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"

May 2011

"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will"...............Warren Buffett

This month's quote offers some great advice from the sage of Omaha! There are a great many moving parts in the markets today and it's going to take a lot of analysis and reasoning to figure out your best moves to protect your nest egg.

I've frequently been on about the enormous amount of debt that we carry as a country. This, I believe, will eventually lead to bad things for the average American. It is quite feasible to see the day when our almighty dollar is relegated to something less almighty. If/when the day comes that the greenback is no longer the world's reserve currency, our standard of living is going to change dramatically!

Everyone, by now, has heard that Standard & Poor's has revised their outlook for the U.S. triple-A debt rating from stable to negative. This is huge! In fact, right now, 6 states have a stronger credit rating than the federal government…(DE. MD. MO. IA. MN. IN.) as do companies like ADP, ExxonMobil, Johnson & Johnson and Microsoft.

Several of our very important trading partners are now trading in their local currencies with each other (bypassing the U.S. dollar). If China buys Brazilian soybeans, or Brazil buys finished goods from Russia, they are paying each other in Rubles, Yuan and Real. India and South Africa are also part of this group. The oil producing countries may follow.

No matter how you slice it, the dollar is losing value. Bill Gross, founder of bond giant PIMCO, sold all his Treasuries earlier this year. He has since gone one step further. He has now gone 'short' U.S. government debt. His contention is that, absent very large entitlement cuts, the government will likely promote a quasi-default on our debt by deceptively overseeing the decline of our dollar, leading to paying debt with inflated dollars of lesser value. If you think this can't happen, there is some precedence to this.

Since the founding of the Federal Reserve in 1913, the dollar has lost 97% of its value. O.K., so 1913 was a long time ago. Let's bring this into a more recent vintage. A 1970 dollar is worth….$0.18 today. Now that's what I call inflation. If this seems absurd to you, I can tell you I bought my first brand new car in 1973 for just over $2000. This also highlights the reason that I continually stress the need to factor in significant inflation in your retirement calculations, as well as a much longer number of retirement years.

All of which brings us back to the Federal Reserve and their role in today's economy. Quantitative Easing better known as QE2, will be ending in June. What can we expect when this happens? Let's check on some history here. The chart below shows what happened to the S&P 500 when QE1 ended in May 2009…it dropped 16%...only to be revived when Bernanke hinted at QE2 last September. Since then the market has rebounded 27%. Not bad.

But, Big Ben is no dummy. To smooth the transition he may simply re-invest maturing securities back into new Treasuries. I'm including a link here to a very interesting depiction of our situation entitled SPEND, SPEND, SPEND. It's well worth the 2 ½ minutes to view it.

http://www.youtube.com/watch?v=mb_IhD0_MD8&feature=related

Spending money (& printing money) we don't have will lead to inflation. Although your retirement benefits will stay the same in the number of dollars you receive, they will not go as far. This means that you have to invest to grow your money for as long as you're going to be around.

Rules for the Investing Road

A big part of financial planning is removing as many variables from the equation as you can. Leaving as little as possible to chance. So, let's examine a few facts and what they mean to your investments.

1. A weak dollar means that companies earning a lot of their profits overseas will repatriate those foreign currencies and get a higher exchange back into U.S. dollars. This improves profits which leads to higher share prices.

2. Commodities priced in U.S. dollars will rise as the dollar falls in value. Really, what this means is that those of us who only have dollars to spend, will spend more on oil, rice, wheat, cotton, etc. Others, however, possessing Yuan, Rubles, Rupees, Real actually spend less because their currency has an increased value against the dollar and therefore will go further. This bids up the price of affected commodities.

3. Precious metals. Everyone is talking about gold. My two favorite quotes here are from Mark Twain, 'a gold mine is a hole in the ground with a liar on top'. The other from Warren Buffett, 'Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it'. He is obviously not a big fan. Nonetheless, both gold and silver may have a small place in your portfolio. Both are an inflation hedge and maintain their value over the long term.

4. Since the catastrophe in Japan, there's been a universal shunning of nuclear energy. Some of the loudest outcries have come from groups within the United States. (The U.S. is the 2nd largest producer of nuclear energy in the world; Japan is 3rd). Like it, or not, nuclear is not going to go away. It can't. With energy needs expanding faster than we can keep up, there is no way we could replace the 13-14% of global electricity that it produces. Like precious metals, uranium may have a role in your portfolio.

