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"

April 2011

Knowledge is knowing that a tomato is a fruit. Wisdom is not putting it in a fruit salad !!!!!!!

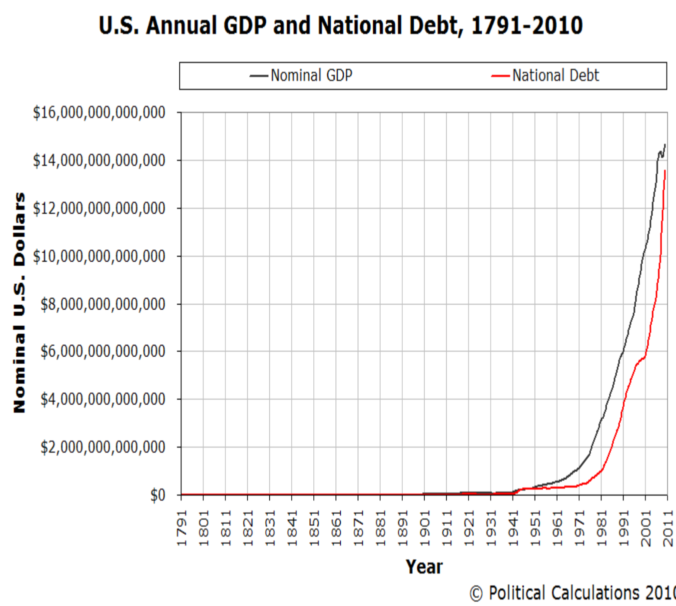
Knowledge is the fuel we use when we look at the economy and our investment portfolios. That knowledge is garnered from everything we read, see or discuss with others. Wisdom is making the right choices after we've carefully analyzed that knowledge and use it in a manner which generates the results we're looking for.

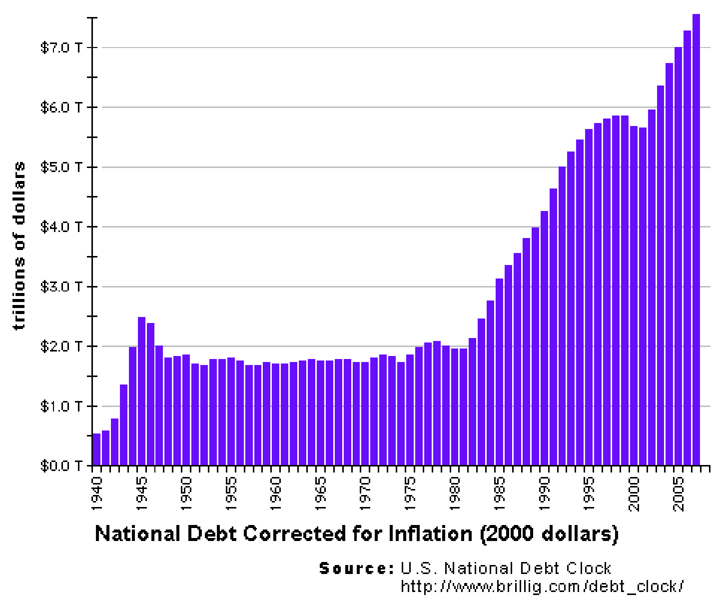
This month I thought I'd focus on only one dimension of the economy. I won't bring up unemployment; I won't discuss the prices of food & fuel; I'll never breathe a word about anemic housing starts and home prices; or the unbearable rate of foreclosures. Heck, I won't even talk about global affairs, a.k.a. geopolitical influences. No, this month I thought I'd focus on the one element that keeps me on edge 24/7. That is the U.S.A. debt level.

In just the past four years alone, our national debt has rocketed **58% !!!!** We'll never get out of this hole until we stop digging. There is no….I repeat….no fiscal discipline in Washington. These debt figures, by the way, **do not** include our entitlement programs. Our total debt (when we include everything) is $113,161,244,789,623. I long for the day when we get a politician who is ready to take on this annihilation.

To put all this in perspective, the National Debt on January 1st 1791 was just $75 million dollars. Today, it rises by that amount every hour or so. (1st graph)

The 2nd graph shows how the National Debt has grown year by year since 1940 in actual dollar amounts, uncorrected for inflation.





This 3rd graph shows just how far we've come in the past decade.

Historical Debt Outstanding

Annual 2000 - 2010

Date	Dollar Amount
03/30/2011	**14,262,415,182,388.81**
(current)	(current)
09/30/2010	13,561,623,030,891.79
09/30/2009	11,909,829,003,511.75
09/30/2008	10,024,724,896,912.49
09/30/2007	9,007,653,372,262.48
09/30/2006	8,506,973,899,215.23
09/30/2005	7,932,709,661,723.50
09/30/2004	7,379,052,696,330.32
09/30/2003	6,783,231,062,743.62
09/30/2002	6,228,235,965,597.16
09/30/2001	5,807,463,412,200.06
09/30/2000	5,674,178,209,886.86

Treasury Department

Right now, the federal government has to borrow one dollar for every two dollars it spends. Our total tax revenue this year is projected to be $2.178 trillion against a budget somewhere around $3.5 trillion. In fact, our debt level is 7X our annual tax revenue.

Against a national debt of $14T, it costs the government (us) over $3.5T to service that debt. Our budget for 2011 at $3.5T will have more than $500B devoted to debt payments for the year. If interest rates went up to 2%, this interest payment would go over the $1T mark. This is frightening!

