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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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FACTS ARE STUBBORN THINGS!

Happy New Year!



2009, kinda felt like a Six Flags roller coaster! Now, do we stay on top? Are we headed back down? What's in store for us in 2010? Can we bear to look? There are a lot of possibilities.

For the 1st time in over a year I can finally see some of those 'green shoots' that Washington, Treasury, the Federal Reserve & Wall St. were seeing last spring.

On the employment side, non-farm payrolls almost broke even in November. Also, the American Staffing Association put out a report on the number of people employed in temporary and contract work. It indicates that since the summer, the index is up 19%. In fact, the gains were 44,000 in October and another 52,000 in November. This is a good precursor. Companies first hire temps...then full time workers. Finally, we had revisions to the September & October employment reports which showed that there was a net gain of 148,000.

Next up, housing. Existing home sales were up 10.1% in October and another 7.4% in November. Zillow, the home price research company, reported that the \$489 billion of home values lost in the first 11 months of 2009 was significantly better than the \$3.6 trillion lost in 2008. They also pointed out that real estate values actually rose in 48 of the 154 markets they track.

The banks have a real sweetheart deal going for them right now, which will help their profits in

2010. They currently borrow money from the Federal Reserve at $\frac{1}{4}$ % through the discount window and then turn around and buy 10 year Treasuries which pay them 3.75% ...risk free. That's a profit of 3.50% for doing nothing. At leverage of 10:1, that means that they are earning 35% per year on Treasuries. And, the government wonders why there isn't much lending going on! Seems to me that Washington is perpetuating the credit crunch. But, nonetheless, this is good news for bank profits. In fact the 6 largest banks are on track to pay out \$149 billion in 2009 on bonuses and compensation. Not bad for an industry bailed out with our tax dollars!?!

How about the economy? The first part qualifies as 'good news-bad news'. The bad news is that the government has spent less than \$200 billion of the \$787 billion stimulus package. The good news is that they **will** spend the bulk of it in 2010. That will most certainly help prop up many industries. The other good news is that the index of leading economic indicators rose for the 8th straight month in November. Six of the 10 leading indicators were positive.

But, now I come to a few items which temper my enthusiasm. As Mark Twain once said, "facts are stubborn things...statistics are more pliable".

Let's go back to employment.

- According to the Liscio Report, the median duration of unemployment rose to a record high of 20.1 weeks. Moreover, 38.3% of the unemployed have been idle for 27 weeks or more. That's 5.9 million Americans.

- You may be wondering how the unemployment rate fell from 10.2% to 10% in November while the jobs losses were 11,000. Not a big drop, but losses all the same. The reason is quite simple. There were 861,000 people dropped from the

statistic because they were so discouraged that they just stopped looking for work. But why would people stop looking now when there's a major recovery underway. As one analyst remarked, 'don't these people watch the news?'

- Harvard economist, Ken Rogoff said unemployment will only get worse. The Emergency Jobless Insurance Claims filed by people who have exhausted benefits is at a new peak of 4.2 million.

- Total unemployment, including the *shadow* number is north of 20 million workers. Our economy **needs** to create 100,000 new jobs per month just to keep up with population growth. In our economic heyday, we were producing 250,000 jobs per month. Do you want to do the math on how long it will take to get all those folks back to work??? More than 10 years!!!

Although the housing is looking better, especially on the residential side, there are still looming overhangs:

- Foreclosures will hit 3.9 million homes in 2009...surpassing the 3.2 million in 2008. (Should we ask our elected officials if they believe that there may be a correlation between these numbers and the unemployment figures?). As of the end of September, there were 1.7 million homes on the for-sale block due to foreclosure. What's going to happen when the tax credit disappears and interest rates begin to go up?

- Over the past year I have frequently written about the coming problems with commercial real estate. This problem is not going to disappear quietly into the night. In the 3rd quarter of 2009 the default rate jumped to a 16-year high of 3.4% of **all** commercial properties. And, this is before the almost \$500,000,000,000 that will probably not get re-financed in 2010.

Although there is some good news on the banking front, again, there are a few reasons to be somewhat cautious on their prospects in 2010.

- 140 banks have failed in 2009.
- The IMF estimates that U.S. banks will have to write down \$1 trillion in bad loans in 2010.
- Losses on the bank's credit card debt is estimated to rise to 11% at JP Morgan Chase;

Washington Mutual 24%; Bank of America has already charged off 13% of its credit card portfolio.

