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# SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

April 2010

**" WE CAN'T SOLVE PROBLEMS BY USING  
THE SAME KIND OF THINKING WE USED  
WHEN WE CREATED THEM" Albert Einstein**

The above quote, as you have probably guessed, refers to our illustrious Congress. Watching them legislate can be likened to watching a slow motion train wreck. Oh, woe is us! Spending money they don't have on problems they joyfully created (either overtly or covertly or unwittingly); all the while assuming that creating money out of thin air won't create another whole new set of brand new problems that they can go out and solve. These people seem to think like an alchemist who is capable of transforming crushed stone into fine gold. Someone, please pass me the Advil or some strong liquor.

Staying with the same theme of assessing our Congress' performance, here's another brilliant quote, recently unearthed by Alan Abelson of Barron's newspaper, which was spoken by a former Speaker of the House late in the 19<sup>th</sup> century – Thomas Brackett Reed. In describing his fellow congressmen he recorded this observation..."never opening their mouths without subtracting from the sum of human knowledge".

Why am I so annoyed with our Congressional lawmakers? Simple. I really don't think they know what they're doing. If you or I spent money the way they do, we'd be in jail. What we are witnessing today is **not** the way to grow wealth; or even preserve it, for that matter. Inflation has already caused an 83% loss of purchasing power since 1970!!! To see for yourself go to: <http://www.dollartimes.com>. The actions we're witnessing today will be no less devastating on our dollars tomorrow. Inflation does not treat retirees kindly!

The nonpartisan Congressional Budget Office predicts that the current & projected budgets will generate a deficit of \$9.8 trillion between now and 2020. That's \$1.2 trillion more than the already staggering level the government currently estimates. Our gross debt is fast approaching the same amount as our GDP. And people are criticizing Greece. Sorry, folks, pass the mirror.

I saw the budget summary for fiscal year 2011. Government spending has a magnitude of \$3.8 trillion. I then looked at the top 8 expenditures (which represent almost 75% of the total budget). The first 4 items you'd expect to see:

- 🍏 Defense
- 🍏 Social Security
- 🍏 Medicare
- 🍏 Medicaid
- 🍏 **Item # 5???**

**NET INTEREST ON DEBT = \$251 billion.**

So, here we have it. Our government debt is costing us almost 7% of the country's total budget. And, we are currently *servicing this long term debt with very low short term interest rates*. Here's something else to think about. When rates rise (as they must when they're at "0") and we hit our projected national deficit of \$20 trillion by the end of this decade, what line item number do you think the "Net Interest on Debt" is going to be?

Many of the analysts and economists I follow, who are much smarter than me on this issue, believe the only way we can get out from under this massive debt burden is to monetize out debt. Meaning we just print the necessary dollars to pay our bills. That's one way to do it, but even such an irresponsible act would require that we stop spending any more

money that we don't already have. That's not the case as you can see by the projected future deficits.

Fed Chairman, Ben Bernanke, believes that he and the Federal Reserve can systematically extract the extra \$1 trillion that they added to their balance sheet over the past 18 months. Their plan is to remove this money from the economy and get their fiscal house in order. Don't bet on it. I really don't believe that Congress is going to give it back. They're already spent it, and then some.

There's been a lot of negative press about the rating agencies threatening to lower our government debt rating from its AAA status. Well guess what, I think the market will do it for them. At the end of March, a 2 year note sold by Berkshire Hathaway yielded 3.5 basis points less than a 2 year U.S. government Treasury. Our spendthrifts are on a very slippery slope. Spending today like there's no tomorrow, will mean exactly that for our kids, our grandkids and our great grandkids.

It reminds me of the story of two guys speeding down the highway at 90 mph, and one says to the other, "do you know where you're going?", to which he replies, 'no, but we're making good time'.

I don't know about you, but I hate to see my money being thrown out of airplanes. This is just what is happening to significant tax dollars on mortgage loan modification programs. We had a first that flopped, and now we're about to get a second. So, how did the first one do?

Well, according to the Office of the Comptroller of the Currency, 51.5% of delinquent borrowers who've gotten loan modifications defaulted again after nine months. Another report by the inspector general of the TARP program stated that "a year into the program, although more than a million trial modifications have been initiated, the number of permanent modifications thus far, 168,708, has been ...disappointing".

