

## MACMILLAN FINANCIAL

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# SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

March 2012

COMING IN MARCH... 4 exciting, fun & educational workshops to help you make money in the market and (more importantly) keep what you do make. See page 4 for details.



**"What did you do with all your money?? I spent 50% on alcohol, gambling and women. The other half I wasted!"**  
W.C. Fields

This month we'll take a look at ways to ensure that we **don't** waste any of our investment money. To begin, we'll take a look at where the stock market is...and where it is likely to go in the short-term.

As we are all probably painfully aware, we ran very hard just to stay in place in 2011. That is notwithstanding record growth in corporate profits (earnings increased by 21% !) In any normal market environment, market gains and losses follow those magical earnings pretty closely. It didn't happen last year, so you can say that there's pent up reason for the market to move higher.

Next, the S&P 500 is trading at about 13 times forward earnings. The median for the past decade has been 15.7. In addition, as you can see from the chart above, the S&P is trading at roughly 2 times book value compared to almost 5 times, ten years ago.

If you've been watching the 'talking heads' on the business news networks lately, I'm sure you've heard them talk about the *golden cross*. This happened when the S&P 500 - 50 day moving average - crossed above the 200 day moving average. This has only happened 26 times in the past 50 years. In 21 instances, stocks ended up for the year. As you all know I follow fundamental stock analysis ('show me the money') but I also look at some technical analysis like this to support future trends.

Another way I attempt to validate this trend is to look at another technical analytical tool, called Bollinger Bands. BBands, as they are popularly known, are simply 2 bands (upper & lower) plotted with two standard deviations away from a simple moving average. This effectively gives you a high & low range for a stock price...or an index price like the S&P 500. When I closely examine these bands, the market shows an upward bias going into the future.

I mentioned at the beginning of this piece that I feel confident in the **short-term** that we should continue to see increasing stock prices, but there are some very heavy head winds out there that could effect a change very suddenly.

- **European sovereign debt.**

(the G-7 nations have \$7.6T of debt due in 2012)

- **The price of oil and Iran.**

(1¢ increase in gas takes \$1B out of the economy)

- **Slowdown in China.**

(GDP fell every quarter throughout 2011)

- **Inflation**

(if calculated using 1970's method, it's 10.6%)

- **Unemployment**

(using U-3 + U-6 numbers = >20%)

(economy producing same amount of goods & services as in 2007, but with 6.3M fewer workers)

- **U.S. budget deficits**

(conservatively, \$5T more deficit by 2020)

- **U.S.A. debt**

(debt has officially passed GDP this year.

current US debt= \$15.390T ; GDP = \$15.038T)

Notwithstanding these head winds, another reason why markets will probably move higher is the staggering amount of liquidity on the government balance sheets. In an article written by Michael Santoli of Barron's, he highlights: Between the Federal Reserve, the ECB and the Bank of England, they have flooded the financial system with approximately \$7.6T of 'funny money' which equates to about 30% of the stock market capitalizations...this money will probably find its way into those very markets and continue to prop up prices.

In addition to these astonishing figures, starting in July, the European Stability Mechanism will throw somewhere between 1.4 – 2T Euros into their banking system to help banks finance their upcoming debt payments in 2012. This liquidity trend can only mean higher stock prices unless some gargantuan event derails the market.

I have two very short, but **interesting** pieces that put the government debt into perspective and take a look at a modern day analogy of how these deficits would look like in your neighbor's house.

<http://www.youtube.com/watch?v=Li0no7O9zmE>

<http://usdebt.kleptocracy.us/>

*(If you have trouble with these links, simply cut and paste into your browser. I promise you won't be disappointed).*

Everything I've written about the short term market prognosis is sounding good, and we all enjoy seeing our account statements going up...but, just so we stay on our toes about protecting our profits, there are three pieces of advice that I'd like to offer:

- 1) If your company stock price looks fully valued based on its P/E ratio (both current and historical), don't be afraid to book your profits. There are always other opportunities out there.
- 2) If your stock is no longer doing what you bought it to do, it's probably time to get rid of it. Selling into a rising market is an opportune time to do this.
- 3) Place trailing stop-losses on all your stocks. The way this works is:

Let's say you place a 20% stop loss on a stock, this type of strategy trails the top price you have at any given time. So, if you bought a stock at \$100 and it proceeds to fall from there to \$80, you sell. If, however, the stock rises to \$150 and then falls to \$120 (a 20% decrease from its top price) you sell at \$120. Following this approach will ensure you limit your losses and/or book gains without following the stock price all the way back down.

## MISCELLANY



☺ **Bottom Line publications is offering a free guide for tax deductions you may have missed, or not be aware of at [www.bottomlinepublications.com/extra](http://www.bottomlinepublications.com/extra)**

☺ **You can contribute to your 2011 IRA's , Keogh's, SEP's, etc as late as April 17<sup>th</sup> this year. Be sure to designate them as a 2011 contributions and not have it mistaken for 2012.**

☺ **A new web site will scan of all the top travel sites to find the best airfares for you. Go to [www.skyscanner.com](http://www.skyscanner.com) to find them.**

☺ **Looking to find the best prices on electronics from the best retailer? You can do this at [www.decide.com](http://www.decide.com)**

☺ **As hard as it is to believe, don't forget to move your clocks ahead one hour at 2 a.m. Sunday March 11<sup>th</sup>. Already!!!**

## Can You Afford To Win The Jackpot?

Have you spent years or possibly decades accumulating money for retirement? Perhaps you diligently put part of your paycheck into a variable annuity, mutual funds, or stocks every month. Or maybe you built up some wealth by increasing the equity in your home and now you are ready to scale down and cash out.

