

## MACMILLAN FINANCIAL

JOHN MACMILLAN, CRFA, CLTC, CSA

P.O. Box 66

ANNANDALE, NJ, 08801

T: (908) 236-7500

F: (908) 236-7511

WWW.SENIORSBOOMERS.COM



# SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

September 2010

## Q. How do you see the economy??

A. Basically, I sleep like a baby.....  
I wake up crying every 4 hours.

To say that the economy is looking for some *firm* direction qualifies for the understatement of the year. Every time we get a glimmer of good news, we get bad news piled on top.

The economy is growing...if ever so feebly. The 2<sup>nd</sup> quarter GDP number was revised downward from 2.4% to 1.6%. Anything south of 2% is just not enough to fuel any kind of sustained growth. Even Fed Chairman Ben Bernanke, who is characteristically a pretty upbeat guy, says the economy is not growing as it should in a normal recovery. Specifically, 'financial conditions have become less supportive of economic growth'.

Consumer spending grew 0.4% in July. Personal income grew 0.2% for the same month. Some relatively good news! But...Personal bankruptcies hit a 5 year high of 1.57M for the year ended June 30<sup>th</sup>. Even the millionaire's housing market is feeling the pain. According to the New York Times, one in seven homeowners with loans in excess of \$1M is seriously delinquent with their mortgage payments.

New home sales rose 24% for the month of June vs. May. But. Housing starts fell 5%. Then existing home sales fell 27.2% in July.

Unemployment has held steady at 9.5% according to the U-3 report. Private-sector payrolls have managed to grow for seven months in a row. After slashing 8.5M jobs in 2008 & 2009, private employers have added 630,000 new jobs this year. Wow!

But hold on a minute. The U-6 unemployment number (which includes part-timers who want full

time work) is at 16.5%. The *Shadow Government Statistics* peg the **real** number at 22%.

I won't bore you with more of the same. Suffice it to say that when I read a month's worth of economic reports, I feel like I've been pecked to death by a flock of back-yard chickens. So, how do you make money in such an economy, and in such a stock market...or avoid losing more? This leads me to the next article.

## Where does an investor go for yield?

Well, according to the National Association of U.S. Investment Companies, since mid 2008, investors have been redeeming money from equity funds & Money Market holdings and piling it into taxable as well as municipal bond funds. How much? I'm glad you asked. In the first 6 months of 2010, the cash outflow from money markets and equity funds was a staggering \$509.2 billion.

How safe is the location(s) drawing all this money? Not as safe as one may think. As one analyst put it: "Investors have been doing what they tend to do: rush into overheated markets. After getting caught in the high-tech bubble in 2000, the housing bubble of mid 2005 and the stock market bubble of 2007, they are now running to the bond market trap".

I've been saying this for quite some time now, and it still bears repeating: **When interest rates rise, the value of your bonds, and bond funds, will fall.** Even Treasuries have the ability to hurt investors. Their current prices are in the nosebleed section of the arena. But, higher rates will bring them back to earth. If you bought at a par-rate, you'll always get your money back and be rewarded with a 2.5% yield on the 10-year note...but nothing more. If you have overpaid (greater than par) you can/will lose principle!

The way to stay safe with bonds is to try and pay at, or below par...and keep your maturities very short. Warren Buffet recently told CNBC, 'a country that continuously expands its debt as a percentage of GDP and raises much of the money abroad to finance that debt, at some point, is going to inflate its way out of the burden of that debt'.

What has Buffet done with his sizable bond portfolio at Berkshire Hathaway? Treasuries, Municipals, Corporates and Foreign bonds? He has significantly shortened their durations. In fact, over 21% of his bond holdings are due in one year or less.

Investors buying funds of longer-maturity bonds are taking on a great deal of risk...probably much more than they realize

Finally, have you ever wondered where our top financial guru has placed a good percentage of his retirement money? You know, Ben Bernanke. It may surprise you to learn that his two largest assets are in annuities. Anyone working with me knows the importance of annuities as part of their retirement foundation. Check them out!

### **WHAT TO DO NOW**

- 1) **When buying stocks, stick with companies with strong balance sheets, little or no debt, and that make things we NEED.**
- 2) **Buy dividend paying stocks. They represent *real* money in your account every quarter. In fact some companies are paying higher dividends than do their bond coupons.**
- 3) **Find companies growing their dividends.**
- 4) **Corporate, investment grade, bonds are still very attractive, provided you keep their maturities ultra-short.**
- 5) **Diversify your investments among stocks, bonds, countries, commodities, currencies, precious metals, etc.**
- 6) **A weak dollar strategy should have you investing in multinationals that get most of their revenue from overseas.**

☺Have you lost track of an old pension from a former company that had a defined-benefit plan? Go to [www.PBGC.gov](http://www.PBGC.gov) and find it.

☺If you think that you may have lost track of some old savings bonds, you can check [www.treasurydirect.gov](http://www.treasurydirect.gov) for some help.

☺Pre-approved credit card offers disappeared during the credit crunch, but are now making a come-back. If you want them stopped for good go to [www.optoutprescreen.com](http://www.optoutprescreen.com)

☺Don't forget to get your free annual credit report at [www.annualcreditreport.com](http://www.annualcreditreport.com)

## **Choosing Among Financial Service Firms is a Matter of Trust**

What's most important to you when it comes to choosing a financial services provider? According to the results from several recent surveys, trust was named as the most important factor when evaluating financial services providers; outranking customer service, performance, and range of products.

