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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

November 2010

" They'll keep printing money until they run out of trees" Jim Rogers, famous investor

The above quote of course refers to the much expected 'quantitative easing' by the Federal Reserve - sometime shortly after the mid-term elections. Winston Churchill once said, 'short words are best and old words when short are best of all'. Quantitative easing = printing money.

The question running through many scholarly economic minds is whether it will stimulate the economy or not. The Fed has already spent $1trillion over the past two years trying to prevent an economic meltdown. The Federal government has thrown about $800 billion on stimulus spending. Another $800 billion on TARP. They have run up two back-to-back $1 trillion budget deficits. And yet, unemployment is still around 10% and every month about 100,000 American families are losing their homes.

Printing another trillion dollars to stoke the economy will be interesting to watch. With so much money sloshing about in the economy, it should accomplish something…but what? I am ***very hopeful*** but also very questioning.

What I have questions about is how much lower this newfound money (I know where they'll find it) will drive down interest rates. I mean, after all, at 0.00 to 0.25%, how much lower can they go? The 30 year mortgage rate is barely over 4%. The 1 year Treasury rate is one-quarter of 1%. The 10 year is 2.5%. When you're already in the basement and want to go lower, you'll have to start digging.

If the American consumer isn't willing to spend with rates at today's levels, what makes anyone think that something infinitesimally lower will induce he, or she to spend in the foreseeable future? We have to ask the very erudite questions:

1) Would you spend money on non-essentials without a job?
2) Would you spend much discretionary money with the fear of losing your job?
3) Would you spend not obligatory money when you could lose your house?
4) Will the 1-in-8 Americans (42M) on food stamps be buying anything but food?

PROBABLY NOT!

I realize that we have to keep trying to right the ship, but I've never heard of any person, or any country, spending and borrowing their way to prosperity. That's like tap dancing on a landmine. You create prosperity by creating jobs. You create jobs by putting money in the hands of those willing to invest it?

Furthermore, if Americans are attempting to get their fiscal house in order by spending less and saving more, is there a lesson here for Congress? As Ronald Reagan once said, 'I'd say they're spending money like drunken sailors, but that wouldn't be fair to the sailors. Sailors spend their own money, and stop when they run out'.

Earnings Season, here we come!

We are having a terrific 3rd quarter earnings season thus far. Three out of every four S&P 500 companies have beaten analyst's estimates. According to Thompson Reuters, earnings are on track to be 28% above last year.

This trend is likely to continue into the 4th quarter as well. In fact, we may see a stronger market as far out as the first three months of 2011. So, a question that springs to mind is: Why is the stock market so buoyant when so many households are pessimistic?

A recent article by the New York Times pretty well summed it up: "many companies are focusing on cost-cutting to keep profits growing, but the benefits are mostly going to shareholders instead of the broader economy, as management conserves cash rather than bolstering hiring and production".

This is corroborated by another recent article in Barron's titled 'TEMP JOBS, THE NEW NORMAL. Temporary hiring is currently running at a 19.5% increase year-over-year. David Rosenberg of Gluskin Sheff (formerly chief economist at Merrill Lynch) says the reliance on temps isn't a "great forward-looking barometer of rising labor demand ahead but rather a deliberate just-in-time hiring strategy that helps contain costs with no commitment to new recruits".

We keep reading about the 'new normal', and this may be a part of it. Companies don't want to invest or spend right now. This economy could muddle along like this for a long time.

What will all this money do for inflation?

Stoke the fire, that's what. Given the choice between deflation, or inflation, the Federal Reserve has made it quite clear that it prefers the latter. Once you get into a deflationary swan dive, it's very difficult to pull out of it.

Another sign of impending inflation came out of the bond market this past week and it signals what the 'smart money' believes is coming down the pike.

Traders bought $10B of 5 year treasury notes at a price so far over par, that their return for one year will be a negative –0.55%. Why, you might ask, would they do this…especially seeing that they are considered the smart money. The reason is that they bought Treasury Inflation Protected Securities (TIPS).

TIPS usually pay a very small premium as a coupon rate…but they are designed to pay handsomely when the CPI rises. So the bet is that we'll see inflation sooner rather than later. (Although, you've probably seeing it already in food & energy)!!!