5. When it comes to buying shares in a company, make sure that you don't overpay. In this market, I've seen companies selling for 10x sales. This is times sales…not times profits. That's ridiculous. Historically paying one to three year's worth of sales for a good business is a good price.

6. Warren Buffett's favorite indicator to judge the health of the economy is rail car loadings. If their moving freight, manufacturers are producing. Check this periodically. It provides a reality check against what politicians are saying in Washington.

7. Charlie Munger, Warren Buffett's partner, has 3 buckets he uses for investments. "YES", "NO", TOO HARD". If it's too hard to wrap your mind around, it probably doesn't fit.

8. Another indicator to look at is insider trading. Not the illegal kind...the kind where executives are buying or selling their own stock. Selling is not a very good indicator because there are a myriad of reasons why a CEO might sell stock. Pay for his daughter's college. Diversifying his portfolio, etc. What is a good barometer however, is when he or she is buying. No one knows the company better than the people who run it. If they're buying, this is bullish and usually profitable.

9. Companies raising dividend payouts can and do withstand stock market volatility better than all others. There is a flight to safety when we start hitting potholes on the road to prosperity. So, while we may have to wait for market conditions to improve, we can do so and get paid at the same time.

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☺Starting this year, Social Security will no longer be mailing out statements to anyone under the age of 60. You will have to go online to obtain them at www.ssa.gov

Where does an investor go for yield?

There are still quite a few places where you can get a yield on your investments that won't require a magnifying glass to see. Many people are fearful and/or intimidated by the bond market and therefore gravitate to bond funds. This can be a very costly mistake.

As a help this month, I thought I'd run through some of the bond basics to help you navigate this market. To begin with, let's identify the types of bonds that are available for purchase.

*Treasury bills, notes & bonds.

*U.S. agency bonds.

*Municipal bonds.

*Foreign bonds.

*Corporate bonds.

We'll take a look at the corporate bond market, where there are still some nice yielding securities.

Let take a look at the rating system so you know what you're buying.

Moody's	S&P		
Aaa	AAA		Prime
Aa1	AA+		High grade
Aa2	AA		
Aa3	AA-		
A1	A+		Upper Medium grade
A2	A		
A3	A-		
Baa1	BBB+		Lower Medium grade
Baa2	BBB		
Baa3	BBB-		
Ba1	BB+		Speculative
Ba2	BB		
Ba3	BB-		
B1	B+		High spec.
B2	B		
B3	B-		
Caa1	CCC+		Substantial risk
Caa2	CCC		Extreme spec.
Caa3	CCC-		In default
Ca	CC		
	C		
C	D		In default

You may be wondering what the real risk of default is for these various bond grades. In a nutshell, Investment grade bonds (AAA - BBB) have a default ratio of 0.36%. Basically, at 1/3 of 1%, you could say they really don't default all that much.

Next, BB bonds default about 1.5% of the time. B's are 7%. Once you get into the CCC rated bonds you see default rates 14% and higher. But even then, it's important to remember that bondholders usually get something back…even in bankruptcy.

This next point is one of the most crucial for bond investors. **The shorter the duration before the bond matures, the greater the safety.**

You have 4 major risks with bonds:

1. Interest rate risk. If rates go up, your bond price will go down.
2. Credit rating risk. If they go down after you buy a bond, your bond price will go down.
3. Economic/Political risk. Global events can have a spill-over effect to every major industrialized country, again, affecting bond prices.
4. Cash flow risk. Poor cash flow may mean an interest payment is missed. If this happens, the bond price will go down.

When you buy a bond, it's yours. It belongs to you like the spare tire in the trunk of your car. There are three components to a bond purchase.

1. A set loan amount

($1000 at par when issued and again at maturity).

2. A maturity date anywhere between 1-30 years.
3. A yearly interest rate between 1-20%.

(The higher grade bond the lower the rate offered)

Now, for an example of what you might see and what kind of yield you might get. Let's say you buy a bond for $900, with a 6.5% yield, maturing in 2014. If you hold the bond till it matures, this is what you made:

Interest	$65/year for 4 years	= **$260**
Gain on bond	$1000-$900	= **$100**
Total profit in 4 years		= **$360**
Original Investment		= **$900**
		= **40%**
Average gain/year		= **10%**

I would caution you not to try this alone until you have experience of what you're doing. You can call an advisor or broker who deals in bonds who will be able to guide you through the process. Until you know what you're doing, start small.

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

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