**MACMILLAN FINANCIAL**
**JOHN MACMILLAN, CHFC**

**P.O. BOX 66**
**ANNANDALE, NJ, 08801**

**T: (908) 236-7500**
**F: (908) 236-7511**

**WWW.MACMILLANFINANCIAL.COM**

# SENIORS/BOOMERS NEWSLETTER

**"THE RETIREMENT EXPERTS"**

**December 2012**

## The beatings will continue until morale improves!

This is how I feel we're being treated by Congress. As we continue to approach the dreaded day of January 1, 2013 and the consequences of the ineptitude our elected representatives (check your village…you're probably missing an idiot) the time to prepare for change is now! There is a very strong likelihood that we will pay more taxes, in one form or another, next year.

Just this week Erskine Bowles, of Simpson-Bowles Commission fame, said "I'm really worried. I believe the probability is we're going over the cliff". To back up this concern, so far there have been more than 100 companies announcing a special dividend payout before the end of the year.

The biggest consequence of not getting the job done before the end of the year is that we will see a combination of lower spending and higher taxes that is expected to remove $600 billion from the economy. Recently the International Monetary Fund stated that $1 of deficit reduction could drain as much as $1.70 from the economy. This would be a dangerous situation.

A new recession in 2013 is not what we need in order to improve the labor market. As it is, many of the S&P 500 companies reported lower earnings in the 3rd quarter. (You can only cut expenses [people] so far before sales growth must take over). Hiring is already expected to be muted next year and will remain so until we get a resolution to all those threads of uncertainty that are hanging over us.

In the meantime, the Congressional Budget Office put out a sobering report explaining that a failure to compromise by the two political parties would result in a shrinkage of 0.5% to the economy and see the unemployment rate soaring from 7.9% up to 9.1%...and those are the Bureau of Labor Statistics numbers which are far from the ***real*** numbers (see chart below).


Here are some more figures from the CBO. In 2013 (again if nothing is agreed to) Federal tax revenues are due to jump by almost $475 billion. WOW. An increase in revenues! This sounds good, until you break down the numbers:

☹ $161 billion rollback of the Bush tax cuts.

*$38 billion for reinstating 36% and 39.6%

*$22 billion dividends as ordinary income

*$6 billion long term capital gains at 20%

*$95 billion for other incomes below $250k

☹ $114 billion not indexing the AMT to inflation (this means 31 million taxpayers paying AMT in 2013 compared to just 4 million in 2012!)

☹ $120 billion rollback of 2% cut in payroll taxes

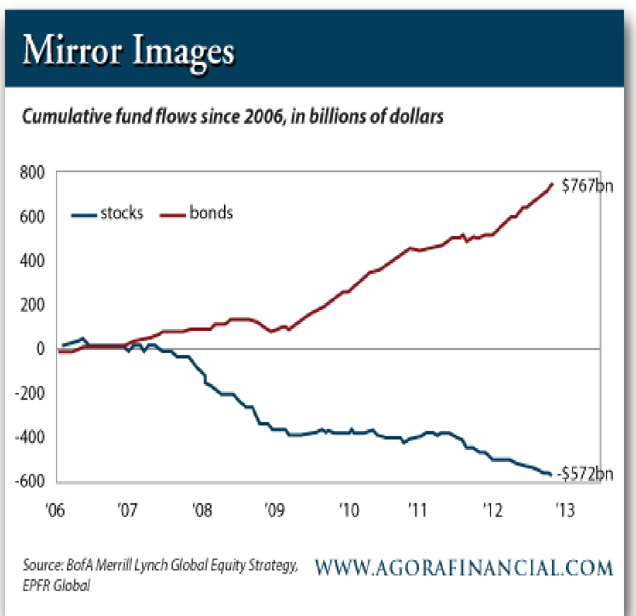
☹ $14 billion rollback in estate and gift taxes

- ☹ $23 billion tax hikes under Obamacare
- ☹ $41 billion rollback in stimulus cuts.

