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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

October 2010

' An expert is an ordinary man, away from home… giving advice' anonymous

There are many, and varied opinions on the condition of the stock market (is it going to go ***UP or DOWN***), whether or not we'll slip into a 'double-dip' recession, if/when the Federal Reserve will do their 'quantitative easing, etc. that I thought this months' quotation was quite appropriate. The fact of the matter is that, notwithstanding their authoritative air and all their sound bytes, none of these so-called experts knows any better than you or me.

Just in this past week, I have read, seen or heard interviews with some of the best money managers in the business, (David Tepper, Bill Miller, Bob Olstein, Ken Fisher, et al) commenting loudly that this is one of the cheapest markets ever…stocks are a screaming buy…in this market stock picking is easy…Really! This kind of stuff makes me more than a little nervous. If the crowd was always right, everyone would be rich. In actual fact, the crowd is ***usually*** wrong.

I prefer sticking with bread and butter facts while trying to look at both sides of the coin. On the front side, we have had some fairly decent news of late. Home prices rose 1% in June. The ISM Manufacturing Index was up in August and was also well ahead of consensus estimates. At 56.3, it signals an expansion is underway. The AIER shows that the leading primary indicators are 100% positive in August. This also applies to the coincident indicators. Again, this is signaling an economic expansion. August industrial output was up 0.2%. Not great, but it is pointing up.

Retail sales rose 0.4% in August. And (drum roll please), The National Bureau of Economic Research ***officially*** declared the recession over in June of last year. Boy, what a relief! I wonder if the 15 million Americans who are out of work (which by the way according to the Bureau of Labor Statistics is actually 25 million), or the 43.6 million Americans who are officially impoverished are relieved at this news.

This is what I mean about taking the good news and ignoring the not so good. The flip side of the coin isn't quite as bright. If you're not working, you're probably not spending much money, except for essentials. So, the question remains: where is the spending going to come from to fatten corporate profits and propel the markets to new heights.

With or without strong consumer spending, I believe, short term -the next 3-6 months- could be good for the market. 3rd quarter earnings are shaping up to be fairly healthy. Obviously market sentiment is high right now which bodes well for stock prices. There's also a ton of money sitting on the corporate sidelines…anywhere between \$1.25 - \$1.50 trillion. If these funds ever shake loose, we could see a fabulous move up. Finally, the November elections are right around the corner, and they are projected to put Congress into gridlock, which Wall Street loves.

Another reason I think we'll see good corporate profits in the 3rd and 4th quarters of this year, and then a fall-off next, has to do with the coming tax hikes in 2011. Because of these higher taxes, it's projected that many companies are shifting production and income from 2011 into 2010 which will increase one at the expense of the other. Higher taxes along with rising interest rates…and more regulations in 2011 will probably create strong headwinds for the markets.

U.S. Debt and…. How are We Going to Finance '*IT*'?

So what's coming down the pike that may influence stock markets going out one, two, three years…or more? Let's look at a few scary facts.

- Banks worldwide owe nearly $5 trillion to bondholders and other creditors that has to be repaid between now and 2012. The U.S. banking portion of that figure is $1.3 trillion. The $64 question is: Where are they going to raise that kind of cash?

- According to the United States Treasury, we are heading for a government debt level of $19.6 trillion by 2015. How are we supposed to pay that off? The IMF recently stated that the U.S. long-term debt is one of the worst in the world. If the U.S. government does not soon change course, U.S. debt could reach 100% of GDP somewhere over the next 5-10 years.

- Bill Gross, the star investor over at PIMCO recently put this commentary on his web site. "Current deficit spending that seeks to maintain an artificially high percentage of consumer spending can be compared to flushing money down an electronic toilet".

- A Congressional Budget Office (CBO) report that I recently read, *Federal Debt and the Risk of a Fiscal Crisis,* was very clear on two points:

-"unless policymakers restrain the growth of spending…..growing budget deficits will cause debt to rise to unsupportable levels"

- "a rising level of government debt….increases the probability….that investors become unwilling to finance government borrowing needs unless they are compensated with very high interest rates"

I bring up these points about the CBO report because there is a growing concern – longer term – about a quiet event that is getting very little press…whether or not the U.S. dollar can maintain its sole position as the world's reserve currency.

Before we dismiss this notion out-of-hand, it's important to view it from 30,000 feet. As we all know, China has been the U.S.A.'s biggest benefactor in absorbing our massive debts over the years. But, that was then, what's going on now?

- Over the past nine months the Chinese have been backing away from U.S. debt to the tune of 11% of their holdings. They have gone from $938 billion in U.S. government bonds down to $843…that's $94 billion!!!

- China has also been in the news virtually every week with their purchases of oil fields, copper companies, tar sands, iron ores , gold mines, etc. all around the world. If you were wondering how they're spending down their U.S. reserves…there there you have it.

    - They invested $41 billion in overseas projects in 2008 and $90 billion in 2009. They are projected to sponsor in excess of $100 billion this year. China is one of the biggest shareholders, again in resource related companies, in Africa, Latin America, and of late, Afghanistan. Also let's not forget the $10 billion loan to Brazil's Petrobras…which effectively is an exchange for future oil supplies. They have also been a major investor in both Canadian and Russian companies owning hard assets. It looks like they are quietly reducing their investment risk away from U.S. dollar currency reserves into the commodities that they will need at a later date.