The new *latest and greatest* government plan coming out of Congress is this. They want to help homeowners who are **current** with their mortgage payments. What a novel idea. O.K. let's all get in line.

Housing remains a big overhang on the economy. The taxpayers are footing a very heavy bill when it comes to these mortgage programs. The

dollars talked about with the modification programs, however, are peanuts compared to the dollars we are backstopping with Fannie Mae & Freddie Mac. These two wards of the state have put us on the hook for over \$213 billion since 2008. Then, the FHA, who has underwritten almost \$700 billion in government loans, currently has over 5% of its loans in foreclosure (and counting). That's \$35 billion. They are sitting on about \$3 billion in reserves. I wonder who gets to pay the missing \$32 billion?

The government has to get out of the mortgage business. There are private sector companies that can do that sort of thing. Because Washington has been so deeply involved over the past year, they have created artificial dysfunctions both in the housing market as well as the mortgage market.

For example. The Federal Reserve is ending their \$1.25 trillion program to purchase mortgage backed securities effective March 31<sup>st</sup>. Starting April 1<sup>st</sup>, what's going to happen if no one wants to buy this stuff? If no one steps up to buy these securities and replace what the Fed has been doing, rates are going to rise. Rising mortgage rates will set off another round of foreclosures.

O.K. enough on the economy. I think you get the picture. Switching gears, let take a look at some reports affecting the stock markets. Believe it or not, there is actually some good news out there which augers well for more upside into, a least, the 2<sup>nd</sup> half of the year.

To begin, durable goods orders recently reported by the Commerce Department showed a 3<sup>rd</sup> straight monthly increase. February retail sales were up for the 4<sup>th</sup> time out of the last 5 months. Even the *high-end* retailers got in on this act. Williams-Sonoma's profit for the quarter jumped from \$12 million up to \$88 million. Tiffany said that their profits rose from \$31 million from the previous quarter up to \$140 million. When folks start spending in the high end stores like these, it indicates a significant thawing in spending.

Over on the Transportation side, we are seeing equally good news. The latest measure of rail traffic volume has shown a strong rebound from the lows in December 2009 into the 1<sup>st</sup> quarter 2010. Obviously, the more goods being shipped the better the manufacturing prognosis. The Federal Express earnings for the February-ended quarter blew away

the analyst estimates by 145%. And, this was based on a 7% increase in sales. These results also indicate a relatively high level of business activity.

Nine of the Fed's 12 regional banks reported improved economic activity for the month of February. This is usually a precursor to further expansion. And then we have the Dow Theory which is also pointing to better days. Dow Theorists state that when the Dow Industrials and the Dow Transports are both hitting new highs (which they are at a 17 month high); this is a very bullish signal! This theory actually has some meat to it.

Even the job front is showing a faint flicker of life. New jobless claims are beginning to ease up, and the decline is slowing. Temporary positions continue to rise by about 48,000/month. Temp positions usually lead to permanent job offerings. The big 'feel good' statistic that we'll be seeing for the next 3 months will be the addition of 1.2 million census workers being hired by the government. (I sure hope they don't make **them** permanent)! This many new hires should put a dent in the temporary unemployment figures. Psychology is important. If consumers think things are getting better, they could put in place a self-fulfilling prophesy.

In separate interviews with Barron's, the head of the Monster Worldwide job site and ADP, the payroll people, both pointed to anecdotal evidence that the jobs market is at an inflection point. Iannuzzi of Monster said, "companies have held back so long, they just can't any more. They are looking to hire". ADP's Butler said, "the economy is on the cusp" of a turn". John Challenger of outplacement firm, Challenger, Gray & Christmas also believes job attrition is about to reverse. He sees many employees *voluntarily* leaving jobs because they are stressed out by doing the jobs of 2 or 3 people...and these people seem to be finding new jobs. He also feels that companies are going to have to start hiring again or risk having to do constant training of new employees. Let's hope all three gentlemen are right.

As an aside to the jobs situation today, I read a very interesting report that came out of the Center for Urban & Regional Policy at Northwestern University. Because of the number of retiring baby boomers, the report stated that there could be an estimated 14.6 million non-farm payroll jobs available between now and 2018. They go on to say

that we could have as many as 5 million jobs without anyone to fill them in 8 more years. Go figure! As the saying goes, nothing lasts forever.