- Because of the Federal Reserves' program to buy up \$1.3 trillion of Mortgage-Backed-Securities, the banks are feeling pretty smug. Goldman Sachs estimates that banks are carrying their commercial loans on their books at an average of 96 cents on the dollar. So, if the Fed's program really does come to an end on February 1st what's going to happen to

- a) Mortgage rates?
- b) Who is going to buy these very assets that were once considered 'toxic'???
- c) If no one steps forward to buy this stuff, how much will the banks have to write down?

- Goldman also forecast that 81% of commercial borrowers will have negative equity in their properties in 2010. I saw an interview this past week with Randall Zisler who has a Real Estate advisory firm. His comment was that most banks holding commercial real estate loans would be insolvent if current and pending losses had to be realized today. Scary stuff.

One final look at the economy and we see a picture, where without government support we would see catastrophic trouble. There is no question that they had to do what they did in 2009 or we surely would have fallen off a cliff. But, how long can Washington keep spending money we don't have? With all the federal stimulus, GDP growth in the 3rd quarter was really all government...not industry. The figure started out as 3.5%; then was reduced to 2.8% and just this week, revised again to 2.2%.

As I said at the onset of this month's newsletter, as bad as things are, they are actually getting better. And, I do believe we'll work our way out of this mess...but it's not going to happen overnight. It will pay to stay vigilant in 2010 to make sure you keep your gains from 2009.

WHAT TO DO NOW? INVESTMENT IDEAS FOR 2010:

- 1) **China surpassed the United States by selling more cars than we did in 2009. In fact, China and India both have a car that**

they sell in the \$2000 range!!! A lot more people in these most populous countries are now buying cars for the 1st time ever. This means more oil consumption. Check out the drillers.

- 2) The falling U.S. dollar is driving up the prices of commodities. It will also, eventually bring with it, inflation. Look at mining companies, and companies that help feed the world...and countries rich in resources.
- 3) Exxon Mobil is in the process of purchasing XTO Energy...at a 25% premium. This speaks loudly to natural gas prospects.
- 4) Energy, Telecom & Utilities were the worst stock market performers in 2009. Sectors don't usually repeat the same result year over year.
- 5) Treasuries are considered by many analysts as being in 'bubble territory'. In fact, legendary bond investor Bill Gross of the Pimco funds just dumped 15% of his longer dated treasuries last month and moved it into cash. BEWARE.
- 6) Stick with companies with strong balance sheets that make things we NEED.
- 7) Be willing to pay up for dividend paying stocks. They represent *real* money in your account every quarter. Although there were 78 dividend cuts in 2009, there were 147 dividend boosts. Look there. The attractiveness of dividend paying firms may end, however by 2011. More on this in the next article.
- 8) I'm seeing unbelievable bargains in the gas & oil pipeline sector right now. These Master Limited Partnerships offer solid earnings (dividends for you) and very attractive valuations.
- 9) Ensure that you are correctly asset allocated, and if necessary, re-balance your portfolio.
- 10) Company insiders are dumping shares at a ratio of 82 sells for every 1 buy. The S&P is selling for 21x forward earnings. Don't overpay for your stock purchases.

longer pay interest. It will be time to cash those in and buy the newer I bonds...which are currently paying 3.36%. If you can't find your certificates, go to www.treasuryhunt.gov and follow their prompts.

- Here's a little something that will probably raise the hackles on the back of your neck. Federal employees making \$100k/year or more has jumped from 14% to 19% over the past 18 months during the worst recession since the Depression. When the recession began, the Transport Dept. had one person earning more than \$170k/year. Now, they have 1690 employees in this category. The average government salary is \$71,206. For a private sector worker the average is \$40,331. I somehow do not think that 'they feel our pain'.

- Do you want a *free* burglar alarm? Take your car keys to bed. By pressing your panic button (which will usually work from any room in the house) you have an alarm that should scare off any would-be intruder.

- If you want to know good indicator to figure out when global economies are truly picking up, go to the Baltic Dry Index. As the demand for goods goes up, so do shipping rates. The index is currently down 75% from its May 2008 peak.

- The Curse of Round Numbers. Tobias Levkovich of Citigroup observed the following:

Dow 100 was hit in August 1922. It stayed within the 100 range for almost 20 years.

Dow 1000 occurred in January 1966 and traded around that number for 17 years.

