MacMillan Financial
John MacMillan, CRFA, CLTC, CSA
P.O. Box 66
Annandale, NJ, 08801
T: (908) 236-7500
F: (908) 236-7511
www.MACMILLANFINANCIAL.COM

SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

January 2012

HAPPY NEW YEAR

"The last thing I want to do is hurt you. But it's still on the list". **Mr. Stock Market**

The above statement, of course, references the mauling we have all taken from the stock market the entire 1st decade of this new millennium. In fact, here's an interesting tidbit that crossed my desk this week:

On February 11, 1999 the benchmark S&P 500 was **1254**

On December 22, 2011 the benchmark S&P 500 was **1254**

That's almost 12 years of running **hard** on the spot!

Over this same time period, the dollar has lost more than 40% of its value.

O.K. So, how did we do **this** year? An investor could have put all his or her money in the stock market on January 1st of 2011, pulled a Rip Van Winkle and slept for the entire year, only to awake and find that the market was basically at the same level it was last January. Imagine. That poor sod would have missed all the excitement of 2011.

*the S&P 500 saw intraday swings of 2% or more on about 60 trading days.

*the index logged more than 30 days with gains or losses of more than 2%.

(the average for these stats - back to the 1950's - is 5 times/year)

This is depressing news! ***BUT*** this same news ushers in some pretty good news.

*The S&P 500 is now trading for about 12 times earnings. That compares to the average of 17 times. So…the market is cheap by historical standards.

*The Price/Book Value, (P/B) measures how many times book value the market trades for (the lower the better) has gone from 5 times book value in 2000 to around 2 times book value today. Again, that's pretty cheap. That's like buying Kraft Foods for only twice what the company is worth…if you broke it into pieces and sold off the individual parts.

Another metric to look at is the earnings yield. This is the reverse of the price/earnings (P/E)… except in reverse. So this works out to the following:

S&P 500 value of	1260
Divided by earnings of	$100
Equals	8%

That's pretty darn good when you consider that the yield on the 10 year Note is 2% and the 30 year Bond is 3%. I'll take 8% any day!!!! So the news going into 2012 looks good.

What we don't know, of course, is how Europe is going to resolve their problems. Where oil is headed? Are there any more flare-ups coming out of the Middle East? Is China really slowing down? Who knows??? Remember, however, the stock market climbs a wall of worry. So, let the climbing begin.

Why Dividends are so Important in 2012

As you all know I ***love*** dividends. They always represent real money going into our accounts every month…no matter what the stock prices are doing.

I particularly love dividend paying companies that ***increase*** their dividend payments every year. These dividend increases act like pay raises.

Let's say that you held a basket of stocks that paid dividends of $30,000 in 2011 and every one of your companies increased their dividend payout by 5%. That means that you will collect $31,500 in 2012. Not bad! Helps keep up with inflation.

Now. If you buy blue-chip stocks today that don't give you any nasty surprises over say, the next 10 years, (so you don't end up selling them) here's how the importance of dividends really come to the fore.

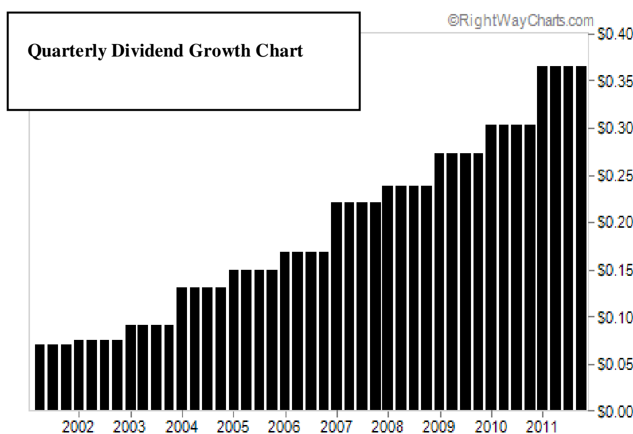
Without mentioning any names, there was a blue-chip technology stock that got beaten down to $15.27/share in early 2009. They were paying a dividend of $0.56 per share; or 3.7%.

Fast forward to the end of 2011 and this same company now trades for about $23/share. Forgetting the capital gain here, they also increased their dividend from $0.56 to $0.84/share.

The dividend ratio is still 3.7%, but because of the actual increased payout you are now getting an effective dividend rate of 5.5% on your original cost of just over $15.

The following chart gives you an actual view of another blue-chip going back to 2001. This company has grown their dividend every year for the past 10 years... through terrorist attacks, 2 severe bear markets, a housing boom/bust, 2 recessions, etc, etc, etc.

Their dividend growth rate has been 15.89%/year. From $0.05/quarter in 2001 up to $0.36/quarter this year.



Next, assuming that this stock has traded at a constant $20/share for the past 10 years but still managed to return money to its shareholders on an increasing basis, the dividend yield has gone from 1%/year all the way up to 7.4%/year.

Now, we get to the exciting part. At the current dividend rate of growth, after 17 years the dividends will have paid you back all the money you originally outlaid for the stock and your 'golden goose' continues to pay you an annual dividend, at that point, of over $3/share growing at a rate of 15%/year.

That, my friends is how the rich get rich!

