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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

February 2010

YOU NEVER WANT TO SEE SAUSAGEOR LEGISLATION, BEING MADE

What do you think? We've started a new decade full of hope and cheer on what lies ahead. Looking back we ask: So, how did the last one stack up? Not very well! From an investment point of view, the 2000-2009 years gave us lousy results for 10 years of toiling & sweating in the stock market. The Dow fell 9.3%; the S&P was down 24.1% and the NASDAQ slumped 44.2%. Yuck! Now, we're just coming out of the 1st month of the 1st year of this new decade, and we're off to a bit of a rocky start. Although the 1st half of January looked like a continuation of the last 9 months of '09, it abruptly changed course. What happened?

Without getting political (this newsletter is about trying to make money in the market, or protect what we already have) some political events have occurred that will have investment ramifications going into the rest of the year. Let's focus on what the effects of those events are likely to be.

After a stumble on health care reform in mid-January, the president has, for the moment, redirected his attention. For all intents and purposes, he has declared war on Wall Street - and in particular on its bankers (notwithstanding his State of the Union address on the 27th).

I don't think there's a breathing soul in the United States that doesn't demand change within our banking system; it's badly needed and overdue. Regulators need to require greater capitalization and better liquidity ratios for starters. They have to enforce their own laws. But, with most things in life, there's a good way and a bad way of trying to get something accomplished. When it comes to government and business, any action(s) that gives

the appearance of being *anti-business* is going to put the brakes on business expansion and investing.

Bloomberg conducted a poll and discovered that 77% of American investors view Obama as being anti-business...and that was before his quote on Friday the 22nd about Wall Street bankers "if these folks want a fight, it's a fight I'm ready to have". Again, there are more than enough sins to atone and repent for in the banking sector, but as bad as some of these folks are, we do need them. Bankers help to make our financial world go around. That being the case, you don't want to shoot out the floorboards on their half of the boat when you're sitting across from them. Like it or not, we and they and the economy are all joined at the hip.

The banks have more than enough problems to work through. So far in 2010 we have already had nine bank failures. One major bank took a one-half billion loss provision for commercial real estate in the 4th quarter 2009 and also reported non-performing loans of \$2.8 billion. Two other major banks took charge-offs in excess of 10% on their credit cards in December. And, to add more fuel to that fire, store-branded credit cards are in dire shape. We don't have December figures yet, but through November last year, they were writing off one in every eight dollars they had on the books.

Today's economy is fragile right now...to put it mildly. The government keeps telling us that there isn't any inflation on the horizon, but you have to remember that they have interesting (!) ways of counting things. For example, inflation for the whole of 2009 is reported as 1.8%. Terrific!

If however, you needed medical care, that was up 3.5% and still rising. Your home heating oil was up 6.5%. Oh, in case you drive a car, gasoline was up 53.5%. If you had to buy a used vehicle, they

were up about 10%. It is because of the falling electronics prices that the overall inflation number looked as good as it did. I mean, how many flat panel T.V.'s can you buy?

A record 8-10% of shopping mall space was vacant in the 4th quarter. Rents are down 3.6% for the same period. Strip malls look like ghost towns. Consumers are just not spending like the good old days when they could borrow from their house to finance a spending spree. Now they are saving in order to pay down debt. It's called repairing your balance sheet. The government should take note.

Apartment vacancies hit a 30 year high in the 4th quarter of 2009. They sit at 8%. **Prime** mortgages (as opposed to sub-prime) which were overdue by at least 60 days, doubled from the year earlier. Foreclosures set a record in 2009. More than 2.8 million homeowners received a foreclosure notice. This represents one in 45 households. It is also the number of detached homes in the entire state of Pennsylvania. Realty-Trac, the real estate gurus, estimate another 3 million more coming in 2010.

We are beginning to see the first **major** cracks in the commercial real estate market. NYC's Stuyvesant Town & Peter Cooper Village was turned over to their creditors in January. This city within a city – 110 building complex in Manhattan with over 11,000 apartments on 80 acres, saw its value cut by 2/3rds. The owners saw no point in trying to refinance a property that cost them \$5.4 billion in 2006, and is now worth \$2 billion...while still carrying a mortgage of \$4.4 billion. We'll be seeing more of these in 2010 & 2011.

