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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

September 2012

"When you're riding ahead of the herd, take a look back every now and then to make sure it's still there." Will Rogers

It's hard to believe that summer's pretty well over. Labor Day is here and for many of us it seems like a blur since we celebrated Memorial Day back in May (the unofficial start of summer). Oh well!

I guess now's the time to begin looking ahead to November (as if we haven't been already). The Will Rogers quote at the top should be mailed to each of the 535 members of Congress. They had better be sure that they are, in fact, representing the wishes of their constituents. As my mother used to say: I brought you into this world and I can take you out! November is closer than they think.

Will Rogers also said, "the older we get, the fewer things seem worth waiting in line for". Now, here's the interesting thing about how this relates to retirees. The one thing that they consistently get in line for is…voting.

Retirees vote in a large block representing about 40% of all voters. However, unlike many other groups, their participation rate in presidential elections is somewhere around 70%. What this means is that if our politicians want to hang onto their jobs, they had better do the right thing by retirees.

The right thing for retirees is keeping dividend rates where they are. It goes without saying that it is increasingly more difficult to generate income. Retirees can ill-afford having the little bit that they manage to get being taken away through higher taxes. Therefore, my prediction is that we will not see higher dividend taxation no matter who occupies the House or Senate come January.

PREFERRED SHARES =MAKING MONEY ..but know what you're doing before diving in

Treasury debt pays zip. CD'S pay zilch. Munis pay butkis. These have been three of the mainstays for income generation for most retirees for many years. But, not anymore! And, with coupon rates down so much on investment grade corporate debt, there are precious few places to look to make a few bucks for your retirement account…that are *relatively safe*. Enter – preferreds.

You have two flavors when it comes to preferreds.

1) The preferred shares/stock definition, according to Investopedia is:

A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

The precise details as to the structure of preferred stock is specific to each corporation. However, the best way to think of preferred stock is as a financial instrument that has characteristics of both debt (fixed dividends) and equity (potential appreciation). Also known as "preferred shares".

Read more: http://www.investopedia.com/terms/p/preferredstock.asp#ixzz24llgj0UA

2) The 2nd form of preferred is known as a Trust preferred:

Definition of 'Trust Preferred Securities - TruPS'

A security similar to debentures and preferreds that is generally longer term, has early redemption features, makes quarterly fixed interest payments, and matures at face value.

Investopedia explains 'Trust Preferred Securities - TruPS'

TruPS have been created by companies for their favorable accounting treatments and flexibility. Specifically, these securities are taxed like debt obligations by the IRS while maintaining the appearance of equities in a company's accounting statements as according to GAAP procedures

Read more: http://www.investopedia.com/terms/t/trustpreferredsecurity.asp#ixzz24lmc4KDQ

There is a big difference between trust preferred stock and traditional preferred stock. To begin with, Trust preferreds are usually issued by banks. Preferred shares are usually issued by companies.

Traditional preferred shares, issued by companies, are an equity investment in that company. They are normally perpetual -- that is, they have no maturity date. If the company were to liquidate, equity preferred owners have a prior claim on the assets before common shareowners, but they come after all debt holders.

In contrast, trust preferreds are debt, not equity. As such, they provide greater safety than traditional preferred stock. But, and this is a BIG **but,** they generally can be called anytime after five years.

This means that if you pay more than their redemption value, meaning that you paid more than 'par value', when a TruPs is called you could incur a capital loss.

Fot this reason you must pay attention to yields. There are three types of yield to look at:

1) Coupon rate. What the coupon % was when first issued.

2) Current yield. This is what the current rate is based on its current price.

3) Yield to call. This is the % yield you get until the first available call date.

Finally, there are 5 components to calculate "yield to call".

FACE VALUE OF THE SECURITY

NUMBER OF PAYMENTS/YEAR

YOUR BUY PRICE

COUPON RATE

TIME TILL NEXT CALL DATE

Although this may seem onerous, you should be able to find an on-line calculator, or your advisor can assist you.

