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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

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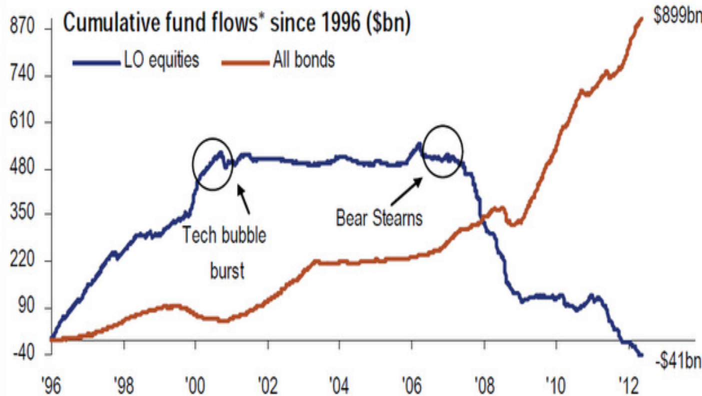
Timing has a lot to do with the outcome of a rain dance *an old farmer's saying*

The pessimism surrounding the stock market these days is palpable. Investors are truly running for cover. A look at the chart below will illustrate that since 2007 over $500 billion has flowed out of stocks...whereas almost $700 billion has flowed into bonds.



* data 1996-2002 from Lipper FMI; 2002-onwards from EPFR Global
Source: BofA Merrill Lynch Global Equity Strategy, EPFR Global, Lipper FMI

Much of that bond money has gone into the Treasury market which, after taking into account the rate of inflation, is actually giving you ***negative yields!*** The fear of the average investor is costing many the opportunity of growing their portfolio.

It's important to realize that you cannot jump in and out of the market. By the time the news turns good, you've already missed most of the upward move. You can have low stock prices or good news…but you can't have them at the same time.

A recent study showed that in 2009, a year that saw the S&P 500 gain 24%, one-third of that gain came in just 10 consecutive trading days. Other studies, including a most important one from the Office of the State Treasurer of Massachusetts, reviewed a period of 10 years, through a bear market sandwiched between two raging bull markets – 12/31/96 through 12/29/06 and concluded the following: .

(this is a slide from one of my seminars)

"SIT IT OUT STRATEGY"

According to a report issued by the Office of State Treasurer of MA.

(12/31/1996 – 12/29/2006)

Investment period	Average annual return	Growth of $100000
Fully invested	8.42%	$220,440
Missed 5 best days	5.67%	$170,352
Missed 10 best days	3.41%	$130,980
Missed 15 best days	1.44%	$110,536
Missed 20 best days	-0.38%	$ 90,629

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So. Timing is not the solution.

Also, as much up-and-down that we've seen in the market so far this year, it's important to keep in mind that the S&P is still ahead by about 9%. As I write this newsletter the market is currently at 1386, which is a lot closer to the high for the year than it is to the low.

What many people are failing to see is that there are better places to put money, and that you **can** generate a positive yield; even in this stingy environment.

We are all acutely aware that the stock markets have not been particularly generous in building account values over the past few years. But running to Treasuries is the last place you want to run to. If done properly, and depending on an investor's tolerance for risk, there are investments that can and do provide very positive yields with not a lot of risk.

For Example:

Municipal bonds may not be a bad place to look, particularly for people wanting the assurance of government involvement. These bonds don't pay a lot of interest, but they are tax free if you get them from your state of residence. And if you're in the 25% tax bracket, that's like getting an extra 25% of interest.

I can hear many out there saying, 'is he nuts?' California, which is one of the largest municipal bond issuers in the country, has seen their cities dropping like flies: Vallejo; Stockton; Mammoth Lakes; San Bernardino. The stigma of Chapter 9 appears to be less of a stigma for some communities. But nonetheless, hear me out.

Muni bankruptcies are still pretty rare. There have been a total of 26 municipalities that have filed for bankruptcy since 2010. All but 6 were filed by lesser-known taxing agencies such as local utility authorities, hospitals and other special districts.

If you're looking at municipal bonds, one of your safest choices is going to be essential services bonds: water & sewers come to mind. These bonds are backed by customer payments. No matter how bad things get, almost everyone will continue paying their water and sewer bills. Going without either is just not an option.

Another good area to look at would be bonds for toll roads…particularly in crowded areas. Again, people need to get to work or go places and, like it or not, they have to pay the toll. No toll – no roll.

For those of you who are more risk tolerant, look into the preferred share class of security. These shares are a hybrid between bonds and company stock. Although you cannot vote your shares, they do offer higher dividends than ordinary stock and place you higher up in the pecking order in the event of a company failure. Just be sure to seek out investment grade firms, and keep your eye on potential interest rate increases by the Federal Reserve.

There are many other options, but in the interest of space, I'll give you one more. Master Limited Partnerships. These are your oil & gas pipelines and natural resources companies as well as the companies transporting such commodities. They, through their charter, must pay out 90% of their income to their investors, which can provide you with a generous dividend. But, like all investments, just be sure to do your due diligence before diving in.

HOUSING…are we past the worst?

Evidence is beginning to mount that we have not only put in a bottom in the housing market, but we may have actually entered into a recovery. The Federal Housing Finance Agency issued its monthly report this past week and it showed that we have had 4 consecutive months of house price increases, going back to February.

In fact, going back to May 2011, according to their report, home prices have increased 3.7%. If what they say is true, it would mean that this annual gain would be the largest increase going all the way back to September 2006. Zillow, the real estate web site, also reported home prices rising slightly in the 2nd quarter from a year ago, which is the first annual increase in five years.

"After four months with rising home values and increasingly positive forecast data, it seems clear that the country has hit a bottom in home values," Zillow Chief Economist Stan Humphries said in a recent interview.