I mentioned earlier that I'm optimistic about the coming 1<sup>st</sup> quarter earnings season. We've seen a lot of positive pre-announcements from many major companies. The comparisons between 1Q10 and 1Q09 are pretty simple. 1Q09 didn't have any earnings so this one should be a slam dunk.

The next quarter (2<sup>nd</sup>), however, will probably be a different kettle of fish. I will be on high alert for stock price movements. The easy year over year comparisons will be over by then. According to the S&P 500, we should see 1<sup>st</sup> quarter earnings growth of 63.5% which will slide down to 33.2% in the 2<sup>nd</sup> quarter and then drop some more to 24.9% for the 3<sup>rd</sup> quarter. Slowing earnings will mean lower stock prices.

### WHAT TO DO NOW?

- 1) **Watch the 10 year Treasury rate. If it goes above 4% it will have negative repercussions for mortgage rates in particular, and interest rates in general.**
- 2) **Bill Gross the bond guru of PIMCO has said, 'bonds have seen their best days'. That's great! The last time this happened a year and a half ago, we made a lot of money on beaten up bonds. I can't wait.**
- 3) **Stay away from the banks. There have already been 41 failures so far this year.**
- 4) **I've been seeing some troubling articles that suggest that the investment banks selling gold & silver ETF's may NOT have the physical metals they have sold. They may in fact be leveraging up the same way they do for their bank reserves...which is 10X.**
- 5) **If/when inflation comes, be ready to asset allocate sufficiently into commodities, precious metals, natural resources and basic materials.**
- 6) **Stock up on 'safe dividend' paying stocks. Since 1926, they have been responsible for 44% of the total return in the S&P 500.**
- 7) **Environment America has a vision...solar powering 10% of our nation's energy needs by 2030. Don't give up on the solar stocks. They're volatile but long-term safe.**
- 8) **Think global for your portfolio. Consider, 95% of the world's population, 75% of the**

world's production and 67% of all stock market capitalization now comes from places outside our borders.

9) Following up on last month's 'Focus on Trends', here's a few more:

- According to the United Nations, world population is estimated to grow from 6.1 billion in 2000 to 7.6 billion by 2020. That's a 25% increase. Think food and agriculture stocks to feed a lot of hungry mouths.

- China has 24 cars for every 1000 people. By the end of this year that figure is expected to jump to 40 cars/1000...an increase of 67%. Long term oil consumption has nowhere to go but UP. Look at oil producers & infrastructure. (In case you're wondering the USA has 836 cars per 1000).

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• The Boston College Center for Retirement Research recently reported that a 65 year old couple will be forced to pay about \$197,000 for out-of-pocket expenses during retirement. This **does not** include nursing home care.

• You can get government rebates of up to \$1000 to swap out some old, *non-energy* efficient, major appliances. Go to [www.energysavers.gov](http://www.energysavers.gov) to check it out.

• Want to clean up your computer and make it run faster? There are two easy fixes. 1) Use 'Disk Cleanup' (get it from your Start menu) and select the programs and files you want to get rid of. 2) Only launch programs that you need at start-up. Go to your Start menu, and in the Run box, type in *msconfig*. Then deselect applications that you don't need when you turn on your computer.

• All New Jerseyans are looking for 'deer resistant' plants. You can find a complete list at <http://NJAES.rutgers.edu/deerresistance>

• You can now compare drug costs at various local pharmacies (which can vary wildly). The web site is, [www.destinationrx.com](http://www.destinationrx.com)

• If you want to see a list of the best doctors in your health plan, there is a site that makes it easy to do. [www.vitals.com](http://www.vitals.com)

• O.K., now you may also want to check out which hospitals have the best records for various surgeries. Go to, [www.healthgrades.com](http://www.healthgrades.com)

• Next, if you want to check a site that compiles up-to-date research from medical journals and other authoritative sources, for almost any illness, you can find it at, [www.thehealthresource.com](http://www.thehealthresource.com)

• I've saved the worst for last! On February 23<sup>rd</sup> the SEC issued a final rule release, adopting a new measure that 99.9% of Americans don't know about. Effective May 5, 2010 Money Market Funds will have the ability to suspend redemptions. This means in the event of another stock market meltdown they can impose waiting periods to withdraw your money. Cute, heh? Depending on your circumstances however, there is a way around this.

**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.**

### FREE NEWSLETTER INFORMATION

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