Dow 10000 happened 10 ½ years ago. Will we spend another 10 years in the same area???

But, a very interesting observation that he made suggested that we could be at Dow 100000 by 2050. If you think that's an outrageous number, consider that it would require less than a 6% compounded annual rate of return.

WHERE ARE TAXES GOING IN 2011???

UP. UP & AWAY!

Richard Band is a well known stock market analyst and newsletter writer. In discussing retirement assets he coined the phrase: "Is Nancy Pelosi the new Dr. Kevorkian?"

MISCELLANY : USEFUL TIDBITS!

- The last Series E bonds were issued by the Treasury in 1980. As of June 2010, they will no

- She's ending the Bush tax cuts.
- She's reinstating the estate tax
- She's slipped a new surtax into the health bill.
- And, we have a very nasty surprise coming with dividend income and capital gains rates going much higher.
- Retirees living off fixed income portfolios are going to see reductions in their annual income.

No matter how you slice it, the government is broke and needs to raise money. Taxes will probably never be at current levels ever again.

- The budget deficit between now and 2019 will be at least \$9 trillion.

- The 10 year cost of the health bill is projected to be somewhere in the vicinity of \$1.1 trillion.

- Our unfunded obligations for Medicare & Medicaid are \$56 trillion.

- 48 states are currently reporting budget deficits.

Let's check out some other specifics.

- The Bush tax cuts are coming to an end which also means a death tax of 45% looks like a certainty. The bill is currently weaving its way towards the Senate.

- It appears that there will be a 5.4% surtax in the health care bill. The Wall Street Journal summarized this best. On January 1, 2011 the current 15% capitals gains tax rate will go back to 20%...then up and additional 5.4% to 25.4% with the health plan surtax. That's an increase of 69% overnight!!! Although, initially, the surtax only applies to incomes over \$500,000, we have to wonder if someone in Congress won't come along and lower that bar. There is an Arabian proverb which says, 'when the nose of the camel is in the tent, his body will soon follow'

- The top ordinary income tax rate goes to 39.6% on 1/1/11.

- The 15% dividend rate will be eliminated and revert to the not-so-great status of ordinary income.

According to a report issued by The Heritage Foundation, eliminating the Bush tax cuts will mean one million job losses between 2011-2014. More than \$100 billion of economic output will be lost.

The dividend reduction of 2003 helped raise the stock prices of companies paying dividends. When they take this away, the reverse may be true. There is however, one special class of investment which provides tax-deferred status outside your IRA or 401k. This is the Master Limited Partnership. They will not be affected by this dividend change. I would encourage you to check these out sometime in the next 12 months.

If you need help with any of these issues, feel free to contact my office for a free consultation.

The 12 MOST COMMON mistakes Investors make... and what not to do in 2010!

Mistake No. 1: Procrastination.

Over your lifetime, waiting for the right time to get into the market can ruin your investments. The right time is NOW. Google- 'market timing' -and you'll get over 10 million results. Aside from a few sites telling you "how to" do it (I call these snake oil salesmen) virtually all respectable sources will tell you it can't be done successfully over an extended period of time. The irony is the longer you wait to begin investing, the less time you have. Every day you delay is a day of opportunity lost that you can never get back again.

Mistake No. 2: No written plan.

If you don't know where you're going, any road will take you there! Different articles published in *Fortune* magazine, *Money Magazine*, *MSN Money*, *Kiplinger's* and others have stated that people with written financial plans end up with **two to five times** more money during retirement than those without written plans. If you don't have an investment plan that's right for you, developing one should be a top priority in 2010. And, make sure you have benchmarks and mileposts along the way. People don't plan to fail; they fail to plan. **DO YOU KNOW HOW MUCH MONEY YOU'LL NEED IN RETIREMENT????**

Mistake No. 3: Taking too much risk.

Investment risk is not a theoretical concept. There is a very real possibility that you will lose money in the stock market. We don't have to go back very far to verify that this is true. (Try March 2009). Investing, by definition, requires taking some risk. There is a direct correlation between risk & reward. Some however, take on too much risk for their comfort level. The right amount of risk will maximize your returns while still letting you sleep at night. Most investors don't understand what could go wrong with an investment when they make it... and they don't have a plan for what to do if things go badly. Having unrealistic expectations on how much an investment should appreciate will kill your portfolio. Most stocks don't make a major move of more than 20% in a short period of time. These are winners and, many times, should be cashed in.