Let's say our politicians got serious about this issue and wanted to pay off a national debt of $15T over the next 30 years. How would this work out? Well, we could pay $500B a year for 30 years, <u>interest free</u>?!? Then we would have to add to that, the $1.3T of the additional annual debt that we pile on. This would mean that the loan repayment + new debt would just about take up all of our tax revenues. But wait. I'm not sure how we'll handle the costs of Medicare, Social Security, military expenses and the other 1000 annual budget line items totaling another $3.5T

So how do we propose to finance the un-financeable? Borrow, of course. How do we do that? We buy Treasuries with freshly printed dollars coming out of the Federal Reserve.

At $1.55T, right now the Federal Reserve is the largest holder of Treasuries in the world. This is what is called robbing Peter to pay Paul. But, in fact, it's worse than that. It's like using one credit card to pay the 'interest- only' on another one you hold.

Our 2nd largest holder is China at $1.12T who has been reducing holdings at a very rapid pace. 3rd on the list is Japan. Although with Japan, when you add everything they own in the U.S.A. (stocks, bonds, businesses, etc) they hold about $3T of assets in this country. With China cutting back on purchases…Japan getting ready to repatriate money for the rebuilding of their devastated country…who is going to buy our paper?

Bill Gross of PIMCO, arguably the best bond investor in the world, has done something truly remarkable. He has sold every last Treasury bill, note & bond from his company's inventory. He now holds $0 of U.S. Treasuries. When pushed for a comment, he said that when QE2 finishes in June, interest rates will go up, and so will bond rates. His best advice is to stay clear of "bonds in dollar denominated terms". As many experts have warned, if the government doesn't take care of their fiscal mess, the bond market will do it for them.

Ben Bernanke was in front of Congress this past February 9th and told the Budget Committee that Official Congressional budget estimates understate the peril of rising debt. His message was: We're much closer to Total Destruction Than You Think.

O.K., so we're reviewed a lot of Knowledge. Where does the Wisdom come in? Forgetting about a host of sayings like 'don't fight the Fed'…'the trend is your friend'…'never short a dull tape'…'the market climbs a wall of worry', the best observation came from famous British economist, John Maynard Keynes, who said: ' the market can stay irrational longer than you can stay solvent'.

Many investors look at the here and now and **do** follow the host of sayings enumerated above. My job, your job, our job is to keep our eye on the big picture and be prepared to make the adjustments at the right time. Good luck.

MISCELLANY ☺

☺Looking for a discount on your restaurant dining? One site offers discounts of at least 50% from more than 15,000 restaurants: www.restaurant.com

☺One web site offers reviews in over 500 different categories written by people just like us (with no paid advertisers): www.angieslist.com

☺Currently 15 states and D.C. collect an estate tax, but two collect both an estate tax and inheritance tax. Guess who they are? Maryland, and of course, New Jersey.

☺According to actuaries, a married couple, both age 65, have a better chance of blowing out their candles for their 100th birthday, than have their house burn down. Another reason of making sure that your money lasts as long as you do.

☺I just did something so uplifting that I will send it out to you, free for the asking. It's a 25 page document entitled: PEOPLE TO CONTACT IF SOMETHING HAPPENS TO ME. It covers every important financial & personal topic for when you're not around do them yourself. I would describe it as the instructions you would give your spouse, after your gone, if you could.

Is the Municipal Bond Market TOO Beat up?

Or the past year or so I've been writing about my concerns for the Muni bond market...based on ***their*** level of debt. Public pensions are their largest expenditures, and they are grossly underfunded. Not only are they underfunded, but the investment return assumptions are so unrealistic as to make the actual shortfalls probably double what they report.

Florida for example assumes that their investments, to pay their obligations, will return 7.75% from here to eternity… whereas they generated only 2.6% over the past 10 years. California is in the same boat. So are most state governments.

According to the Federal Reserve, combined state & local debt is now running around $2.4T. They are also carrying approximately $3 trillion of unfunded public pension & health care liabilities. More than 40 states are in the red for a combined budget shortfall of $125 billion for fiscal year 2012 alone. California is the worst with a $25.4 billion hole to fill. New Jersey is at $10.5 billion.

According to Barron's magazine, since mid November panicked sellers have yanked $26 billion from muni bond funds and have frozen up a normally orderly market. Has the selling been over-done? Maybe.

Spreads, which represent the difference between no risk (in the bond world that's Treasuries) and the rate you can get on a Municipal bond have been widening. Ironically, this is happening while state tax revenues have gone up for the past 5 quarters.

We'd have to go back to 1933 to find the last state to default on its bonds. That was Arkansas. No question about the fact that many states today are in a precarious fiscal condition…but while cities can file for bankruptcy, states do not have that legal option.

I still feel that you should tread very carefully into this market, and preferably with someone who knows what they're doing. So, what's an investor to do?

If you are in a high tax bracket, I believe you should check out the muni market. As you know you pay no Federal tax on the interest, and if you get them from your state of residency, you also pay no state tax. If you had a 4% muni bond and were in the 25% tax bracket, that yield would represent a 5.33% pre-tax interest rate. Not bad!

It bears repeating that people don't usually buy municipal bonds for capital gains. They buy them for income. That being the case, you should not be unnerved by their price fluctuations. The amount of interest in constant dollars remains the same…no matter what happened to the price.

Now the $64 question. What type of bonds should you look at? My preference is what are known as Revenue Bonds. These bonds promise to pay you with the revenues backed by fees for essential services like sewers, water projects and other public utilities.

Next are General Obligation bonds. These are backed by the complete taxing authority of the state. Whatever you do, stay away from local & city projects. They can and do go BUST. If you'd like some help with this, call my office for a consultation.

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:

- ❑ Treasury bonds
- ❑ Municipal bonds.

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 __________________________