The situation is far worse for savers and retirees. The Federal Reserve has announced that they will keep rates at basically **"0"** through mid 2015. People on fixed incomes are naturally looking for yield. CD's & Money Market funds are paying either nothing or next to nothing.

The chart below shows the divergence of money going into bond funds vs. stock funds since the market crash in 2007. There is a bubble waiting to pop in Treasuries. The current yields are 0.17% for 5 years; 1.67% for 10 years and 2.77% for 30 years. Investment grade corporate bonds aren't much better.

What investors need to be aware of is what a rise in interest rates would do to their bond values. Duration, which I've written about several times before, comes into play. Essentially, what you need to remember is this: if your bond, or bond fund, has a duration of 8 years, a 1% rise in interest rates would de-value your bond by 8%. A 12 year duration with a 1% rise loses 12%, and so on. Two percentage points double that. Three percent - triple




So that's the story on bonds. Money Market accounts are another option…however; according to a Barron's report published earlier this year, most money funds have waived all or part of their fees (between 0.3 to 0.5%) in order to keep investors from actually **losing money** in their Money Market account.

Seventy-five percent of Money Market accounts are concentrated in only 10 firms. How long can Fidelity and Vanguard (the two largest) continue to lose money before **they start charging you** to hold your cash? As economist Herbert Stein was quoted as saying back in the 70's, "If something cannot go on forever, it will stop"☹

Meanwhile, we have frightening deficits which need to be financed. Did you know that the Federal Reserve is currently buying about 75% of all Treasury issued debt? Whatever happened to the normal purchasers by the bond markets and by foreign governments?

The New York Times wrote, "While the size of the public debt more than doubled over the last five years, from less than $5 trillion to more than $10 trillion, the government's annual interest payments remained about the same. In 2006, the bill was $226.6 billion. Last year the bill was $227.1 billion".

In 2011 the average interest rate paid on Treasuries was 2.24%. In 2006 it was 4.92%. Obviously, the reason the interest bill stayed the same over a 5 year period was because only half the normal interest rate was paid out. Otherwise, our bill would not have been $227 billion, but instead, $499 billion.

This certainly puts into perspective the compelling reason why the Fed and the Treasury **need** to keep rates low. Some analysts see this as a method being devised whereby investors, savers and retirees finance the federal debt by buying up that debt, because there is nowhere else to get any kind of safe yield. It would also suggest that much of this money would come retirement accounts. As Colonel Klink of Hogan's Heroes fame used to say,

" Interesting. Veeeery interesting"!

## HOW SHOULD YOU PREPARE FOR 2013?

Regardless of what happens in the next month or so, it's best to prepare our investments so that they can withstand whatever curves Washington and the economy throw at us. Below are some guidelines which I hope you find helpful:

1. Do not try to time the market. It can't be done. It's easy to get into cash. The hard part is knowing when to get back into stocks.