MISCELLANY ☺

☺ If you're willing to hop on a plane, you can usually find significant savings on medical procedures outside the United States (frequently performed by American doctors) at www.patientsbeyondborders.com

☺ For those of you willing to take on some risk and excitement you can actually lend money to small businesses, and collect interest, by going to www.microplace.com

☺ If your web searches for long lost friends has come up dry, try going to a vast repository of web content not usually found on the internet at www.pipl.com

☺ Anyone wanting a cell phone but can't justify the cost or contracts of regular wireless options, you can get low priced options by going to www.net10.com
Example: 200 minutes within the U.S. for $20.

The 12 *MOST COMMON mistakes Investors make... and what not to do in 2012!*

Mistake No. 1: Procrastination.
Over your lifetime, waiting for the right time to get into the market can ruin your investments. The right time is NOW. Google- **'market timing'** -and you'll get over 10 million results. Aside from a few sites telling you "how to" do it (I call these snake oil salesmen) virtually all respectable sources will tell you it can't be done successfully over an extended period of time. The irony is 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.
If you don't know where you're going, any road will take you there! 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. If you don't have an investment plan that's right for you, developing one should be a top priority in 2012. **DO YOU KNOW HOW MUCH MONEY YOU'LL NEED IN RETIREMENT????**

Mistake No. 3: Taking too much risk.
Investment risk is not a theoretical concept. There is a very real possibility that you <u>will</u> lose money in the stock market. We've seen this twice in the past 10 years. Investing, by definition, requires taking some risk. There is a direct correlation between risk & reward. Some however, 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. Most investors don't understand what could go wrong with an investment when they make it… and they don't have a plan for what to do if things go badly. Having unrealistic expectations on how much an investment should appreciate will kill your portfolio. Most stocks don't make a major move of more than 20% in a short period of time. These are winners and, many times, should be cashed in.

Mistake No. 4: Taking too little risk.
To contrast Mistake # 3, some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low returns. If you put your emergency money in a bank account and earn 1, 1.25, or even 1.5 percent, you may think you're taking no risk. But in fact you are taking on the very real risk that **inflation** will rob your money of its purchasing power…not to mention the taxes you'll have to pay on the little interest you did earn. Among the *'safest'* investments today, you will find government bonds paying you a lofty 2% for a 10 year loan. When you factor in inflation, how much do you think you'll pay for a gallon of milk ten years from now? Also, think about all of our modern day medical miracles. The good news is you're living longer. The bad news is, you're living longer…**that costs money.**

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). Investment expenses take away a significant portion of an investor's annual returns in order to pay the fund managers and the sales commissions first. Be prudent about how you absorb fees. Typically, an Investment Advisor will save you a lot of money here.

Mistake No. 6: Trusting institutions.
This mistake is one of the least understood. Like, why shouldn't you trust your bank or brokerage firm? O.K. let's examine both and you decide how much you should trust their advice.
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, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually! Does your bank push you into unsuitable annuities or mutual funds where they may have sales agreements paying them a lot of money?
BROKERAGE HOUSES: They also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders…not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might…the brokerage house, probably not. And, guess who the broker works for and gets paid by? Who do you think the broker thanks for his 2011 Wall Street bonus?

Mistake No. 7: Believing publications & TV.
"Best Funds for Next Year and Beyond"
"The 100 Best Mutual Funds"
"These Stocks are Real Steals"
"Star Funds: Six Standouts You've Never Heard of"
Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class. Don't get sucked in! The investments being touted here were perhaps, last years' winners. This does not mean that they'll repeat this year. DO NOT chase performance.

Mistake No. 8: Failing to take little steps that can sometimes make a big difference.
Some examples:

- People fail to fund their IRA contributions by April 15th .
- People leave money in taxable accounts when it could more appropriately go into IRAs, Roth's, 401(k) plans and annuities where they will save taxes by having their money grow tax deferred.
- Some employees don't maximize their 401(k) plan savings.
- Others may not maximize their employer contributions in their 401(k) plan savings by simply putting in matching dollars. This is free money.
- Investors have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.
- People don't move their money from a checking account to a money-market deposit account at their bank. Or, they don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

Mistake No. 9: 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. Also, as I always mention at my seminars, "if it sounds too good to be true, it usually is".

Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.

The two most powerful forces driving Wall Street trends are greed and fear. 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 – and since everybody seems to be selling at the same time…prices DO go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. As I said earlier, if it sounds too good to be true, it probably **is too good to be true.** Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

There's another axiom in the investment business which has to do with trying to buy at the bottom or sell at the top. I call this the 20/60/20 rule. Those in the bottom 20% are trying to buy at the bottom and usually miss fantastic opportunities because the stock turned around and started heading north, and never came back their way again. They miss. Same thing goes for those trying to get out at the top. The stock makes a 'high' then retreats (maybe forever). They miss too. If you're satisfied in the 60% range you'll beat the other two types…hands down.

Mistake No. 11: 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 (which you cannot do). Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns! And, once you do have proper asset allocation, remember that it applies only for today. Re-balancing is how you keep it *re-balanced.*

Mistake No. 12: Not understanding how investing works.

Diversification…diversification…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. This year's asset class winners may be next year's asset class losers. Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably stayed way too long and lost way too much money.

GOOD LUCK IN 2012 !!!