- China has also been busy setting up 'currency swap agreements' with a myriad of partners. This effectively means that they will buy and sell with these partners in **local currencies…not U.S. dollars.** They have such agreements throughout Asia and have made similar deals with Brazil, Argentina and Belarus. In this vein, they are also allowing cross-border trades outside of China to be settled in yuan, and permitting Hong Kong banks to let outside institutions open yuan accounts.

- Russia is setting up its own commodity exchange, <u>not based on the U.S. dollar</u>, to compete directly with the New York Mercantile Exchange and the Chicago Board of Trade. Many OPEC producers are said to have expressed interest in joining.

With this information as a back-drop, let's come closer to home to see how/what we're doing to solve our debt problem.

- The U.S. Treasury has to re-finance $1.5 trillion of debt in 2010, and another $2.5 trillion in 2011/12. If the Chinese and Japanese don't show up to the auctions, that only leaves the Federal

Reserve as a buyer of last resort (like they've been doing in 2010). This is not a good thing. It's like a husband saying that he can't afford his minimum credit card payment, so his wife says don't worry. I'll charge the payment to my credit card instead. It sure sounds like they're swapping deck chairs on the Titanic.

For these reasons, I am short-term bullish on the stock market, but longer term???? Unless we get a Congress committed to controlling debt and eventually paying it down, we should all be very vigilant and *very cautious* with our investments. Government debt (which is also our debt) is something that we'll have to keep a close eye on looking out into the future.

WHAT TO DO NOW

1) **When buying stocks, stick with companies with strong balance sheets and little or no debt... ergo, Good Fundamentals!**
2) **Let dividend paying stocks be a cornerstone of your portfolio.**
3) **Corporate, investment grade, bonds are still very attractive. Keep maturities ultra-short.**
4) **Stay away from Treasuries.**
5) **Stay away from bond funds.**
6) **Business Development Corporations (BDC's) and Master Limited Partnerships (MLP's) are paying very attractive yields.**
7) **Diversify your investments among stocks, bonds, countries, commodities, currencies, precious metals, etc.**
8) **A weak dollar strategy means you should be investing in multinationals earning most of their revenues overseas.**

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• If you have some old electronics that you no longer want, you can sell them on-line at www.gazelle.com

• A web site exists that helps you see what others are doing about medical conditions that you and they share. Go to www.patientslikeme.com

• You may want to check specific public record information. You can do your searches at http://publicrecords.onlinesearches.com

• Find out if your medications are safe through a new FDA web site. Go to www.fda.gov and click on 'drugs', then click on 'drug safety'.

• Compare mutual fund expenses at www.finra.org/fundanalyzer.

• Next is an item that I used to provide which is now only available on-line: LAW POINTS FOR SENIOR CITIZENS. It is an excellent 78 page booklet that addresses many senior issues. Go to www.njsbf.org/for-the-public/public-publications.html

The Importance of Succession Planning

If you, or someone you know, own a substantial interest in a closely-held business, a succession plan may be the single most important component of your retirement and estate plan. Without an effective business succession plan, your death or long-term disability could mean the end of the business you worked so hard to build. Many business owners are so busy running their companies that they forget to plan for the simple steps that will help them maintain or pass on the wealth that they shed a lot of blood, sweat and tears to accumulate.

At death or disability, no asset tends to decrease in value as quickly or completely as a closely-held business. Imagine a restaurant, doctor's office, retail shop or other small business that closes for 60 days. The value of the business may decrease rapidly and substantially – in some cases, completely.

A successful estate plan is one that minimizes estate taxes in the event of your death. When you die, estate taxes will be assessed based on the fair market value of any assets that you own, including all of the assets you would normally find on a personal balance sheet, such as cash, securities, your primary residence and any personal property. Life insurance proceeds AND the value of your business are also included.

(Note: Estate tax laws change frequently, and we still don't know what's going to happen on January 1st, 2011 with the Federal government. Notwithstanding the federal element, do not ignore New Jersey estate taxes which currently run as high as 16% for estates over **$675,000**. Estate taxes are generally due to the government within nine months following your death.)

If your estate is comprised of illiquid assets such as real estate and your business, paying the estate tax bill due after that nine-month period expires could be troublesome and deplete everything you worked so hard to pass on to your family.

What about your retirement? Are there one or more buyers ready, willing and able to purchase your interest in the business at a fair price? A well-crafted buy-sell agreement can help families and business associates retain control of a business and protect its value in the event of retirement, death or disability. With proper funding, a buy-sell agreement can help assure there will be a ready market for the business at a time when you or your family may require a source of retirement income, estate liquidity or surviving family living expenses. A buy-sell agreement can also help minimize conflicts that may occur and establish a value for the business for Federal estate tax purposes. To help ensure the viability of your business and the financial security of your family, call me and we can schedule a time to explore the most appropriate design, valuation methods and funding alternatives for your particular business.

If you would like free information on any of these 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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- ❑ Dividend Incomes
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