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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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Politicians are like diapers: they both need changing regularly..... and for the same reasons (anon)

HAPPY HOLIDAYS TO YOU & YOURS

Well, the mid-term elections have come & gone and we've seen the biggest sea change in the U.S. political climate over the past 70 years. Our new Congress hopefully will understand that the American people want the 'Congress people' to do the job they were elected to do…in a bi-partisan way. In fact a poll taken just prior to the election showed the **disapproval rating** for Congress was at 73.8%. Now is the time to put politics aside and for them to get to work. If they can work together to fix the economic problems that ail the country, the markets will show their approval…as will our retirement accounts.

I was reading an interesting tidbit produced by market analyst, Louis Navellier that showed how the stock markets and politics are correlated. I hope this makes as much sense to you as it did to me:

In the past 100 years, if you had invested $1 every time Congress started a session & removed your money every time they recessed, you would have doubled your money to $2!!!

Now, if you had done the reverse, and invested $1 every time they recessed and took it out of the market whenever they reconvened, you would have turned your $1 into $216!!!

Quantitative Easing Explained

It's been all over the news lately about the new Federal Reserve initiative of $600 billion called Q.E.2. The Fed will be buying up that much in Treasuries in an effort to get the unemployment rate down and help the housing market at the same time. How is that supposed to work? I'm glad you asked.

☹Currently, bankers are not lending to the little people (that's us) because there is a risk that we might not pay them back. What the bankers are doing instead is borrowing money from the Federal Reserve at 0.0% -0.25% and buying up 10 year Treasuries yielding almost 3.0%, and doing so without *any risk* whatsoever. It's a great 'gig' if you can get it.

☺Now, the Federal Reserve is not happy about this, so they develop a plan: by buying up $600 billion dollar of Treasuries, they will force the price of the Treasuries UP…thereby forcing the yields DOWN (remember bond prices & yields work in inverse order).

☺When yields have been forced down low enough, the bankers will be ready to take on some risk by lending to us little people. They'll figure even with some defaults, that by lending out money at 5 -7 - 9 - 11%, they should be able to beat a Treasury yield of less than say 2%, after expenses.

☺With more money now in the economy, business investments will pick up resulting in more employment. More employment will lead to fewer people out of work and more people being able to pay taxes (helping the budget deficit); these same people will be able to pay their mortgage which will obviously drop foreclosure rates.

☺Unemployment, Budget & Housing problems solved☺

I am the one of the biggest sideline cheerleaders rooting for the Fed…and I couldn't possibly want this to work any more than I do… but I ask myself - can anything go wrong? You bet!

☹The Fed's basic premise is that the banks will loan money to small businesses for their expansion. However, the National Federation of Independent Business' monthly survey of its members found that 91% of their respondents stated that their credit needs were met. The banks can't lend if they won't borrow!

☹Q.E.2 will work best if it doesn't create inflation. And of course, the government says that '*core inflation'* is only up 0.6% in the past 12 months – so what's the problem? Well, when we account for all the things we actually buy, like groceries, gas, home heating oil, medical expenses, tuition costs, utilities, etc. we already know that we DO have a fair amount of inflation biting into our disposable income.

☹Low interest rates haven't induced Joe Public to overspend like the good old days. In fact, most Americans are aggressively paying down debt. What the low rates have done is inspire the biggest of the big companies to float bond issues because money is so cheap. So far this year, Microsoft, Coca-Cola, Wal-Mart, Caterpillar, McDonalds, et al, have issued billions of dollars of debt for no reason other than it's almost free money. Can I get some of that???

☹A recent report by the Federal Reserve says that 2.8 million foreclosures were started in 2009. Most analysts feel that there are another 4 million, or so, to get through the system before all is said and done. And, according to a report out by Standard & Poor's, they estimate that the banks have only accounted for $12.4 billion of the potential $43 billion in losses on their income statements. (Another reason to stay away from the bank stocks).

☺As we've all heard many times, the stock market climbs a wall of worry, and the foregoing shows that's there quite a bit of worrying surface on that wall….HOWEVER (some good news)

☺Corporate balance sheets haven't been this healthy for a very long time.

☺Corporate profits are rising. Even though there's been a great deal of cost cutting, revenues indicate that the economy is slowly recovering.

☺Consumer confidence, although still weak, is improving.

☺Trends are very important in the stock market, and currently the trend is favorable. In fact, 4 out of every 5 stocks are trading over their 50 day moving average.

