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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

August 2010

'Government has grown far too big, promised far too much & delivered far too little for far too long'

David Walker, former US Comptroller of the Currency.

David Walker, as many of you probably remember, was appointed the head of the Government Accountability Office & the office of the Comptroller General in 1998. He also featured in the film I.O.U.S.A. Having worked in 3 different administrations, he resigned these positions in 2008 after being a very vocal critic of excessive government spending.

There are few, if any, people in the United States who is not concerned with the amount of money being spent (or promised) by our current Congress. When I click on www.usdebtclock.org, I almost fall out of my chair.

- U.S. National Debt $13,245,000,000,000
- U.S. Total Debt $54,100,000,000,000
- U.S. Unfunded liabilities

$109,720,000,000,000

(these numbers change every second!)

The state governments aren't in much better shape either. Their last fiscal year, which ended June 30th, saw huge deficits. This, notwithstanding the federal government chipping in $135 billion towards their budgets from the recovery package. That money however, is now gone for 2010/2011. According to the National Governors Association, the states are projected to run $127 billon in deficits through 2012.

In addition, the Pew Center estimates that as of June 30, 2008, the states had set aside $1 trillion **less than would be needed** to pay future pensions and medical benefits. Joshua Rauh of the Kellogg School of Management stated, '…assuming states make contributions at recent rates and…earn 8 percent, 20 states will run out of cash by 2025; Illinois, the first, will run dry by 2018…Illinois, once its funds are depleted, would be forced to devote a third of its budget to retirees; Ohio fully half".

Even normally upbeat Federal Reserve Chairman, Ben Bernanke, recently warned that the economy may take five or six years to recover. He also went against the current administration's position of allowing the Bush tax cuts to expire at the end of this year, by saying that that extra stimulus is needed to keep the economy moving forward. He stated that the outlook for the economy was "unusually uncertain".

So what are Americans doing now? Paying down personal debt! In the past year consumers have reduced their debt by almost $100 billion. In the month of May, they cut borrowing by $9.1 billion and shrank revolving credit by $7.4 billion. So even if state & federal officials don't get it... John Q public sure does.

The other phenomenon currently taking place is the investor's rush into fixed income mutual funds. Year to date net inflows have been $152 billion. For the full year of 2009, it was $384 billion. To put these numbers in perspective, U.S. equity mutual funds brought in $24 billion year-to-date and only $5 billion for all of last year.

The same holds true for U.S. Treasuries. Mohamed El-Erian the Chief Investment Officer for PIMCO stated. 'Get out of Treasuries. They are very, very expensive'. A recent front page of Barron's screamed "Get out Now" referencing Treasuries. I have written for quite some time that bond funds & Treasuries are not the places you want to be investing in with our current political & economic climate. They are on a road to wealth destruction.

Investing in this environment has never been more difficult. There's bad news everywhere, but money is made in every kind of market. Good, Bad…Sideways. We have been in a trading range this entire year. The big run up in the market pretty well ended in December 2009…and we could stay about where we are for a very long time.

Take Japan as an example. In January 1990 the Nikkei 225 peaked at over 37,000. By June of 1995 (5 years later) it had fallen off a cliff all the way down to 14,500 for a loss of 60%. In 2003 it had continued its descent to 7300. It currently sits at 9300 in mid 2010. So here we have a 20 year period, where after the initial steep fall, their market has traded in a range between 9,300 to 14,500 for the past 15 years. The very interesting point here is that there were numerous periods to make money in that market during the rallies which happened…but didn't last.

The obvious question now is, could that happen here? Or, has it ever happened in the U.S. The answer is YES. We had already had 3 such periods where the market was in a trading range for more than 15 years:

• January 1906 - December 1924

(DJIA 100 to 97)

• August 1929 - November 1954

(DJIA 360 to 358)

• January 1966 - November 1982

(DJIA 985 to 988)

• October 1999 - ???

(DJIA 11497 to ?????)

We've had a lot of market news of late. For one, Goldman Sachs just paid out the largest fine ever to the SEC…$550 million. And, all it had to say is that it didn't do anything wrong and then promise never to do it again! Financial reform was signed into law and its 1st day on the job saw the SEC postpone some of its rules regarding rating agencies and new bond issues. Failure to do so would have completely ***frozen*** the biggest securities market in the world. Oh, how I wish *government* would stay away from those things that it has little, or limited understanding.