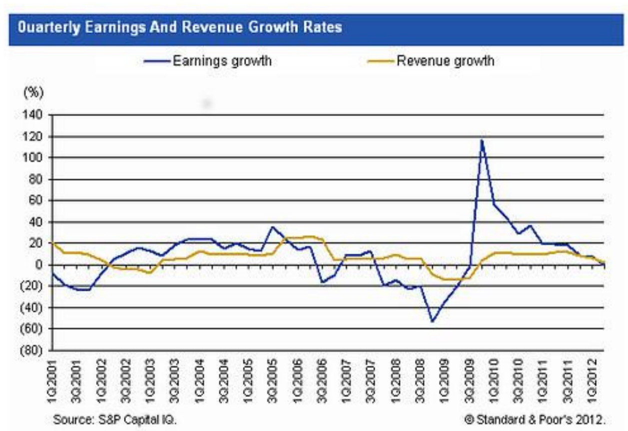
The key take-away for preferreds is that if they come from an investment grade organization, they are relatively safe. The main risk with any preferred is rising interest rates. Thanks to the Federal Reserve, we still have a couple of years before this comes into play. But, be cautious and do your research.

Market Update:

Everyone I work with knows that I keep a fairly simple view of where I see the stock market going over the short term. It's always about earnings. It can be that easy.

If you own a company that is making profits…and if those profits are growing…you can afford to pay more for the company. If profits are shrinking, the company is worth less. Therefore, you pay less for their stock. Money always goes where it's treated best.

Below is a 2001-2012 graph of quarterly earnings & growth rates (courtesy of Standard & Poors).



As you can see, since 2009, earnings growth was spiking as companies found ways to cut costs and keep revenue growing at the same time. What the chart now shows however, is that earnings have come down, and so has revenue growth. Revenue growth is now flat and earnings come in at about +5%. This is not necessarily a 'red' flag…but it certainly is 'yellow'.

Of the 474 S&P 500 companies that have thus far reported 2nd quarter earnings, 71% beat estimates on earnings, but only 42% beat on revenue. Clearly, our core companies are not growing their top line the way they used to.

Another 'yellow' flag out there right now right now has to do with municipal bonds. The health of American cities, states and other public entities has a lot to do with the health of the general economy. If bond issuers can't pay their bills, pensions or suppliers, this does not auger well for taxpayers in particular or companies in general. (including those companies in the stock market).

Buyers of these municipal bonds (financial institutions are the biggest) frequently purchase credit default swaps (CDS) from an insurer to protect them in the event of a municipal default. This is part of their risk management.

Warren Buffett of Berkshire Hathaway has been a large insurer of these CDS over the years. The premiums it receives obligates their insurance division to pay claims for any defaults that may occur. In late August, Warren Buffett cut early, his exposure to these swaps from $16B to $8B. Berkshire's move comes as investors are pouring money in munis driving prices up and driving yields down.

I have been saying for a while that investors should tread carefully into munis. They rarely default…they they can. The latest two have been rather sizable cities like Stockton and San Bernardino. If they can go broke, who could be next? Based on the tiny yields, you have to ask if they're worth the risk.

STOP/LOSS UPDATE:

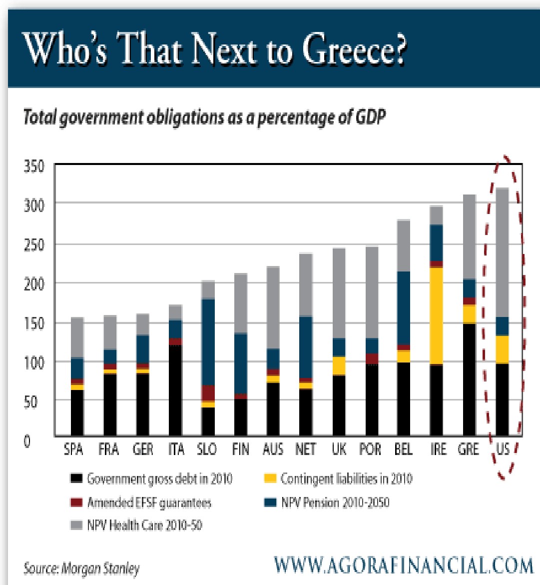
I've been preaching about keeping stock losses down in order to avoid having to make up king size ground to get back to even. The method I've espoused for quite a while has been to use a stop/loss strategy.

