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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

April 2013

"If It moves, Tax It. If It Keeps Moving, Regulate It. If It Stops Moving, Subsidize It."

Ronald Reagan's observation on how government views the economy

Well, we're one month into sequestration and, fortunately, the country has not fallen off a cliff…at least not yet. There is a web site which has kept a log of what has been affected up till now, and how the various departments are coping with the belt tightening: http://www.jobs-not-wars.org/impact-of-sequestration-on-federal-programs/

The irony here is that Congress, who agreed to this measure back in August 2011, thought that somehow the problem would be solved through divine intervention or some sleight of hand. Instead, they have now been hoisted on their own petard and must do their job. But, just how dire are our circumstances?

If we want to keep this in prospective, let's look at what exactly was agreed to. The deal is/was that the budget would be cut by $85 billion…out of a Federal expenditure of $3.5 trillion. This is the sum total of a 2.5% reduction for belt tightening. Heck, this barely moves to the next belt hole. Holding your breath would accomplish the same result.

But, fear not, our legislators will take a surgical scalpel to areas that can be safely cut without dire consequences for us, the general populace. A couple of programs getting close scrutiny include:

☺$200 million to fund a reality show in India to promote American cotton.

☺$121 million for conferences for government employees.

☺$325k grant for a robotic squirrel for the purpose of seeing how a rattlesnake would react to it.

☺$2 million to 10 cupcake shops.

☺$520k to fix a covered bridge in Green County, Ohio which was last used in 2003.

☺The DOT gives Oklahoma $450k for an airport that gets one flight per month.

☺Beverly Hills, CA. receives $180k from a HUD program to help economic development in their lower income locales.

☺We have a government program funding research on talking urinals (I don't know how much money we're pi--ing away into this one).

☺The government spends $2 million yearly on service fees to maintain 28,000 phantom grant accounts that are empty and have expired.

☺Grants, Oregon received $388k to build 5 bus shelters along its four-route bus system.

☺ We spend 2.4 cents to manufacture one penny.

☺ The NIH has funded a study to determine that male fruit flies are more attracted to younger female fruit flies than the older ones. The cost: $939k

☺Finally, (and I'm not really finished, but I've got to stop somewhere), the TSA got $50 million, 2 days before the sequester cuts came into effect in order to buy uniforms for its 50,000 airport screeners. That's $1000/uniform set. A reporter checked on line with Wrangler's website and bought the identical wardrobe for $186. I wonder where the other $814 went?

If you want to read more about more questionable programs, see Senator Coburn's "100 most wasteful government programs at

http://www.coburn.senate.gov/public/index.cfm?a=Files.Serve&File_id=b7b23f66-2d60-4d5a-8bc5-8522c7e1a40e

MARKET SNAPSHOT

The U.S. stock markets have been on a tear so far this year. The burning question everyone is thinking is whether or not it's time to take money off the table or continue to let it ride.

Let's look at some facts:

According to Morningstar, stocks are currently trading at 97% of fair value. That means some are below fair value, but many are above. Overall they view stocks as trading on an overvalued median basis.

To ensure that you have a margin of safety, you want to be buying stocks that trade below what they're worth. Morningstar can be helpful here by looking at their 5-star stocks which today only number 24 in the whole of the United States.

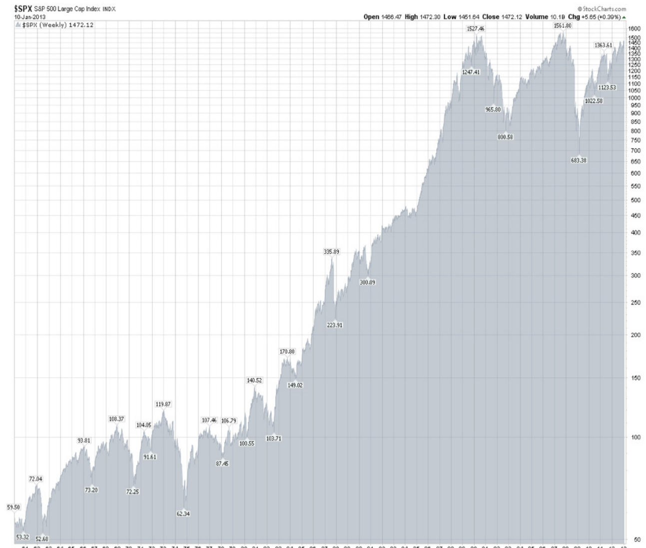
Another area to look at is the price/earnings multiple for the market. You'll hear many analysts talk about how cheap stocks are trading at only 13.7 times next year's earnings. They also say that if stocks expand modestly up to an average midpoint of 14.5 times earnings, we could see a nice rise from here.