But how do you judge trustworthiness? Some financial service firms might present their experience and assets under management to convey their commitment to building trust with potential clients. But long histories and billion-dollar portfolios do not necessarily translate into a trustworthy relationship.

The recent scandals in the mutual fund industry exposed some illegal and unethical practices that were going on behind the scenes at some of the biggest and oldest financial services firms in the country. While some of these firms righted their wrongs, the lingering effects of the scandals still lead many investors to ask, "Who can I trust with my money?"

When evaluating financial service institutions, such as brokerage houses, insurance companies, mutual funds and independent firms, there are several considerations that can help determine who is worthy of your trust.

According to Liz Pulliam Weston, feature writer for MSN Money, one of the most important words to look for with your advisor is ***fiduciary***.

She says, "It's a \$10 word, but not knowing it could cost you a fortune"...in the world of money it

## **MISCELLANY**



☺You can find unclaimed money from old bank accounts, stocks, bonds and insurance policies at [www.missingmoney.com](http://www.missingmoney.com)

means someone who's committed to putting your financial interests ahead of his or her own".

Ms. Weston further explains, "The word is important because true fiduciaries are harder to find than you might think. Most of the people who want to give you advice about your money aren't held to that high standard. At best, they're held to a *suitability* standard, which means they're supposed to recommend investment and insurance products that they deem appropriate for your situation. Just 'appropriate'...not...'the best choice' or 'in your best interests'.

She goes on to say: "let's say the advisor could earn a fat commission for recommending a higher-cost investment being promoted by his financial services firm...instead of netting 8% a year, you might net 6%". The effect this could have on a portfolio could represent a decrease in performance of over **35%!!!**

"People who are stock brokers or insurance agents are allowed to put their own interests and those of their firm, ahead of yours" Finally, Ms. Weston states, "in the financial-services world, there are three job titles that automatically connote a fiduciary standard: Attorney, Certified Public Accountant & Registered Investment Advisor.

**MacMillan is a Registered Investment Advisory firm.**

## **Should You Consider a Managed Account?**

As your investment portfolio grows in value, it becomes more critical to make the right moves with your assets. For many individuals with investable assets of \$500,000 or more, a managed account provides an effective solution to the challenges faced when running a large portfolio. But, who do you hire?

According to Jack Waymire, founder of the Paladin Registry (a free public services firm for investors) author of **'Who's Watching Your Money?'** when it comes to hiring an advisor, "millions of investors use very subjective processes: likeable personalities; sales pitches or selecting advisors from brand name financial services companies because they feel safer". But, he goes on to explain..."advisors from brand name companies may not be the safe choices investors think they are for five reasons":

- Their companies are publicly owned, so their first responsibility is to shareholders and not to investors.

- In their companies' quest for profits and higher share prices, the advisors have more conflicts of interest than other financial professionals.

- The companies have a long history of abusing investors to maximize profits.

- The companies have paid billions of dollars in fines for cheating investors. Thousands of their executives and advisors have gone to jail, were fined or were forced to leave the industry.

- The companies have spent billions of dollars on lobbyists who make sure new legislation favors companies and not investors

He concludes with, "If these facts aren't enough to raise concerns, then another telling statistic is the thousands of advisors who left brand name companies so they could do what was best for their clients...most of these breakaway advisors started their own Registered Investment Advisory firms."

By hiring a Registered Investment Advisor to manage your assets, you can gain access to sophisticated investment strategies and a higher level of personalized service that is not typically available in large financial services firms.

Whenever securities are purchased and sold from a portfolio, be it in a mutual fund or a separate account, the potential for tax consequences arises. One of the primary benefits of a managed account is that securities can be sold in the most *tax efficient* manner. A simple example is that selling a security after a 12 month and one day hold will avoid short term capital gains.

Another example is, specific securities that have sustained net losses in your portfolio can be sold in order to offset any potential capital gain tax liability. Conversely, in a mutual fund, securities are typically bought and sold without consideration of the tax ramifications to the individual fund shareholders. In addition, redemptions by other fund shareholders can result in a tax liability as well if the fund manager has to sell some of the fund's holdings in order to meet these redemption requests.

Fees paid to the advisor are usually based on a percentage of the assets in the account. In contrast, mutual funds generally have annual management, distribution and administrative expenses. Be sure to compare fees, liquidity, and investment objectives prior to investing.

**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.**

**Mail or Fax back to:**

John MacMillan  
P.O. Box 66  
Annandale, NJ, 08801  
T: (908)236-7500 F: (908) 236-7511  
www.seniorsboomers.com

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

- Treasuries & other bonds
- Dividend Income
- Fiduciary duties
- Managed Accounts

I think these people would like to receive your newsletter and an invitation to your next public presentation:

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

**City** \_\_\_\_\_

**State** \_\_\_\_\_

**Zip** \_\_\_\_\_

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

**City** \_\_\_\_\_

**State** \_\_\_\_\_

**Zip** \_\_\_\_\_

**Name** \_\_\_\_\_

**Address** \_\_\_\_\_

**City** \_\_\_\_\_

**State** \_\_\_\_\_

**Zip** \_\_\_\_\_