Fannie Mae's delinquency rate for 2009 was up 163% over 2008. It now stands at 4.9% of all loans on its books. According to the Congressional Budget Office (CBO), Fannie Mae & Freddie Mac's bailout has already cost us (the taxpayer) \$291 billion. There's a lot more yet to come.

Then we have the 3rd leg of that wobbly stool – the Federal Housing Administration. With all the funky loans that the FHA has underwritten over the past two years, they are practically insolvent... and could end up as another ward of the state. Their reserves are down to one-half of one percent (0.5%) on their \$685 billion of loans outstanding. We can be thankful for small mercies. Housing starts are down 75% from their peak in 2006. For all of 2009, there

were only 444,000 single-family homes built in all of the U.S.A.

Consumers are \$11 trillion poorer than they were before the housing bust and the concurrent stock market freefall into the abyss. (we still have about 40% more to go to get to our October 2007 high in the stock market. Housing???). It is highly unlikely that our spendthrift ways are coming back any time soon. Knowing that 70% of our economy is fueled by consumer spending, which is not happening, it makes one wonder where economic growth is going to come from this time around.

Another sign of a very shaky economy: U.S. public pension plans face *unfunded liabilities* of over \$2 trillion, says Orin Kramer, chairman of New Jersey's pension fund. Kramer stated that sneaky accounting and laughably unrealistic expectations of future returns have put pension funds in a deep, dark hole. For every dollar the average public fund has promised, it really only has about 60 cents to cover it. Stated another way, 40% of people with a public pension in this country have no money saved on their behalf.

Many analysts are fearful of higher interest rates...which will again put major stumbling blocks in the way of a recovery. The Fed needs to rollover \$1.6 trillion worth of government debt in the next three months with an additional \$2.5 trillion over the next two years, to finance further deficits. Who is going to be willing to buy this stuff at the depressed Treasury rates of interest?

| | | | | | | |
|-------|-------|-------|-------|-------|-------|-------|
| 3 mo | 6 mo | 1 yr | 2yr | 5 yr | 10 yr | 30 yr |
| 0.05% | 0.08% | 0.18% | 0.45% | 1.66% | 3.36% | 4.56% |

These are not very inspiring rates of return. At some point our government's creditors are going to demand to be paid more money to finance our growing debt. As it is, the projected **cost to finance** our deficits (at today's rates) is going to be around \$700 billion annually by the year 2020.

The employment picture is particularly bleak. As Ben Bernanke recently told senators at a sometimes testy hearing on his confirmation for a second term, "Jobs are the issue right now." "It really is the biggest challenge, the most difficult problem that we face".

According to a recent article in the Washington Post, there has been "*zero net job creation*"

since December 1999. In no previous decade, going all the way back to the 1940s, did we see job growth of anything less than 20 percent. Economic output this past decade rose at the slowest rate of any decade since the 1930s.

Survey after survey confirms one central theme: the government has to FOCUS on job creation. We continue to lose jobs every month and the picture is not getting any brighter. As a country we need to produce between 110,000 to 140,000 new jobs every month just to keep pace with new employees entering the workforce. That's a big enough problem in itself. Here's a few more *shocking* statistics:

- Teen-agers suffer from an unemployment rate of 27%. Young African Americans are at 40%.

- The official unemployment rate is 10% which represents 15.3 million Americans. The *shadow* unemployment rate is 17.3%. Do the math!

- Once benefits run out after 26 weeks, Congress has passed a series of Emergency Benefits which will give these poor souls an additional twenty weeks. After these Tier 1 emergency checks have run out, and if still no job is on the immediate horizon, they get a further 13 weeks under Tier II provisions. And, finally, if they still have not found work, they may qualify for Extended Benefits and get a last, but not least, 20 weeks.

