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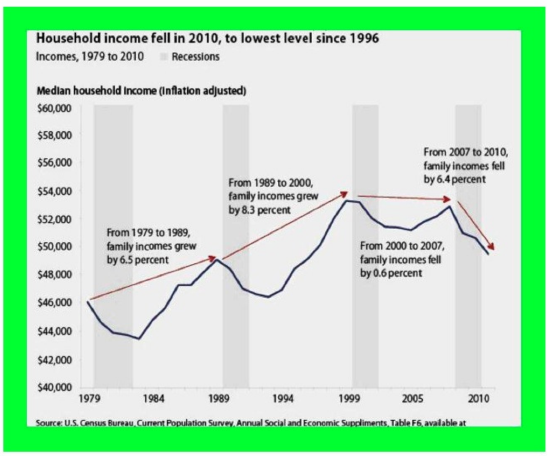
SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

November 2011

Nero Fiddled While Rome Burned

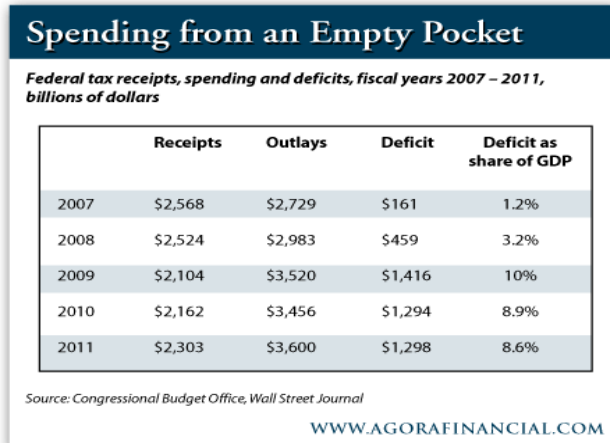


As hard as it is to believe, the above picture graphically illustrates the level of decline we have gone through in this country over the past 20 years. The median household income today, is where it was in **1989!**

On October 3, 2011 the Standard & Poor's 500 index ended the trading day at 1099.23…the exact same level where it closed on the exact same day in 2008. The unemployment rate 3 years ago however, stood at 6.1%; a stark contrast to the 9.1% today.

On December 30, 1998 the S&P 500 was at 1244. That's just about where we are today in October 2011. Our nation's spending habits haven't fared any better. The next chart shows how we have grown our deficits since 2007. As a percentage of GDP, we have increased deficit spending more than sevenfold.

The architects of our economy have obviously not done a very good job.



Spending from an Empty Pocket

Federal tax receipts, spending and deficits, fiscal years 2007 – 2011, billions of dollars

	Receipts	Outlays	Deficit	Deficit as share of GDP
2007	$2,568	$2,729	$161	1.2%
2008	$2,524	$2,983	$459	3.2%
2009	$2,104	$3,520	$1,416	10%
2010	$2,162	$3,456	$1,294	8.9%
2011	$2,303	$3,600	$1,298	8.6%

Source: Congressional Budget Office, Wall Street Journal

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There is more than enough blame to go around for our current state of affairs. Congress…the Federal Reserve (think bubbles)…both political parties have been actively involved in creating this 'not so pretty' picture. Now what we need is some forward planning and the tackling of national problems that are NOT going to go away by themselves. What we need are politicians that have more interest in handling the issues instead of their re-election campaigns.

The issues that need to be wrestled with are pretty straight forward: Get spending under control; Adjust entitlements that we can't afford. Create a business environment that promotes growth in commerce and employment. Take a leading role in an educational system that directs kids into 'employable' degrees and areas of study. Can we do it? To take a quote from Oscar Wilde: 'the basis for optimism is sheer terror'.

Are we there yet?

It's time to take Nero's fiddle away!

4 Simple Rules to Investing Success

1. Long term fundamentals are the cornerstone to stock selection. A company's earnings are what you are buying when you buy a stock.
2. The market moves on emotion…not on logic. In his book *How to Be Rich* , J Paul Getty wrote, 'Owners of sound securities should never panic'.
3. Al Goldman of A.G. Edwards advised to 'buy at the wake; sell at the wedding'. It pays to be a contrarian.
4. Perspective & patience pay off.

3rd Quarter Earnings Season

Thus far it's been a very good earnings season for our stocks in particular and the market in general. As of this writing, 60% of S&P 500 companies have reported earnings and 75% of them have beaten estimates.

As I stated back in early August, I still believe that the Dow has a good chance of ending the year at 13,000. It won't be a scenic route, but it's the destination that counts. According to Thomson Reuters, analysts expect the S&P to earn $98 a share in 2011…and $111 in 2012. That's a P/E of less than 12!!! That's cheap, cheap, cheap.