Zillow also said that home values rose 2.1% from the first quarter of 2012 and 0.2% compared to the second quarter of last year…making it the first increase year-over-year since 2007.

Realtor.com also reported a few weeks ago that the average home spent just 84 days on the market last month, and that in 10 housing markets homes actually spent 24 days or less. Believe it or not, some of the biggest improvements have come in areas such as Phoenix, San Jose, Oakland/San Francisco, Miami, Denver, Las Vegas, etc.

I know many people out there are reviled, and recoil at the name of Goldman Sachs, however; they still have some of the smartest analysts on Wall Street. When they issue a report it is always worthwhile to read it.

They said, "with mortgage rates hovering around record lows, housing starts rallying to four year highs, an increase in residential construction spending, and augmenting home prices, we feel the housing sector has gained traction and is one of the rare bright spots in the gloomy U.S. economy."

In a client note issued on July 24th they upgraded their view on the housing sector from Neutral to Attractive.

This brings me to the point of how you can invest in real estate and housing without becoming a landlord. It is through Real Estate Investment Trusts (RIETs). A REIT buys up properties, mortgages, land and anything having to do making money off real estate and then passes on 90% of their income to the investors who buy their shares. They come in two main flavors: Mutual Fund & Exchange Traded Fund.

Like the Master Limited Partnerships they can provide some very attractive payouts, but like everything in life, you need to know exactly what you're buying.

I have read numerous reports by different research firms really promoting the diversification aspect of having real estate in your portfolio. (which is not a bad idea). They are also pushing Global Real Estate funds as a way to do this. (again, not a bad idea). Where the caveat comes in is to ensure that you know where the real estate is located.

We all know what happened when the real estate bubble burst in the United States. It took a significant part of our net worth away. There is another bubble out there right now that looks all too familiar when compared to 2006. It's our neighbors to the north.

If you Google "Canadian real estate" or "Canada housing" or something similar, you're going to have page 1 of the results dominated by ***'bubble'*** language.

Here's a sample of some Canadian real estate in Vancouver.

This incredible bargain, center page, is listed for a cool $1,180,000. Is this a steal, or what? As the actor/comedian Richard Pryor said to the realtor when buying his first home in Beverly Hills back in the 1970's, and was told it was a $1,000,000 steal. He quickly asked: "Let me get this straight. Am I stealing from you or, are you stealing from me?"

Now, most of us know that Vancouver has always been an expensive city to purchase real estate…but really! According to an article in Toronto's Globe & Mail, the average home price in Canada in June 2012 was C$369,339. The average household income for 2010 was C$69,860.

These numbers equate to the average house price in Canada costing 5.2 times annual household income. At the peak of the U.S. housing bubble in 2006, the average home in the United States cost US$246,500. Median household income was US$48,201, for a multiple of 5.1 times. Kind of scary, don't you think?

The point here is to make sure you understand what properties the REIT owns before jumping into the water. Good places to start may be investments having ownership in nursing homes. Retirement communities. Medical centers. Etc.

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☺ If you're travelling sometime in the future and are unsure of what the 'tipping' customs dictate, find out at www.kiplinger.com/links/traveltip

☺ Get the best car rental deal at www.autoslash.com

☺ If you have a smart phone and want some useful apps, get the free CAMCARD LITE app. You take a photo of someone's business card and the app will store the image then transfer the information to your address book.

The free LEMON app will do the same for your expense receipts.

☺ To get the best possible deals, you have to know when to buy. Here are some examples:

***Televisions**	**February**
***Cruises**	**January thru March**
***Appliances**	**Labor Day weekend**
***Furniture**	**January & July**
***Airfares**	**Tuesday 3p.m.**

☺ You can get 'free' online courses through Harvard, MIT and Stanford. These are not credit courses but they are the same courses they offer paying students. Go to their web sites for details.

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 fund. A dividend income fund offers diversification in a mutual fund investment. Plus, a fund offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf. Please note, however, that stocks 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.

Can You Retire On High-yield Bonds?

Most financial advisors will tell you to invest your retirement funds in a diversified portfolio of stocks, because over a long period of time, such a portfolio could potentially outperform a diversified portfolio of bonds. That may be good advice, if you have time to ride out stock market volatility. But what if you don't have 40, 20, or even 10 years until retirement?

If you're in you're in your fifties, sixties or even seventies, and you're worried about a retirement shortfall, this traditional wisdom may not apply—and high-yield bonds may be appealing.

First, bonds may offer some tax advantages over stocks when invested in a tax-deferred retirement account, such as an Individual Retirement Account (IRA) or 401(k) plan.

When you deposit your retirement funds in a tax-deferred retirement account and invest it in stocks, and distributions are made from that account, they're taxed as ordinary income. That could potentially be more than 25 percent for earners in the higher tax brackets.

On the other hand, if you invest that money in a taxable account, and invest it in stocks, the earnings would be taxed at the capital gains rate, now just 15%.

So, it may be a good strategy to invest your non-qualified money in stocks and your qualified money in an account whose returns are taxed entirely as ordinary income—which is usually the case with bonds. This way you enjoy tax deferral.

But why *high-yield* bonds? Because they offer potentially higher returns and may not be as volatile as stocks. If however, you are worried about the risk of bond issuer bankruptcies, consider instead a mutual fund which focuses on high-yield bonds. The fund diversification will provide you with greater safety. And yes, high-yield bonds typically have poorer credit-ratings from agencies such as Standard & Poor's and Moody's Investor Services. But that shouldn't necessarily scare you away. Along with the increased risk can come potentially higher returns.

Many 401(k) plans don't offer a high-yield bond investment option, but your IRA may. If so, you may want to consider it. But remember, I don't recommend that you buy individual bonds, which can take a significant amount of expertise and research.