As of this writing there are more than six million Americans who have applied for these benefits. To put that number in real terms, 4% of our entire civilian labor force has been out of work for 6 months, or longer, and that number is still rising. Trying to get the official unemployment rate below 10% is going to be a daunting task.

- 661,000 people permanently left the workforce in December. They are no longer counted.

The most unfortunate part is that unemployment is apt to be with us for quite a while. The Bureau of Labor Statistics projects that until about 2018 when the baby boomers really retire, (most say they intend to work beyond their full retirement age) we probably won't see enough jobs to go around.

- 20% of personal income in the U.S.A. is coming from transfer payments – money handed out by the government. The Brookings Institution came out with a warning this past week. It said that 30%...

not a typo...30% of the nation is either officially in poverty or are unquestionably headed there. Forty million Americans are living on food stamps.

How can we get the job creation machine cranked up? We all know that small business creates about 2/3rds of all jobs in this country. We need to count on them to get us out of this mess. Why aren't they doing that now...creating employment?

According to a report issued by the National Federation of Independent Businesses, they are

- 1) Pessimistic about the economy and consumer spending.
- 2) Cannot access the capital markets. Banks still aren't lending.
- 3) Very concerned that their sales are down and inventories are up.
- 4) Are worried about higher taxes.
- 5) Must pay a minimum wage that is 25% higher than two years ago.
- 6) May be mandated to supply health care benefits or risk being fined.
- 7) Apprehensive about more/greater government regulation/intervention.
- 8) Feel that the current administration doesn't really relate to them. This kind of figures. According to a J.P. Morgan Wealth Management report, where they looked at statistics going back to 1900, the majority of past presidents had about 50% of their Cabinet members with private sector experience. The number for the current administration is only 8%.

Everything you've read up till now is very depressing but believe it or not, there is some good news which should help out significantly over the next 6-9 months.

- Nine out of ten leading economic indicators are appraised as being expanding, according to a report by the American Institute for Economic Research. We appear to be in a recovery...which although is very slow (like watching paint dry), it does represent a recovery of sorts.

- There will be approximately \$520 billion spent in the near future from the stimulus bill passed last year. The economic effects however, will probably peak in the first half of 2010 according to the CBO. What happens in the second half is anyone's guess. Mine is that it won't be pretty. Corporate profit comparisons will get tougher for each successive quarter in 2010.

- The Federal Reserve is still in a very accommodative mode. Because of our unemployment, interest rates on the short end of the yield curve will remain at near zero for the foreseeable future. The long end, however, is being driven by outside market forces. This makes it likely to see increased rates later this year. When the Fed does start to raise rates, you should consider that to be your advance warning signal. Historically, it usually takes about six months, or so, for the effects of rising rates to be felt. At that point the market starts to head lower. Until rates go up, the party should continue. Don't fight the Fed!

WHAT TO DO NOW?

- 1) Stay away from Treasuries. Not only is there virtually no yield, prices are in the nosebleed section. Analysts are saying that they are 'devoid of investment merit'.**
- 2) Real Estate Investment Trusts (REIT's) are dangerous places to invest right now. They offer terrific yields, but have a lot of downside until commercial real estate improves. Don't take the bait.**
- 3) Banks are speculative investments at this point. The dust has not entirely settled on this sector. Stay clear of their stocks, but some of their bonds and preferreds look O.K.**
- 4) With inflation looming on the horizon, keep your bond maturities *short !!!* Also, look into Treasury Inflation-Protected Securities (TIPS).**
- 5) Investment grade government bonds, in countries outside the U.S. are showing real value with AAA safety.**
- 6) Beware of bond funds. They garnered nearly \$400 billion of new assets last year. These are time-bombs ready to go off. Many will not provide the safety one**

would think they enjoy... especially when inflation comes calling.

- 7) As I say almost every month, stick with companies with strong balance sheets that make things we NEED & WILL BUY.**
- 8) Dividend paying stocks are still a safe bet in any market.**

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- Looking for a way to see how much money your favorite charity is getting over to the cause. Check out www.charitynavigator.org and follow their prompts.

