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SENIORS/BOOMERS NEWSLETTER

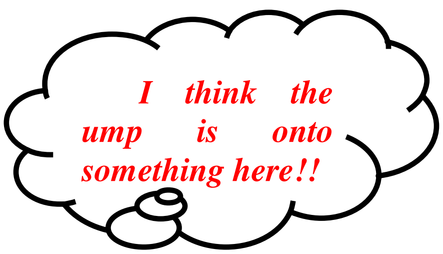
"THE RETIREMENT EXPERTS"

June 2012

" If you don't have time to do it right, when will you have time to do it over? "
John Wooden (basketball coach) 1910-2010

With just over 5 months till Election Day, I can barely contain myself with the excitement of the opportunity to make some changes.

Throw the bums out!



Our federal representatives have kicked the can down the road so many times, and on so many critical issues affecting the economy…that they have finally run out of road. And, who gets to pay the price for their incompetence? We do. You & me & our loved ones.

We can all be fairly certain that little, if anything, is going to be accomplished in Congress between now and Election Day. After that, our lame-duck Congress (AKA, the Keystone Cops) will have a MUST DO list to accomplish between November 6th and December 31st which is absolutely terrifying to look at. If they don't get the MUST DO list done, we all get to jump into the wooden barrel and take a ride over the fiscal cliff at Niagara Falls. So what happens January 1st, 2013?

☹ The Bush tax cuts are automatically going away. That means

- The top tax rate will rise from 35% to 39.6%. A rise of 13%
- Long term capital gains taxes go from 15% to 20%. An increase of 33%.
- Dividend income, currently taxed at a rate of 15% will jump up to 39.6%...this represents a 164% increase.

☹ Estate taxes will go from the current $5,120,000 exemption…back to $1,000,000, AND the estate tax is going to catapult from 35% to 55%.

The attached link will give you a very good synopsis of what some of the probable outcomes could be for estate taxes, based on how Congress, the Senate and the White House are occupied after November 6th. This was written by Bill Bischoff for Smart Money magazine.

http://www.smartmoney.com/taxes/income/preparing-for-taxmageddon-1337724496427/?cid=djem_sm_dailyviews_h

☹ A new Medicare Hospital Insurance tax is scheduled to come into effect which will be 0.9% of earned income over $200,000 for singles and $250,000 for marrieds.

☹ A 3.8% tax goes into effect, for these same individuals, on investment income.

☹ The medical deduction threshold for itemized unreimbursed medical expenses will go from 7.5% up to 10%.

☹ The Alternative Minimum Tax will affect 36% of taxpayers in 2013, unless it is repealed or 'patched' again for another year.

☹ 2% temporary payroll tax cuts come to an end after December 31st.

☹ Extended unemployment benefits phase out on January 2nd 2013. My mentioning this has nothing to do with the pros or cons of the program…only that it will remove a large amount of income and spending out of the economy.

☹ Automatic spending cuts go into effect January 1st (remember our Super Committee that really wasn't super after all). This means $1.2 trillion comes out!

- Our Defense Programs will be reduced from 10% to 8.5% by 2021 with savings of $454 billion.
- Non-Defense programs go from 7.8% in 2013 to 5.5% in 2021, saving $294 billion.
- Medicare spending will be reduced 2% per year saving $123 billion.
- Reduced interest payments will save another $169 billion.

☹ The 2013 budget deficit will be $1.33 trillion. This will be the 4th year in a row that we run a deficit of $1 trillion or more. Congress doesn't even have to vote on it (they haven't passed a budget in 3 years). That will mean another year of stop-gap spending bills.

☹ If we don't get a bi-partisan agreement on increasing the debt ceiling, another host of automatic budget cuts take effect. This does not even consider the probability of another ratings downgrade for the country.

☹ The Congressional Budget Office fears that if a do-nothing Congress lives up to their name, we can expect a recession in the 1st half of 2013.

☹ Wall Street economists forecast that the fiscal policy path that we are on could tighten the economy by about $600 billion next year…or shave about 4% off GDP. That's not 4% in the normal sense...it's 4 **percentage points.** GDP is expected to be somewhere between 2-3% for the year! This is just what we need when true unemployment is running at over 15%

☹ The 2009 stimulus spending stops.

