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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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COULD THE MARKET'S GAME BE AS SIMPLE AS CHECKERS RATHER THAN AS INTRICATE AS CHESS???

Happy New Year 2011

I would be stating the obvious if I said that 2010 absolutely flew by. So, I won't say that! Instead, we can celebrate the 2nd year in a row that we saw gains in our beaten up and battered portfolios. As I write this month's newsletter, it would appear that the S&P 500 should see a gain of over 10% for the year. Not bad.

What surprised me, as I'm sure it did (or will) anyone reading this statistic, is that President Obama has been witness to a 54% rise in the S&P 500 since his inauguration on January 20, 2009. Also, not bad.

How, you may ask, is 2011 shaping up as we read the tea leaves from those in the prognosticator's seat? Not bad, I think?!?

For the history buffs among you, the following fact may be more than a little disconcerting. The S&P 500 crossed above the 1240 mark for the first time on December 30, 1998. And, here we are 12 years later at basically the same spot. For the sake of our retirement fund, we need to do better than that.

2011 will be challenging due to persistent unemployment knocking 10%. That's 15 million Americans out-of-work. The ***shadow*** number is 17%...or 26 million. This is downright ugly. But…we may see some improvement here because companies are sitting with record cash on their balance sheets and their staffing levels are as close to the bone as they can get. Make no mistake about it however, it's going to take quite some time to get back to an acceptable level. Recently on 60 MINUTES, the Fed chairman, Ben Bernanke stated that unemployment may not bottom until 2014.

Housing foreclosures are still a major overhang for the economy. According to RealtyTrac, they feel the housing sector will not hit bottom until sometime in 2014.

The cost of living reported by the government is an ongoing joke. Currently, and officially, inflation is running somewhere around 1%. If inflation was calculated the way it was back in 1980, they'd be admitting to a number north of 8%.

The municipal debt crisis is worsening. 60 MINUTES ran an episode a few weeks ago, entitled "STATE BUDGETS: DAY OF RECKONING": http://www.cbsnews.com/video/watch/?id=7166293n&tag=mncol;lst;3

If you have 13 minutes to spare, click on the above link. What you see & hear may help formulate some important investment decisions for you in the coming year.

Because of all the debt we have in this country, the dollar took quite a bruising in 2010. In fact, at one point, the yield on the 30 year Treasury actually climbed above that of the 30 year mortgage rate. What this means is that the market views John Q mortgage holder as a safer credit risk than Uncle Sam. Think about it!

European debt is actually worse than ours. Expect to see more austerity measures in 2011 and, more unrest in that part of the world. Let's pray & hope that we do not see a sovereign credit default. If that happens a lot of what good we expect to see for the markets in 2011 will go up in smoke.

The Treasury Department has been heavily leaning on China to revalue its currency for the past couple of years. 2011 may be the year this happens. As I've written previously, be careful what you wish for. If/when that happens it will create a de-facto U.S. dollar devaluation. This means higher commodity prices…and higher inflation. We're already seen $3/gallon at our neighborhood gas pumps. If oil continues to climb, so will that number.

So, why you ask, am I expecting a positive market in 2011? The answer is simple: The Tax-Cut extension that was signed into law at the 11 ½ hour. This bill will keep tax rates where they are for another two years; AND a 2% cut in FICA taxes will put more money back into taxpayers pockets & should help the employment picture; AND (drum roll please) …capital gains & dividends will continue to enjoy a 15% top rate.

This is BIG! It means more cash in the economy which should juice consumer spending across the board. This is so important, in fact, that Mark Zandi - chief economist Moody's – upped his economic forecast to 4% from 2.7% after hearing the news. Standard & Poor's estimates that investors will pocket an additional $74.5 billion over the next two years.

Combine this bill with the healthy corporate balance sheets, improving corporate profits and an economy which appears to have stabilized for the moment, and the result is that we're more likely to be playing checkers in the coming year than agonizing over our 7th upcoming chess move.

WHAT TO DO NOW?