- Did you know that the files that you deleted on your old computer can be brought back to life with very inexpensive software? So if you're giving your computer away, make sure there is absolutely nothing that can be retrieved. Two free programs can solve that problem. Go to: www.fileshrepper.org or www.killdisk.com

- Have you ever been frustrated dealing with the government on what benefits or services may be available? Believe it or not, they have created an answer to that problem. You can call 1-800-333-4636. They have operators on duty Monday-Friday from 8 a.m. to 8 p.m. Eastern. Alternatively, you can go on-line at www.answers.usa.org

- With all the banking problems out there, it pays to check up on your bank to see how stable they are. You can do this easily by going to <http://banktracker.investigativereportingworkshop.org>

- Are you at risk for Identity Theft? More than 10 million Americans were affected in 2008. You can assess your risk for free at: www.myidscore.com

- Finally, Congress has been so busy last year, and this, that they still haven't got around to doing something about the estate tax that expired 12/31/2009. So, for the time being, estate tax is gone...however; the step-up in basis is also gone and it now reverts to a carry-over basis. Many estate planning attorneys suspect that the 2009, \$3.5 million exemption will be made permanent, and retroactive to January 1st, but who knows. The Republicans are going to fight that one tooth and nail to eliminate them altogether. You should probably see your attorney and get some legal advice.

MAKING MONEY IN THE MARKET

'FOLLOW LONG-TERM TRENDS'

If you stop to think about it, you can probably and logically predict many trends out there. For instance, when the Internet was just starting to get *hot* you could have foreseen that companies supporting that architecture would do very well...as least for a while...until something new & improved came along. Trends after all don't last forever and are usually replaced – eventually - by new trends. **But... have patience and let the trends play out!!!**

In looking out over the landscape today, there are overwhelming trends staring us right in the face that should generate strong profits tomorrow.

1st - the aging of the baby boomers. We are living **much** longer today. 2/3rds of all the people who have ever lived to age 65 are alive today. Life expectancy for a woman is now mid-eighties and for a man late seventies. This obviously means more medical requirements. **HEALTHCARE** is going to boom. From generic drugs to nursing homes to medical devices & equipment, if you follow that trend and invest wisely, you will be a winner.

2nd - the world's population today is 6.6 billion people. It is projected to reach 7 billion by 2012 and 8 billion by 2025. These folks are going to need food, shelter and energy. So, because of this population explosion, there are actually three trends here: **ENERGY INFRASTRUCTURE FOOD**

Energy: there's oil natural gas solar wind and nuclear. Nuclear, in particular, is an interesting one to watch.

1 kg of coal or oil produces 3 or 4 kWh of electricity. 1 kg of uranium produces 50,000 kWh of electricity.

Today, there are 436 operating reactors in 30 countries (including 104 here at home). There are 50 reactors today under construction. There are 137 more being planned. Additionally, there are 296 other proposals seeking construction approval. Nuclear!?!

Global oil demand is surging. China & India have tremendous needs that are driving oil supplies and prices. In fact, China is about to surpass Germany as the world's largest exporter. It takes a lot of energy to produce products.

It's also going to take a lot of power plants, factories, highways, water treatment facilities, airports, etc. that have to be built to support this projected population growth. There are several infrastructure companies that will be dominant in building them. They will need lots of commodities.

With food, look to companies that help farmers grow crops in greater abundance, with larger sizes and more quickly.

3rd - there is one metal that is often overlooked, but needs to be taken seriously...and it's not gold. SILVER, is that metal. The number of processes that require silver is staggering. It's been said that 90% of the silver ever mined has been used up – gone forever! Commodities research firm, CPM group, in a recent report claimed that there were 12 billion ounces of silver in the entire world in 1900. In 1990, we only had 2.2 billion ounces left. By 2009, that figure dropped to 1 billion ounces...and demand is still rising. Price wise, and this is quite interesting, it takes 65 ounces of silver to buy 1 ounce of gold today. The historical ratio is 16-to-1. You can either look into buying the metal itself; Exchange Traded funds; or, a few miners have compelling stories.

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

- Trends
- Commodities
- Dividend Stocks
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- TIPS

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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