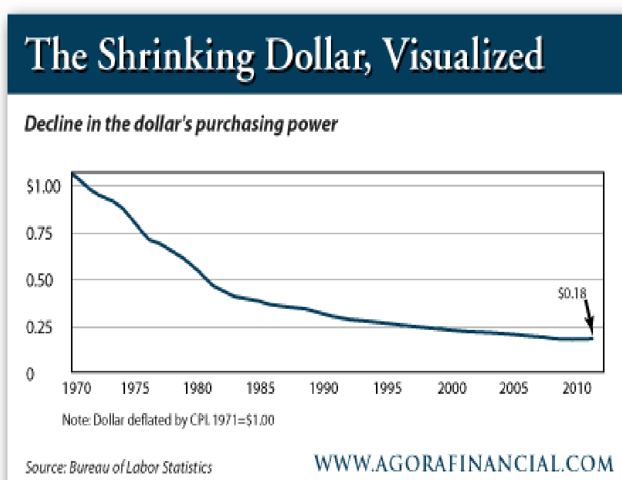
This past week I was asked about whether it was working. The short answer is yes. The only thing is, believe it or not, we have not had to employ a stop/loss on any holdings this year because the S&P 500 has basically traded in a very narrow range the entire year… between 1280-1420. That represents a mere 10% move up or down since January.

Rest assured however, the stop/loss mechanism is still in place and will be triggered when (depending on the class of investment) we see a move go lower by 15-20%. It's nice not to need the protection, but it's also nice to know it's still there!

The Financial State of the Union

These next two graphs give you a visual of the national state of our country's financial affairs. Our government has been spending like drunken sailors. Although President Reagan was fond of saying that this expression wasn't fair to the sailors. "Even they stopped spending when they ran out of money"





I have included a link to a YouTube video which came to me courtesy of Ed & Susan, clients of mine. Please take the 5 minutes to watch this explanation of why Congress **is unable** to balance the national budget. No political opinions here…just stark facts:

http://www.youtube-nocookie.com/embed/EW5IdwltaAc?rel=0

MISCELLANY ☺

☺ If you're interested in checking prices, product safety and/or substitutions for prescription drugs there are some pretty neat sites to go to:

www.destinationrx.com

www.pharmacychecker.com

www.pricescan.com

www.crbestbuydrugs.org

www.fad.gov/cder

☺ Now, this one is for you sweet pepper lovers. You know, green, red, yellow. To get the best bang for your buck, count the humps on the bottom of the pepper. Four means it's a female which has more seeds (therefore more weight = more cost). Three humps is a male which has fewer seeds…therefore better value. WOW.

☺ One of the best ways to figure out if a mutual fund is a good bet is to invest in, is to look for funds where the fund manager has her/his own 'skin in the game'. If it's good enough for s/he, it's probably OK for you too. Check out:
www.morningstar.com
then go to the STEWARDSHIP GRADE under Fund Snapshot and see how much of the manager's money is invested.

☺ Supermarkets put different items on sale every week. One week it's toilet paper. The next, chicken. You can wait for the sales provided you know that they are on 12 week cycles. Grocers don't want you to know that, but now you do. Keep track of what goes on sale for 3 months and you'll never pay retail again.

☺ For those of you with only a little money to invest and a mid to long range time horizon, look into Zero-Coupon bonds. These are bonds you buy at a discount to their par value. The longer the maturity, the steeper the discount. You don't receive interest while you hold the bond but when it matures you get par value which is $100 for a bond you might have paid $50 for.

Fixed Immediate Annuities Can Offer Flexibility for Your Future

Stability and safety are important to many seniors, and these are only two of the reasons why immediate annuities are popular investments. A check arrives every month and part of the income is considered a tax-free return of your principal. As long as the annuity company is financially sound, the payments will continue for the life of the contract (annuities are guaranteed by the claims paying ability of the issuing company).

However, consumers sometimes believe that immediate annuities are illiquid, irreversible investments, and cannot provide for future lifestyle changes. Nonetheless, there are some immediate annuities with options that may add flexibility to your financial plan.

Immediate annuities can possibly include an option that would allow you to receive extra cash at specific anniversary dates. For example, this might be at the 5th, 10th, or 15th anniversary of your investment. Exercising this option will reduce your future payments.

Suppose you needed money to cover an emergency, like paying for caregivers or a home repair. Some annuity companies will let you take up to six payments at once. You would not, however, receive checks for the following six months

You may also have the ability to provide a cash benefit from your immediate annuity to your heirs. This would be a pre-determined percentage, such as 25% or 50% of the amount of your initial investment. Selecting this option will reduce your monthly annuity checks, and may have tax consequences. Call, if you'd like more information.