If you have a strong stomach and wish to torment yourself, go to this web site to see what bills still need to be passed. http://www.govtrack.us/congress/bills/

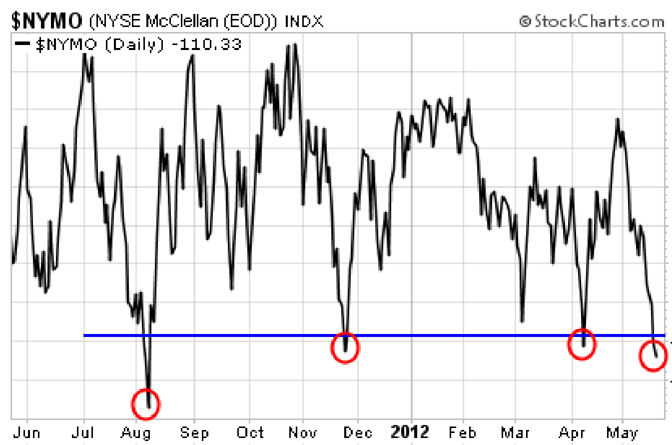
You will get to see that our 112th Congress has 260 waiting bills to complete before our 213th Congress takes over.

☹ So, in a nutshell, January 2013 will usher in the expiration of trillions of dollars in tax cuts, trillions of dollars in new tax hikes and a trillion dollars in spending cuts. This is being called Taxageddon. GOD BLESS AMERICA!

Stock Market Jitters?!?

We have had a pretty bumpy ride for the month of May. Basically, the market has taken back a good chunk…but not all… of the gains for 2012. Notwithstanding the lousy month leading up to Memorial Day, we are still ahead on the year by about 4% on the S&P 500 and 2% on the Dow Jones Industrial Average. We all know the investing mantra. You have both risk and reward…as well as probable volatility. Which leads to the BIG question:

Where is the market headed? If only our crystal ball wasn't in the shop getting repaired we'd have our answer. But, we still have some help in figuring out the expected direction. What we can look at are a couple of technical indicators which may give us some idea. Below are a couple of charts which I'll explain:

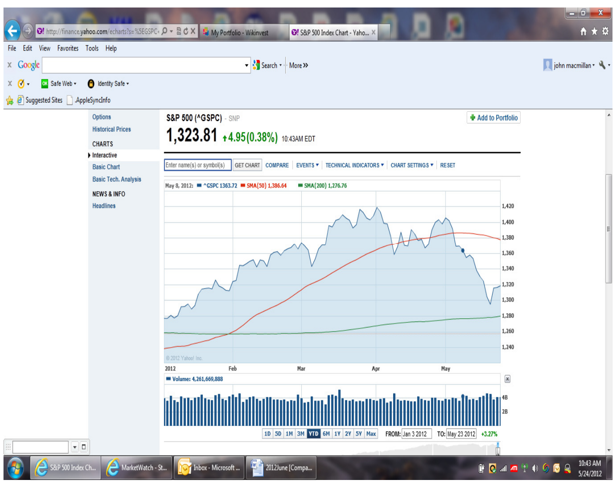


This first chart is what is known as the McClellan Oscillator which comes courtesy of StockCharts.com, and Jeff Clark of S&A Short Report. The McClellan Oscillator is a market breadth indicator which evaluates the rate money is either entering or leaving the market. Readings below 100 typically indicate an oversold, or market bottom.

This next illustration below, is a 6 month chart of the S&P 500 graphed against Bollinger Bands. As I explained in my March newsletter, Bollinger Bands are simply 2 bands (upper & lower) plotted with two standard deviations away from a simple moving average.

This effectively gives you a high and a low range for a stock price…or an index price like the S&P 500. What we see in this chart is that there is an upward bias going into the future.

Finally, this last chart shows that although the S&P 500 approached its 200 moving average, it reversed course and is currently heading back towards its 50 day average. This again is positive for the market.



Can anything go wrong to upset these predictors? Absolutely! If I had to list a series of events that could upset out stock market applecart, we'd all be very worried and I'd use up a lot of printer ink.

However, the market 'climbs a wall of worry'… and this time is no different. If we remove emotions from the equation, we're left with subjective information on which to base our investment decisions; which is what we are doing now.

Also, one final note: We have another powerful tool at our disposal which is our trailing stop loss indicator. Taking all these together we improve our odds dramatically for successful outcomes in the market.

MISCELLANY ☺

☺ If you're interested in a guide to identifying more than 5,500 species of plants and animals, go to www.enature.com/fieldguides

☺ With the proliferation of smart phones today, the apps becoming available can really be very interesting (if not useful). Here's one for the frequent traveler staying at many hotels. You can download an app which allows you to use your phone as a TV remote control. The free app is "LODGENET" which you can get through ITunes or the Android market. (I'm not sure but this may also work at home).

