117,447.03
88	$0.00	$0.00
89	$0.00	$0.00
90	$0.00	$0.00
91	$0.00	$0.00
92	$0.00	$0.00
93	$0.00	$0.00
94	$0.00	$0.00
95	$0.00	$0.00

Source: Burling Bank. Assumes $1,000,000 in retirement savings has already been accumulated; another $60,000 is added. The money grows at a hypothetical 6 percent per year; $60,000 (in today's dollars) is withdrawn each year. Inflation runs at 3%. This example above is hypothetical and for illustrative purposes only. It is not meant to represent performance of any particular product.

1 Source: National Center for Health Statistics, as of March 2006 (http://www.cdc.gov/nchs/data/hus/hus05.pdf#027).

2.Source: Burling Bank retirement calculator, http://www.burlingbank.com/calculators/calcs.htm.

Will you run out of retirement money? We can do a complimentary analysis for you. Contact us now.

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