

## MACMILLAN FINANCIAL

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# SENIORS/BOOMERS NEWSLETTER

*"THE RETIREMENT EXPERTS"*

June 2010

**'If you want to time the market,  
I want to be your broker ... not your  
partner'**

**Warren Buffet**

This quote in no way diminishes the angst many of you are feeling with the sudden drop in the S&P 500 and Dow Jones throughout the month of May. It is evident from stock market activity that many investors are running for the hills. And, that's scary! This, however, is precisely what we want to see at this juncture. It's called shaking out the weak players. When all the sellers are gone, buyers appear.

Here are three stabs by three different people at predicting the stock market:

- a) We do not have, never have had, and never will have an opinion about where the stock market, interest rates, or business activity will be a year from now.
- b) I have no feeling for the direction of the market near term, or the next 3 to 12 months – and that has always been my position.
- c) Ignore fluctuations. Do not try to outguess the stock market. Buy a quality portfolio and invest for the long term.

Who made these lame statements? In order of appearance, they were: Warren Buffet, Sir John Templeton and Peter Lynch. I hope this helps.

It can be very confusing reading financial newsletters, magazines and listening to the plethora of pundits offering their emotional advice on how to navigate these markets. Mark Twain once said, 'if you don't read the newspaper you are uninformed. If you do read the newspaper, you are misinformed. Always remember: bad news sells.

There is no denying that there's quite a bit of bad news out there, but we should temper that with a little balance from the other side of the sheet. When it comes to being bullish or bearish on this, or any market, it's probably best to be in the agnostic camp. Stick with the facts.

Typically, there are four main drivers to advances or declines in stock prices. (We have a market of stocks...not a stock market. This is a very important distinction). These 4 catalysts dictate whether we should be buying the company, or perhaps selling the company.

1. Inflation. If it's low, it's good for companies because they buy their components at stable prices.
2. Interest rates. If they are low, companies can fund their operations for reasonable costs.
3. Economic growth. Obviously a growing economy generates more sales, which are good for profits.
4. Strong corporate earnings will attract investors who want to see their investment dollars grow alongside the company's (which is why you'd invest there in the first place).

So, let's take a quick look at how these four drivers stack up right **now** (**now** being the operative word).

1. Inflation. There isn't any.
2. Interest rates. Practically at 0.
3. Economic growth. GDP is positive.
4. Earnings. 80% of S&P 500 beat estimates.

Based on these facts, I have to say that I believe we are experiencing a normal correction in a market with a bullish bias. Let's not forget that the market went up about 80% over the past 14 months. It has been up 20 of the past 22 weeks. Nothing goes straight up forever. At some point taking a 'breather' is a good thing.

We all know where to find the bad news: Banking, Housing, Mortgages, Deficits, (un)Employment, etc, etc, etc. and I don't believe for a minute that any of these things is going to go away any time soon. They are all unbelievable overhangs on the economy and their effects will probably make themselves felt later this year. But, for *now*, the main ingredients for our investment gains remain in place.

**BANKING:** For the moment, it appears that our banks have turned a corner in stabilizing their businesses. In fact, during the 1<sup>st</sup> quarter earnings season their profits represented 80% of the profit recovery for the entire stock market. Lending however, is another issue. There still appears to be tight credit in the economy which could slow growth, but banks being the animals they are, look first to repair their balance sheets (taking care of themselves) before taking on new customers

**HOUSING:** new-home sales for April were at their highest since May 2008 rising 14.8%. Existing-home sales were also up 7.6% for the month. Housing starts rose to an 18 month high by 5.8%. Steve Zandi, who is the chief economist for Moody's recently said that he felt the 'housing downdraft is over'. Case-Shiller data actually showed that home prices were up 2.3% over the past year.

**ECONOMY:** The adjusted GDP number came in at 3% for the 1<sup>st</sup> quarter 2010. Lower than originally reported, but growth nonetheless. According to the American Institute of Economic Research, for the first time in six years 100% of the leading economic indicators are expanding. April durable goods orders were up 2.9%. That's a very healthy number. Industrial production rose 0.8% in April. Retail sales rose 0.4%. Factory output rose in February for the eighth straight month to 59.6. And, 55% of small business owners expect sales increases this year.

**EMPLOMENT:** In March, non-agricultural employment increased by 160,000 and the average initial jobless claims fell to 450,000/week, which is 150,000 better than this time last year.

**MARKET:** at one point in late May only 6% of stocks in the S&P 500 were trading above their 50 day moving average. That's the most over-sold since March 2009.

So, there's some counter-balancing good news to take in along with all the bad news that you've read or listened to recently. There's no question I could also give you a whole host of bad news to make you want to join the run for the hills that I wrote about earlier, but what I'm trying to do here is keep things in perspective.