INVESTMENT IDEAS FOR 2011:

1) **The falling U.S. dollar is driving up the prices of commodities. Research 2 sectors: mining companies, and companies that help feed the world.**
2) **Buy shares of companies who are getting most of their profits from overseas.**
3) **Treasuries are considered by many analysts as being in 'bubble territory'. STAY AWAY! Same thing goes for Municipal bonds & bond funds.**
4) **Stick with companies with strong balance sheets that make things we NEED.**
5) **Be willing to pay up for dividend paying stocks. They represent *real* money in your account every quarter.**
6) **Re-balance your portfolio. Look at ETF's for some help. This sector has exploded from a $70 billion industry in 2000 to about a $1 trillion this year. They can really help by providing a basket for an entire sector.**
7) **Diversify your investments among stocks, bonds, countries, commodities, currencies, precious metals, etc.**

MISCELLANY : USEFUL TIDBITS!

How does the federal government spend your money? Find out at a website designed to show you: http://media.journalinteractive.com/documents/edit-112110.pdf

How does your state government spend your money? Go to

http://www.truthinaccounting.org/national_reports

The best way to find TV shows is through the web site www.clicker.com. It has more than 12,000 show listings which include over 750,000 episodes.

For more recent episodes of network TV shows, go to www.hulu.com

If you want to learn a variety of dance steps with both video & written instructions, tap your way over to www.ballroomdancers.com

Is free stuff interesting? Of course it is! For free on-line photo editing go to www.citrify.com

Finally, a '*golden rule*' to help you determine when to sell a stock (**winner or loser)…**ask yourself "would you buy it again at today's price". If YES - **keep it**. If NO – **sell it.**

Does Your Advisor Have Your Best Interests At Heart… Or Your Money At Heart? Dalbar Inc. (financial services research firm)

Since the meltdown that took place in the financial industry in 2007/8, financial reform legislation has been on the front-burner in Congress. In 2011, the SEC is expected to tackle the thorny issue related to 'fiduciary vs. suitability' standards of care that must be given to individual investors by their advisors.

According to the results from several recent surveys, trust was named as the most important factor when evaluating financial services providers. 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, does size connote trust?

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 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 is a decrease in performance of ***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.

Jack Waymire, founder of the Paladin Registry (a free public services firm for investors) and author of **'Who's Watching Your Money?'** had this to say. 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.

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.

The 10 *MOST COMMON mistakes Investors make… and what not to do in 2011!*

Mistake No. 1: Procrastination.
The longer you wait to begin investing, the less time you have. Every day you delay is a day of opportunity lost that you can never get back again.

Mistake No. 2: No written plan.
Different articles published in *Fortune* magazine, Money Magazine, MSN Money, Kiplinger's and others have stated that people with written financial plans end up with **two to five times** more money during retirement than those without written plans.

Mistake No. 3: Taking too much risk.
Investing requires taking some risk and there is a direct correlation between risk & reward. Some investors take on too much risk for their comfort level. The right amount of risk will maximize your returns while still letting you sleep at night.

Mistake No. 4: Taking too little risk.
Some people are paranoid about the thought of losing money. Very low risk however, almost always equates with low returns. The good & bad news is you're living longer…**that costs money** and inflation will remove a huge chunk of it.

Mistake No. 5: Paying too much money to others.
Fees. Fees. And more fees. Some are overt, but not really talked about. For example, mutual fund investors throw a lot of money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's. Some are covert. Like, the ongoing expenses these funds charge (usually in excess of 1% annually).

Mistake No. 6: Trusting institutions.
BANKS: A classic conflict of interest. Your best interests are served by accounts that pay the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all.
BROKERAGE HOUSES: Their first responsibility as a public company is to their shareholders…not their clients. Who do you think the broker thanks for his 2010 Wall Street bonus?

Mistake No. 7: Accepting investment advice and referrals from amateurs.
If you had a serious illness, I hope you'd consult a doctor, not somebody on the street who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.
Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts.

Mistake No. 8: Letting emotions – especially greed and fear – drive investment decisions.
There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak.
Greed blinds investors. Too often, greed prompts many investors to stuff their portfolios with aggressive assets that frequently lose them money.

Mistake No. 9: Focusing on the wrong things.
It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds and timing the market. That is not a good bet!

Mistake No. 10: Not understanding how investing works.
Diversification- putting together non-correlated asset classes. The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others.