Unemployment & Housing continue to stagger along like a drunk taking a shortcut home through the graveyard. He, like they, will get home eventually, but the trip will not be a pretty one and the morning after will probably not be something anyone's going to want to cheer about.

Now the moment I've been waiting for months… the 2nd quarter earnings season has arrived. And, it has not disappointed. Roughly 80% of companies have reported earnings that beat estimates. The number I've been following with magnifying-glass like scrutiny, however, has been the forward guidance coming out of these earnings meetings. Again, many have held up very well. Almost all of the companies we own have beat on the top line and most have said the rest of the year looks to provide positive growth. Second half ***earnings comparisons*** are going to be a lot tougher, however. Stay vigilant in watching what you own.

As I said earlier, there are ways to make money in this type of sideways market if it's done right.

First, if you haven't already done so, it's time to look outside the box, which in our case is the U.S. stock market. Emerging markets have overtaken the United States as the dominant consumer group in the world. In fact, China now produces more automobiles than the U.S.A. China is the largest manufacturer in the world. China has shot past America as the largest consumer of energy in the world. It's still a fraction of our usage on a per-capita basis, but in real terms they now consume more barrels of oil/year than we do. When you realize that just 10 years ago, their consumption was only half of ours, it becomes very clear that there are major global changes taking place.

I wrote about this last month, where, if the Chinese allow the yuan to gain value, their cost to purchase commodities will be lower than ours because most commodities are priced in U.S. dollars and their yuan will be able to purchase more of them! This trend augers well for basic raw materials.

<u>WHAT TO DO NOW</u>

1) Focus on global trends: Examples,

- China's economy is expanding rapidly and they are creating an enormous middle-class & doing a tremendous amount of buying across many spectrums in the process. So, buy what China is buying.

2) 70% of prescriptions were filled with generic drugs in 2009.

3) **Stay away from Treasuries.**
4) **Stay away from bond funds.**
5) **Stock up on 'safe dividend' paying stocks.**
6) **Investment grade Preferred shares also pay very high yields. Just be careful when interest rates begin to rise.**
7) **Look for investment grade corporate bonds with ultra-short maturities.**
8) **Several REIT's are beginning to look attractive.**
9) **Business Development Corporations (BDC's) and Master Limited Partnerships (MLP's) are paying very attractive yields.**
10) **As mentioned above, emerging markets should be in your portfolio. Look at ETF's.**
11) **If you're worried about going off-shore with your investments, buy companies which generate most of their profits overseas.**

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• If you're looking for an interesting site that can find the best deals on just-about-anything…go to www.dealnews.com. The site searches more than 2,000 online retailers and shows you the best 100+ offers every day.

• You can save about one-third of you printer ink consumption by switching your font over to CenturyGothic.

• Have you ever lost your owner's manual for one of your electronic devices? You can probably pick it up for **free** at three different sites: www.retrevo.com or www.manualsonline.com or www.usermanualguide.com.

• If you hate paying 411 charges, you can get phone numbers for **free** at 1-800-GOOG-411.

• High auto repair costs can be a real pain. You can take some of the sting out by discovering what the job should cost at www.repairpal.com.

Can You Count on Dividend Income?

One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do, can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Possibly, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk losing what could be a significant portion of your income should the company decide to discontinue, or reduce their dividend payments. With a diversified portfolio, your regular dividend income stream could continue, buffered by the on-going payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly-regulated markets such as electric utilities are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

Another way to invest in a diversified portfolio of high-quality dividend-paying stocks is to choose a dividend income fund. A dividend income fund offers diversification in a mutual fund investment. Plus, a fund offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf. Please note, however, that stocks and mutual funds are investments that involve market risk, and investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than the original value.

If you would like to learn more about using stocks for income or dividend income funds, simply complete the attached reply coupon and return it to my office.

Mutual funds are offered by prospectus only. An investor should consider the investment objectives, risks, charges and expenses before investing. The fund prospectus contains this and other information about the investment company. For a copy of the prospectus, please contact your financial advisor. Please read the prospectus carefully prior to investing.

If you would like free information on any of the subjects discussed in this month's newsletter, please complete the enclosed reply coupon or call my office for a free consultation.

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