Mistake No. 4: Taking too little risk.

To contrast Mistake # 3, some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low returns. If you put your emergency money in a bank account and earn 1, 2, or even 3 percent, you may think you're taking no risk. But in fact you are taking on the very real risk that **inflation** will rob your money of its purchasing power...not to mention the taxes you'll have to pay on the little interest you did earn. Among the '*safest*' investments today, you will find government bonds paying you a lofty 3 ¾% for a 10 year loan. When you factor in inflation, how much do you think you'll pay for a gallon of milk ten years from now? Also, think about all of our modern day medical miracles. The good news is you're living longer. The bad news is, you're living longer...**that costs money** and inflation will remove a huge chunk of it.

Mistake No. 5: Paying too much money to others.

Fees. Fees. And more fees. Some are overt, but not really talked about. For example, mutual fund investors throw a lot of money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's. Some are covert. Like, the ongoing expenses these funds charge (usually in excess of 1% annually). Investment expenses take away a significant portion of an investor's annual returns in order to pay the fund managers and the sales commissions first. Be prudent about how you

absorb fees. Typically, an Investment Advisor will save you a lot of money here.

Mistake No. 6: Trusting institutions.

This mistake is one of the least understood. Like, why shouldn't you trust your bank or brokerage firm? O.K. let's examine both and you decide how much you should trust their advice.

BANKS: A classic conflict of interest. Your best interests are served by accounts that pay the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually! Does your bank push you into unsuitable annuities or mutual funds where they may have sales agreements paying them a lot of money?

BROKERAGE HOUSES: They also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders...not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might...the brokerage house, probably not. And, guess who the broker works for and gets paid by? Who do you think the broker thanks for his 2009 Wall Street bonus?

Mistake No. 7: Believing publications & TV.

"Best Funds for Next Year and Beyond"

"The 100 Best Mutual Funds"

"These Stocks are Real Steals"

"Star Funds: Six Standouts You've Never Heard of"

Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class. Don't get sucked in! The investments being touted here were perhaps, last years' winners. This does not mean that they'll repeat this year. **DO NOT** chase performance.

Mistake No. 8: Failing to take little steps that can sometimes make a big difference.

Some examples:

- People fail to fund their IRA contributions by April 15th.

- People leave money in taxable accounts when it could more appropriately go into IRAs, Roth's, 401(k) plans and annuities where they will save taxes by having their money grow tax deferred.

- Some employees don't maximize their 401(k) plan savings.

- Others may not maximize their employer contributions in their 401(k) plan savings by simply putting in matching dollars. This is free money.

- Investors have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.

- People don't move their money from a checking account to a money-market deposit account at their bank. Or, they don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

Mistake No. 9: Accepting investment advice and referrals from amateurs.

If you had a serious illness, I hope you'd consult a doctor, not somebody on the street who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.

Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts. Also, as I always mention at my seminars, "if it sounds too good to be true, it usually is". Why on earth would someone tell you how to make millions for \$49/month, or... for the cost of an ad in a magazine. Honestly, if I had an easy way to make millions, why would I want to share that with anybody. I'd back up the truck and keep my mouth shut. Wouldn't you?

Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.

The two most powerful forces driving Wall Street trends are greed and fear. There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak – and since everybody seems to be selling at the same time...prices DO go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. As I said earlier, if it sounds too good to be true, it probably **is too good to be true.**

Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

There's another axiom in the investment business which has to do with trying to buy at the bottom or sell at the top. I call this the 20/60/20 rule. Those in the bottom 20% are trying to buy at the bottom and usually miss fantastic opportunities because the stock turned around and started heading north, and never came back their way again. They miss. Same thing goes for those trying to get out at the top. The stock makes a 'high' then retreats (maybe forever). They miss too. If you're satisfied in the 60% range you'll beat the other two types...hands down.

Mistake No. 11: Focusing on the wrong things.

It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds and timing the market (which you cannot do). Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns! And, once you do have proper asset allocation, remember that it applies only for today. Re-balancing is how you keep it *re-balanced*.

Mistake No. 12: Not understanding how investing works.

Diversification...diversification...diversification
(putting together non-correlated asset classes).

The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others. This year's asset class winners may be next year's asset class losers. Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably stayed way too long and lost way too much money.

GOOD LUCK IN 2010 !!!