*The market, on an absolute basis, is cheaper today than it was three years ago.

*Company earnings today continue to set all-time records.

*Many companies are trading at less than 10 times cash flow.

*Corporate balance sheets are the strongest they've been since the post war 1950's.

*The Federal Reserve has stated that rates will remain at all-time lows for at least two more years. This is VERY accommodative for the stock market.

*We have had 9 consecutive quarters of GDP growth. Not great growth, but heh, growth is growth.

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☺ If you are interested in checking out a financial advisor's background, you can do so by going to www.finra.org or www.brightscope.com

☺ Having a hard time keeping track of all your stuff? www.knowyourstuff.com can help. In case of disaster you can still access your information from any computer.

☺ The North American Securities Administration Association has just released its annual list of the top 10 questionable financial products and practices. You can find them at www.nassa.org

Can You Count on Dividend Income?

One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Possibly, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk losing what could be a significant portion of your income should the company decide to discontinue their dividend payments. With a diversified portfolio, your regular dividend income stream could continue, buffered by the on-going payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly-regulated markets such as electric utilities are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

Another way to invest in a diversified portfolio of high-quality dividend-paying stocks is to choose a dividend income Exchange Traded Fund (ETF). A dividend income ETF offers diversification in a mutual fund investment environment. Please note, however, that stocks, ETF's and mutual funds are investments that involve market risk, and investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than the original value.

Should You Risk Keeping a Highly Appreciated Investment?

What do you do with an investment that has gone up in value? For some people, the threat of a large tax bill keeps them from selling, even if they know the investment's growth has thrown their portfolio out of balance.

So what is more important: Saving tax dollars or reducing risks in your portfolio? Depending on the investment's value, your other assets, and your time horizon, taking profits and paying taxes now could potentially make more sense than assuming a greater risk of loss down the road.

Here are some questions you should ask if you have a highly appreciated asset or investment that you are considering selling:

Have you held the investment for at least one full year?

If you have, then the gain could be subject to the lower capital gain taxes. If not, any profits you realize from its sale will be taxed at your ordinary income tax rate which in many cases could be higher than your capital gains tax rates.

Will your taxable income decrease in the future?

If so, you may fall into a lower tax bracket and qualify for a lower tax rate on long-term capital gains later on. Right now, the long-term capital gains tax rate is 15% for taxpayers in the 25% tax bracket or higher.

When do you expect to need the money from the investment?

Maybe you don't expect to tap this asset for another 5 or 10 years. But doing so could possibly expose your portfolio to a greater degree of risk over the long term.

The capital gain taxes may be a relatively smaller price to pay for the comfort that comes with a properly diversified portfolio. Plus over time, your diversified investments might potentially be able to recover the full amount you paid in capital gain taxes. Although diversification does not guarantee against the risk of loss in a declining market, it can help you to reduce the market volatility risk of your portfolio.

Do you need the investment at all?

If you feel you have sufficient funds to last the remainder of your life, you may never need this investment at all. That being the case, you may consider leaving the investment alone and letting it pass to an heir upon your death. Whoever receives the investment might be able to assume a step-up in cost basis, resulting in a smaller capital gain tax bill.

You Might Live to 100?

Live to 100. Sounds great! But what are the downsides? "How can there be downsides?" you may ask. After all, you'd have more time to golf, go fishing, and spend with the grandkids. Well, the risk may be that if you hadn't planned to live that long you could end up running out of money.

So how long of a retirement should you plan for? According to the IRS, a 70-year old person is expected to live for 17 more years to age 87. However, this is an average. Half of the 70-year olds will live longer and half will not.

Therefore, a 70-year old individual who is basing his or her retirement plan and spending habits on living to 87 is rolling the dice. Furthermore, when you consider that there are more than 70,000 U.S. centenarians who represent the fastest-growing segment of our population, there is reason to take notice.

However, planning too conservatively could be detrimental as well. After all, you don't want to cut your standard of living down to the point that you'll be miserable. And of course, you always have the option to make adjustments in your spending as time goes on.

All of this comes down to two simple facts: You can control how long your money will last, but you only have a limited ability to predict how long you will. So what can you do to reduce the risk of running out of money too soon?

A fixed immediate annuity offers an income that will continue for a lifetime, no matter how long you live. And it will help you plan for the possibility of living to 87, 107, or beyond.

For a no-obligation consultation & illustration, please call my office at 908-236-7500 to make an appointment to come in.

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