☺ Speaking of apps, you can also get one which will guard your identity when online on your smart phone. You can get it at www.AllClearID.com

☺ To get rid of pesky ants, without the expense of calling the exterminator, try this. Place uncooked Cream of Wheat or cornmeal and spread it where ants travel. They eat the stuff, which expands in their stomachs…killing them.

☺ Have you been given a 'gift card' which you can't use, or won't use? You've got a couple of options:

Sell them online at www.cardpool.com or www.plasticjungle.com

Trade them at www.swapagift.com

☺ The cheapest time of the day to fly is the first flight of the day, or noon, or supper. The cheapest days of the week to fly are Tuesday, Wednesday or Saturday.

☺ If you're ever looking for famous or clever quotations, you can get them all at www.brainyquote.com

☺ Lastly, for this month, turn your smart phone into a flashlight by downloading the app on your IPhone. It's called IHandy Torch. Have fun.

Don't be So Quick to Sell That Life Insurance Policy

Do you own a life insurance policy that you can no longer afford or want? Perhaps you're tempted to sell it to an investor who has offered you a way to get money from this relatively illiquid asset. However, before you take the cash, be sure to get all the facts. You just might be better off keeping the life insurance or surrendering it.

Life settlements are frequently directed towards people over age 65 who own life insurance policies with at least a $100,000 face value, have some health problems, and have a life expectancy of 2 to 15 years. When you sell a life insurance policy to a third party, you will no longer be responsible for the premiums. The investor will make all future payments to the insurance company and collect the death benefit after you die.

This concept could be attractive if you think you don't need the coverage, your beneficiaries have died, or you want the money for other things, such as long-term care insurance. But what is the cost?

These transactions can possibly have high commissions and tax implications to sellers. A study by Deloitte Consulting and the University of Connecticut found that life-settlement companies, on average, paid only 20% of the face value of the policies to the sellers. Whereas the estimated future returns to investors were 64% of the face amount.[1] Therefore, if you want to pass on the maximum amount to your heirs or a charity, you might be better off keeping the policy.

But suppose you need the money? Instead of selling the policy, a better choice could possibly be selling other assets, such as securities. Or you could take a loan from the policy. Another idea is to have your beneficiaries assume the premium payments—after all they're the ones who will eventually benefit the most. So how can you determine if a life settlement company is offering a fair price?

Compare it to your other options, such as the policy's surrender value. Think about this: You most likely bought the life insurance policy when you were healthy. And the insurance company based the future surrender values on your health at that time. These values do not change, regardless of declining health status. Conversely, the life settlement company will use your present medical condition to come up with their offer. Therefore, as the level of your impairment increases, so should the amount of the offer.

Of course don't forget about the income-tax free death benefit your beneficiaries won't receive if you get rid of the policy. And in case you're still not sure what to do, remember that a seasoned, institutional investor wants to buy your policy. Consequently, it must have a significant value. My advice would be to consult with your own qualified tax and financial advisor prior to making any investment decisions.

For an unbiased evaluation on your life insurance policy, please call my office for a free, no-obligation consultation.

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[1] http://www.quatloos.com/uconn_deloitte_life_settlements.pdf

Is Your Paid-Up Life Insurance Policy…………………… Still Paid Up?

With the very low interest rate environment that we've been in for 3 years, (with probably 2 more to come) many policy owners are beginning to get notices that they have to send in a good chunk of money to keep their policies in-force; or it will lapse.

You wonder, what happened to the cash value you were building up. Well, it turns out the insurance company has ***already*** raided the cash pile inside your policy in order to keep it in force up till now. Now all that money is gone!

How can this happen, you ask? Weren't you told by your agent that if you made a certain number of payments for a specific amount of money over a set number of years, your policy would be fully paid for?

Yes, that's no doubt what you were told. What may not have been as well explained, however, is that those payment schedules were '***estimates'***...not guarantees. They were based on projected rates of return that the insurance company expected to earn over the life of your policy.

The low interest rates insurance companies are earning today means that many whole-life and universal-life policies that are 10 years, or older, may in fact be underfunded. Also, the insurance carrier has no incentive to send you this underfunded notice until your policy is on the verge of collapsing. If they gave you too much notice you may figure out a way of keeping it alive, and they'd have to eventually pay out a large death benefit.

Don't wait for a letter. Call or write your insurer and ask for an in-force illustration. Check it to see if you're heading into a brick wall. Or again, come into my office and we'll happy to walk you though this.