☺And, a real BIG one (this one blew me away) is that according to the Congressional Budget Office, the Federal Reserve reported that for its fiscal year which ended September 30th, it earned $76 billion for the Treasury. WOW! But before we get too jubilant, we must realize that this is a double edged sword. The Fed is ***highly*** leveraged and the American Institute of Economic Research estimates that if interest rates rise by just 1% on 30 year fixed rate mortgages, the FED stands to lose $162 billion. ☹

Anyways, if you have 6 minutes to spare, the link below will bring you to a very humorous, although bitter-sweet, explanation of Quantitative Easing.

http://www.youtube.com/watch?v=PTUY16CkS-k

WHAT TO DO NOW

1) **Buy stocks with strong balance sheets, little or no debt, and who make a lot of their profits overseas.**
2) **Buy stocks of dividend paying companies who are growing their dividends.**
3) **Although yields are down, corporate investment grade bonds are still very attractive. Keep their maturities ultra-short…no more than out to around 2015.**
4) **Stay away from 'bond' mutual funds unless you really know what their holdings are. Investors have been pouring money into these things at an alarming rate. They now account for 25% of total mutual fund assets! CAUTION: A 1% rise in interest rates can lose you 10% of your total investment. Instead look into**
    - ***a.*** **Emerging Market Debt**
    - ***b.*** **Foreign Government Bonds**
    - ***c.*** **High Yield Corporate Bonds**
    - ***d.*** **Senior Bank Loans**
    - ***e.*** **Master Limited Partnerships**

5) **Diversify your investments among stocks, bonds, countries, commodities, currencies, precious metals, etc.**
6) **Because we don't know what's happening with tax rates in 2011, you may want to bring forward any income that you can into 2010 (like stock options, bonuses, etc). As an old Morgan Stanley ad said, "you must pay taxes, but there's no law that says you gotta leave a tip".**

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☺If your computer takes longer than usual to start up, (with WINDOWS), go to START…then ALL PROGRAMS…then STARTUP. Now you can delete startup programs you don't need. Don't worry, the program will still be on your computer, it just won't startup when you startup.

☺Social Security benefits will not get an increase in 2011…for the 2nd year in a row. Ouch!

Filling Up Your Tax Bracket – Does It make Sense For Retirees?

Wouldn't it be wonderful to reach retirement and not have to worry about tax planning? Unfortunately, even in retirement, it's as important as ever to manage your taxes.

Once retirees begin receiving Social Security, they quickly learn that it's not necessarily the tax-free stream of income it used to be. If retirees are single and their income, including half of their Social Security and any tax-free income, exceeds $25,000, then up to 50% of Social Security is taxable, and once they exceed $34,000, 85% of their Social Security potentially becomes taxable. For married couples, the income limits are $32,000 and $44,000, respectively.

Thus, some retirees who don't need a lot of money to live on find it advantageous to reduce their taxable income by investing in tax-deferred vehicles such as annuities. Once retirees reach age 70 ½, tax planning becomes more complicated if they have an IRA, as Required Minimum Distributions (RMDs) must begin no later than April 1st of the year following the year they turn 70 ½.

Many retirees have adjusted their expenses to live without this IRA cash flow and many have found that they don't need the money. However, this cash flow will add to the retirees' income and thus to their tax burden, including the potential taxation of their Social Security payments. Many retirees only take the very minimum amount each year from their IRA, but in fact, they might be better off "filling up" their tax bracket.

For example, let's suppose that after going through all of the calculations, a married retiree finds that he or she is in the 15% tax bracket with taxable income of $44,000. The top end of the 15% tax bracket is $68,000 of taxable income. Therefore, this retiree could take more out of their IRA and still remain in the 15% tax bracket. The same logic applies to the other tax brackets.

Does taking more income from the IRA and "filling up" your tax bracket make sense? As is often the case, "it depends." Yes, it is true retirees will give up tax-deferred growth on the money over time, which could be a negative event. However, should retirees not do this, then they may find that in future years larger distributions from the IRA will put them into a higher tax bracket, which could mean they will end up with less money.

A positive point however is that additional money withdrawn above the RMD is eligible to be rolled over into a Roth IRA, which accumulates tax-deferred… and if left on deposit for a minimum of five years, can then be withdrawn tax-free. Money does not have to be taken out of a Roth IRA until the time of a retiree's death.

This leads to another important part of the overall family wealth planning. In the event a retiree's IRA will be inherited, it is entirely possible that the heirs will be in a higher tax bracket than the retiree was -- perhaps even in the 35% bracket. (This could be 39% in the near future). Thus, if the money can be withdrawn in the 15% bracket, as opposed to being inherited at the 39% bracket, there is a 24% tax savings.

The moral? Tax planning doesn't stop just because one retires. Many times paying less tax is better, but there are occasions where paying more makes sense. Retirees should seek qualified professional assistance in making their decisions.

I WILL BE HOSTING A ONE HOUR LUNCH & LEARN WORKSHOP AT MY OFFICE IN LEBANON, N.J. ON FRIDAY, DECEMBER 10TH AT 12 NOON.

THE SUBJECT WILL BE SOPHISICATED STRATEGIES FOR '*SAFE*' FIXED- INCOME INVESTING. IT WILL RUN FOR ABOUT ONE HOUR WITH A Q&A AFTERWARDS.

SANDWICHES & REFRESHMENTS WILL BE SERVED. THE SETTING WILL BE CASUAL, FUN, INTERACTIVE & INFORMATIVE.

THIS WORKSHOP WILL BE OF INTEREST TO ANYONE WITH $250,000 OR MORE TO INVEST IN A FIXED INCOME PORTFOLIO.

IF YOU WISH TO ATTEND, PLEASE CALL (908)693-7194 (24/7). SEATING IS LIMITED...***REALLY***

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

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Please send me information on these items mentioned in your newsletter:

- ❑ Quantitative Easing & what it means to my investments.
- ❑ Filling up my tax bucket.

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