I remain cautious for later this year when earnings comparisons are going to be a lot harder to beat. Government stimulus will no longer influence the economic numbers. Budget deficit numbers here and in Europe will at some point prove to be unsustainable - both at the federal and state level. Inflationary pressures will eventually be brought to bear. Based on the Fed's monetary base more than doubling from \$900 billion to over \$2 trillion in a less than two years, I'm afraid inflation is inevitable.

### **WHAT TO DO NOW**

**In this market environment, you must be diversified across the different asset classes...including fixed income. As the old saying goes, 'if you lie down with dogs, you'll wake up with fleas'. If what you're currently holding in your portfolio is not looking very good, the turmoil in this market won't improve their looks or performance. This is not saying that you should abandon your long-term investor philosophy. You should however look for better opportunities when they are out there. (More on this later).**

**1) Pay particular attention to blue-chip dividend paying stocks.**

**2) Seek out stocks of companies who earn most of their revenue & profits overseas.**

**3) Short-duration, *investment grade*, bonds protect your portfolio.**

**4) Preferred shares of *investment grade* companies continually put money in the bank.**

**5) -Ditto-  
Master Limited Partnerships & Utilities.**



- Want to know where your pets are welcome when they travel with you this summer? There are a couple of helpful web sites: [www.petswelcome.com](http://www.petswelcome.com) and [www.dogfriendly.com](http://www.dogfriendly.com)

- If you are looking to buy a car, new or used, you can let a professional do the haggling for you. [www.carsala.com](http://www.carsala.com) will do all the dirty work based on the criteria you give them. Their fees are 20% of the **savings** they get for you off the asking price.

- Find the best gas prices by going to [www.gasprices.mapquest.com](http://www.gasprices.mapquest.com)

- Want to see something truly scary? Go to [www.usdebtclock.org](http://www.usdebtclock.org) to see how much the country is in the hole. As a point of interest, we just crossed over the \$13 trillion mark for national debt. This is NOT total debt, which is \$55 trillion...or unfunded liabilities, which are \$108 trillion.

- Want to check out your financial advisor to see if there have been any complaints filed against he or she? There are 3 places: [www.advisorinfo.sec.gov](http://www.advisorinfo.sec.gov) ; [www.finra.org/brokercheck](http://www.finra.org/brokercheck) ; <http://investor.gov>

## Is There a Better Way to Manage .....YOUR Portfolio..... With 'ups & downs' in the market?

If you have been a “buy-and-hold” investor over the past decade, you are probably aware of the pitfalls of using this strategy. A buy-and-hold strategy works well in rising markets, but shows all of its shortcomings when market action isn’t always positive. In a bear market, the buy-and-hold strategy requires that you sit, wait and hope that the bull market returns soon so you can try to recover your losses. Younger investors may have the time to ride out market dips, but in most cases senior investors do not.

There is another alternative. Instead of sitting and waiting, you could take a more proactive approach and look for investment gains whenever and wherever they present themselves. This kind of strategy is known as “tactical asset allocation.”

Some of these strategies, for example, will have you moving from stocks to bonds to cash depending on where you or your investment advisor believe the best opportunities will be found. Other strategies may have you rotate your holdings among different sectors of the market (e.g.: energy, technology, healthcare, etc.) or to different types of stocks (e.g.: growth or value, large-cap, mid-cap, small-cap, international, emerging markets, etc.) It will all depend on what areas of the market, or world, is predicted to do well, given the current market and global economic conditions.

One of the advantages of using a tactical asset allocation strategy is that your portfolio is under constant supervision during all phases of the market cycles. A tactical asset allocation manager evaluates conditions in the financial markets on a regular basis to determine where the best opportunities are and where the highest risks may lurk. Once this information is analyzed then your portfolio is redirected into different investments based on this evaluation. You and or your investment advisor should always monitor investment performance to ensure that your portfolio remains on track to meet your objectives.

Tactical asset allocation strategies do not come without risks. There is always the risk that you could be wrong about the market and may miss out on gains or suffer losses. Plus, a tactical strategy may trigger more capital gains and result in higher income taxes. For some investors these strategies might work best in a tax-deferred and/or qualified account.

A tactical asset allocation strategy can be used by itself or may complement the “buy-and hold” portion of your portfolio. Either way, tactical asset allocation provides a disciplined strategy for managing risks and seeking out returns in an ever-changing market environment.

**If you would like free information on the tactical asset allocation strategy, please complete the enclosed reply coupon or call my office.**

## FOR MORE INFO:

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### Please send me information on these items:

\*Tactical Asset Allocation.

### 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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