Regardless of how you got to where you are today, you have probably seen the value of your investments fluctuate widely over the years. But now it's time to think about how much risk you are willing to take with your future.

Annuitizing an investment is the equivalent of getting out of the game and cashing in your chips. Generally this means looking for a steady income and in return giving up the chance of hitting the jackpot in the future. But should you accept the risk of losing an opportunity in exchange for a secure return?

The best way to start to answer that question is to look at what is going on around you. People are living longer. The most recent figures put out by the Centers for Disease Control state that a 65-year-old person is expected to live 17.9 years. Fifty years ago that number was 13.9 years. Thus the possibility of you outliving your savings is greater now than ever. And further medical advances will only improve your chances of living a long, active life.

A fixed immediate annuity may provide a steady income that you cannot outlive. (Guarantee is based on the claims-paying ability of the annuity company. The purchase of an annuity may incur fees and charges.)

Additionally, income from annuitization may possibly be taxed more efficiently and thus may give you more money to spend when compared to other ways of generating revenue. This is because part of the proceeds from an immediate annuity is considered a return of your initial investment. Therefore, it is tax-free.

The "exclusion ratio" is determined by your age and the length of the payout schedule you select. (IRAs and other retirement plans might not qualify for the exclusion. Consult with your tax professional.)

Now may be the time to focus less on accumulation and more on income. For a free illustration of how an annuity may provide a lifetime of tax-favored income for you and your spouse, contact my office for a free consultation.

(Please note both Mutual Funds and Variable Annuities are sold by Prospectus only. Please carefully consider investment objectives, risks, charges, and expenses involved in Mutual Funds or the underlying sub accounts of variable annuities before investing. For this and other information about any Mutual Fund or Variable Annuity investment please obtain a prospectus and read it carefully before you invest.)

## Exactly How Safe Are Fixed Annuities?

Safety is a relative term because what is safe to one person is risky to another. For instance you may consider a U.S. Treasury bond one of the safest investments since it is backed by our government. But a true skeptic might say, "Suppose the U.S. government went belly-up? The bond could then be worthless."

Yes, he could have a valid point. However, putting the extremes aside, safety is one of the top reasons that people buy fixed annuities. There are several independent rating agencies that regularly assess the financial strength of insurance and annuity companies.

Included are A.M. Best, Duff & Phelps, Moody's, Standard & Poor's, and Weiss Research. These firms will give you an evaluation of a company's balance sheet strength, operating performance, and ability to meet ongoing obligations. In addition, all companies must follow the "legal reserve system." This is a set of rules on asset management, accounting, and reserve requirements.

The reserve requirements assure that funds are set aside specifically to protect against an insurance company's portfolio losses. Furthermore, insurance companies are state regulated and all 50 states, the District of Columbia, and Puerto Rico have guaranty associations to which licensed life and health insurers must belong. When states determine that an insurer is insolvent, a mechanism within the association protects the policyholders and can possibly help pay the claims against financially-troubled insurance companies.

If you'd like to check out specific companies to ensure that they are financially-strong and that they are well managed annuity companies, please fax, e-mail or call my office.

# LUNCH & LEARN

## WORKSHOP # 1

### “5 Myths That Can Shatter Your Retirement Dreams”

- \*Social Security
- \*Invest your money in bank and government instruments to ensure safety.
- \*Are you in the wrong tax bracket?
- \*Inflation and how long will your money last.
- \*You should sell during the bad times and buy during the good times.

#### Place & Time

3 Werner Way, 3<sup>rd</sup> Floor, Lebanon, NJ

Thursday, March 15<sup>th</sup> from 12-1pm

&

Friday, March 30<sup>th</sup> from 12-1pm

Call 24/7 to reserve at 908-693-7194

## WORKSHOP # 2

### “Inflation, Retirement & Fixed Income”

- Bonds, preferred shares, REITs and dividends and see how they **must** fit into your portfolio.
- What is a safe withdrawal rate from your savings?
- Are your CD rates keeping up with inflation?
- Can you improve your rate of return without taking on too much risk? Yes you can!
- Learn how to ladder your monthly income.

#### Place & Time

3 Werner Way, 3<sup>rd</sup> Floor, Lebanon, NJ

Friday March 16<sup>th</sup> from 12-1pm

&

Thursday March 29<sup>th</sup> from 12-1pm

Call 24/7 to reserve at 908-693-7194

## WORKSHOP # 3

### “Drawing Down Assets” (Rules of the Road)

- Understanding your **true** income needs.
- Which assets do you spend first?
- Mismanaging Retirement Assets.
- Creating *bullet-proof* income.

#### Place & Time

3 Werner Way, 3<sup>rd</sup> Floor, Lebanon, NJ

Thursday March 22<sup>nd</sup> from 12-1pm

&

Friday April 6<sup>th</sup> from 12-1pm

Call 24/7 to reserve at 908-693-7194

## WORKSHOP # 4

### “4 Mistakes You Cannot Afford To Make “

- 1) Failure to understand investment fees.
- 2) Lack of investment diversification.
- 4) Chasing ‘hot’ mutual fund returns
- 5) Missing and/or incorrect legal documents.

#### Place & Time

3 Werner Way, 3<sup>rd</sup> Floor, Lebanon, NJ

Friday March 23<sup>rd</sup> from 12-1pm

&

Thursday April 5<sup>th</sup> from 12-1pm

Call 24/7 to reserve at 908-693-7194