WHAT TO DO NOW

1) **Buy TIPS.**
2) **Buy gold, platinum & silver and their miners.**
3) **Buy industrial commodities…they go up in price during inflationary times and/or when the dollar falls.**
4) **If the dollar continues to fall, buying companies who get the majority of their earnings from overseas are strong winners.**
5) **Keep bond maturities very short.**
6) **Tread cautiously with municipal bonds:**
   a. **the cumulative deficit of the 50 states is $127.5B**
   b. **the states have over $1.0T in unfunded pension obligations**
   c. **at their current pace, 8 cities and 3 counties will run dry by 2022. In fact Philadelphia is out of pension money by 2015, and NYC by 2021**

When it comes to municipal deficits, all that's missing from the ordeal is a plague of locusts! I would not recommend that you speculate here. As Mark Twain once said, 'there are two times in a man's life when he should not speculate: when he can't afford it and when he can'.

MISCELLANY ☺

☺**Important reminders:**
*Medicare open enrollment runs from November 15 to December 31.
*Clocks change back to Standard time on Sunday November 7th at 2:00 a.m.

☺Ever wonder how to fix some household item? Well, you can get help at www.IFixIt.com

☺If you get tired of waiting on hold for customer service, www.lucyphone.com will call you back when it has someone on the line to help you.

☺Do you have trouble coming up with your stock basis, especially for securities that have undergone spinoffs, splits, mergers, etc? www.netbasis.com can help.

☺Is your new state, or potential new state a tax haven…or a tax hell? Find out at www.kiplingers.com/tools/retiree_map

6 Secrets of Dividend Investing: How you can earn great returns with less risk

(By the Motley Fool Income Investor)

Finding the best dividend stocks takes some legwork and careful analysis. But here's how you can find the best long-term winners:

1. **Avoid the Highest Dividend Stocks —** You can't pick stocks by dividend yield alone. Above-normal dividends are often a red flag for a company in distress. Studies have consistently shown that you will earn higher long-term returns by avoiding risky stocks with overly high dividends.

2. **Beware the "Dividend Time Bombs" —** Not all dividends are created equal. Even if a company has a generous dividend, it must be able to maintain it. A "doomed-to-be-cut" dividend can be worse than no dividend at all. Once a dividend is cut, it's likely to make the share price fall also.

3. **Cash Is King —** Free cash flow (FCF) is the true health of the business. Find the companies that generate tons of it. Even in the worst of times, those flush with greenbacks have options. Firms with cash can buy back their shares to raise stock prices, make their debt payments, increase dividends, and buy other profitable businesses. That's why cash flow is the single most important factor that determines value in the marketplace.

4. **Don't Focus on Income without Growth —** Only growing businesses are truly healthy. So cash flow needs to be strong enough to not only pay a healthy dividend but also generate enough cash to grow and stay strong strategically.

5. **Don't Forget Value —** An investment's total yield depends on both the dividend amount and the stock price. Stocks of companies making real products and real profits often don't make the headlines. So dividend stocks can also be a great source of hidden value. Finding value by focusing on dividends first can help you avoid catching the "falling knives" that trap some value investors.

6. **Have a Longer-Term Focus —** Many brokerage houses make investment recommendations based on a very short-term view of the world — often a maximum 12-month timeframe. Individual investors should have at least a three- to five-year view when considering investments. More time helps you fully realize the true power of compounding dividends.

The Best Way to Secure Your Financial Dreams

Dividend-paying stocks are absolutely the fastest and most reliable way to achieve financial security and independence. Here are five reasons why you should love dividend stocks right now:

- **They're beating the market.** According to Standard & Poor's, for the first 12 months ending May 31, 2007, dividend-paying stocks returned 23.75%, compared with -20.5% for non-dividend payers.

- **They're low risk.** Since the companies pay out cash, investors are more willing to hold dividend stocks through bear markets. Hence, they don't fall as far or as quickly as non-dividend stocks. These stocks become a magnet for investors seeking security.

- **They earn much better yields with lower taxes.** Thanks to a recent change in the tax law, dividends are now taxed at only 15%. *** Compare that to interest on your savings, CD, or money market account that is taxed as ordinary income — up to 35%! Standard & Poor's estimates this change should save investors more than $100 billion through 2008. Much of this will be invested back in dividend stocks.

  (*this may change 01/01/2011)**

- **They help you avoid the Enrons of tomorrow**. Dividends don't lie. For example, between 1997 and 2000, Enron's "earnings" rose 69% but dividends rose only 9%. That's a sure sign that something fishy was going on. Paper profits can fool analysts but hard cash can't be faked.

- **By reinvesting dividends, you "dollar-cost average" and get the power of compounding automatically.** Reinvesting dividends improves your portfolio's long-term returns by buying more shares when the price is low and by helping your profits earn more profits.

Dividends aren't just for retirees. They're for anyone who wants to amass great wealth with low risk.

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:

- ❑ TIPS
- ❑ Investing in precious metals
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