2. Your biggest and best defense is Asset Allocation. Within the allocation, diversify among different stocks, bonds, international companies, commodity/commodity producers.
3. Buy companies whose numbers demonstrate a healthy & growing underlying business. They'll still be here in 10 years.
4. Buy companies paying healthy & sustainable dividends. Notwithstanding all the press surrounding dividend rates going up, REMEMBER: if your income tax rate is 10 or 15%, then you'll see no effective change.
5. Include corporate bonds & preferred shares in the mix. Their coupon rates put money in your account regardless of what the markets are doing.
6. Buying great companies for the long-term is the way to build wealth.
7. If we believe that all the money printing will eventually reduce the value of the dollar and lead to inflation – Buying TIPS (Treasury Inflation Protected Securities) offers good protection.
8. A weak dollar will prove to be a profit oasis for companies getting more than half their earnings overseas.
9. With health care changes coming in 2013, managed care providers and insurance companies will take significant profit hits. Hospitals on the other hand should be poised to move higher.
10. Select companies making health care supplies as well as those reducing health care costs (like generic drug manufacturers) will probably see a profit boost.
11. When picking stocks follow the basketball rule: don't look at the hands; look at the hips. They will tell you the direction of the next move. Are institutional investors buying…or selling?
12. In volatile markets you can generate some safe income from your portfolio by selling puts on stocks you'd like to own at a lower price, or by selling covered calls on stocks you already own.
13. Keep your eye on the stock market moving averages. When the shorter average crosses above its next longer average, that's a bullish sign. Example: the 50 day moving average crosses the 200 day...also known as the golden cross. Always try to buy companies trading above their 200 day moving averag**e.**
14. Look for large cap <u>dividend paying</u> companies with strong exposure to overseas markets.
15. Beware of very high dividends.…anything over 7 or 8 %. There is frequently, not always but frequently, a fundamental problem with the company.
16. If you've experienced 10-15% drift in your asset allocations, this would be a good time to look at rebalancing your portfolio. Remember, an eight to twelve asset class portfolio will give you better returns with less risk.
17. If you're nervous about buying a new stock that you like, and wonder what the market might do next, consider dollar cost averaging into that position over a 3-4 month period.
18. Disregard the media noise. They're paid to sell advertising. The more they scare you the more advertising they sell. Only pay attention if it involves one of your stocks, and even then, take what you hear and check it out for yourself.
19. Make sure that you keep your short-term money needs highly liquid, and in FDIC accounts.
20. Don't make wholesale changes to a good investment plan!

## WHEN TO BUY AND WHEN TO SELL>

☺ The first thing you should do when you invest in a company is write down your reason, or reasons, for buying the investment. If the reason is still intact, then you should keep it.

☺ Next, write down when you would sell the investment. You do this at the same time as writing your reason for buying. This could be a price target or an expected return over a specific period, etc.

☺ Review this process at least once per year, or more often in turbulent markets.

☺ Maintain a trailing stop-loss.

☺ Check your company's valuation. Has it got ahead of its fundamentals? Is it overpriced compared to its industry or competitors?

☺ If your stock has not lived up to your expectations for yield or returns after a year or so, sell it.

☺ Can you find something better to invest in? If so, trading up is a good way to upgrade your portfolio.

☺ Don't let emotions rule when you buy or sell. This is why a trailing stop loss is so important.

☺ Would you buy more of the stock right now…or recommend it to a family member? If no, then it's also an indicator that it may be time to sell.

## MISCELLANY ☺

**☺ There are legal steps needed to be taken when your child turns 18.**

***durable power of attorney**
**(this allows you to discuss medical issues with his/her doctors)**

***health care directive**

***transfer the title to the car s/he drives**

***review any age based trusts**

***health insurance for children up to age 26**

***permission to access financial accounts**
**(if you're responsible for them…like college)**

**☺ According to Kiplinger's Finance these are the 10 most tax friendly states (based on property taxes, income taxes, taxes on pensions, social security, etc)**

1. **Alaska**
2. **Nevada**
3. **Wyoming**
4. **Mississippi**
5. **Georgia**
6. **Alabama**
7. **South Carolina**
8. **Louisiana**
9. **Delaware**
10. **Pennsylvania**

**☹ Now, here are the 10 least friendly (not many surprises here):**

1. **Connecticut**
2. **Vermont**
3. **Rhode Island**
4. **Montana**
5. **Minnesota**
6. **Nebraska**
7. **Oregon**
8. **California**
9. **New Jersey**
10. **New York**

**☺ Before you make your next big purchase, go to www.decide.com to find product reviews and pricing for hundreds of items. It will even tell you if the price is expected to go up or down. Excellent site!**

**☺ Mark your calendar for December 17th . This is Free Shipping Day. Go to www.freeshipping.org and get coupon codes for thousands of merchants.**

**☺ Another site will help you find your best deals for your holiday shopping. www.dealnews.com . Every day they post the best deals they find online from over 2000 retailers.**

**☺ At www.myrateplan.com the site compares your current cell phone plan with others available to see if it can find you a better deal.**

**Finally, the holiday season is upon us and I'd like to wish you and your family a very joyous month filled with love, laughter & happiness.**