What they're not saying that forward earnings keep coming down. In fact, according to the Wall Street Journal's Market Data Center, the S&P 500 is trading at 17.9 x trailing twelve month's earnings. A year ago it was 15.9

Top right is a graph of the Dow Jones over the past 60 years. This looks very impressive, especially over the last decade. So, it may be appropriate to ask why so many investors are basically at the same dollar point they were at the turn of the century.

It helps to be aware of the fact that the Dow Industrial average is a price weighted index. That means that the actual price of the 30 Dow components are what makes up the price of the index. (Conversely, the S&P 500 is based on not the **market price**, but the **market capitalization** of the companies).

To give you an example, if Exxon – a $90 stock - was replaced by Google – a $800 stock – the Dow Jones would jump significantly; even though they both have a market capitalization of about $300 billion. Dow components can, and do, change frequently. Over the past 6 years, twelve companies have either entered or exited the Dow. The point here is not to place too much emphasis on index numbers



I've written about the importance of corporate insiders in the past. These are the top people in their company. When they begin to sell you need to ask yourself if they know something that you do not.

It's hard to imagine people selling their stock if they feel it will go higher. Doesn't make sense! So, having said that let's see what corporate insiders have been doing lately.

Bloomberg reported that there have been 12 announcements of sales by insiders for each purchase over the past 3 months. In addition, corporate earnings have gone nowhere for the last 6 quarters and analyst earnings estimates have come down 8% for the past year.

Stock prices are all about earnings and what we're seeing today is actually less than robust. Zacks Investment Research put out a recent report saying, 'the bottom line is that actual earnings growth will be substantially lower than what is currently embedded in stock prices'.

So where does that leave us? In last month's newsletter I described a method in figuring out target prices for your stocks. Unless you feel that there is something 'major' coming out from one of your companies in the near future which would positively affect its stock price, you may wish to sell when they are at, or above fair value.

It's not very easy anymore to find unloved and below fair value stocks, but there are still some out there. Search the financial web sites to help out with the project. Just remember, just because a stock is cheap doesn't necessarily mean that it's a good buy!

MISCELLANY ☺

☺ If you are looking for Medicare Providers in your area, go to www.medicare.gov and click on "Facilities & Doctors". Enter your zip code and the type of doctor you're looking for.

☺ To check on drug interactions go to www.ConsumerMedSafety.org

☺ If you're looking for a job, you can find over 800,000 listings taken from actual company websites at www.linkup.com

☺ If you have someone in the family heading off to college and got sticker shock from the cost of the textbooks, here are a couple of MUCH cheaper options:
www.CourseSmart.com
www.BookRenter.com
www.Amazon.com
www.DirectTextbook.com

☺If you're looking for a legal website that can help with a variety of issues, go to www.nolo.com

☺There are over 100,000 medical research trials that you can search at www.clinicaltrials.gov

☺For restaurant and theatre discounts, you can find them at www.livingsocial.com

☺You can find foods that fight pain at www.aarp.org/painfightingfoods

☺Find the best bank rates on all banking products at www.bestcashcow.com

☺Search local gas prices at www.gasbuddy.com

Might You Live to 100?

Live to 100. Sounds great. But what are the downsides? "How can there be downsides?" you may ask. After all, you'd have more time to golf, go fishing, and spend with the grandkids.

Well, the risk may be that if you hadn't planned to live that long you could end up running out of money.

So how long of a retirement should you plan for? According to the IRS, a 70-year old person is expected to live for 17 more years to age 87. However, this is an average. Half of the 70-year olds will live longer and half will not.

Therefore, a 70-year old individual who is basing his or her retirement plan and spending habits on living to 87 is rolling the dice. Furthermore, when you consider that there are more than 70,000 U.S. centenarians who represent the fastest-growing segment of our population, there is reason to take notice.

(There is a sign on route 78 heading into Newark which says: "The 1st person to live to 150 has already been born". Now, there's something to think about.)

Planning too conservatively could be detrimental as well. After all, you don't want to cut your standard of living down to the point that you'll be miserable. And of course, you always have the option to make adjustments in your spending as time goes on.

All of this comes down to two simple facts: You can control how long your money will last, but you only have a limited ability to predict how long you will live. So what can you do to reduce the risk of running out of money too soon?

A fixed immediate annuity offers an income that will continue for a lifetime, no matter how long you live. And it will help you plan for the possibility of living to 87, 107, or beyond.

If you're interested in learning more, please call my office for a no-cost, no-obligation meeting.

Which Source of Funds Comes First – Taxable or Qualified?

When it comes time to tap your savings and investment accounts, clients often wonder which source should come first. In general, many experts advise investors to draw from their taxable accounts first, then tap qualified accounts such as IRAs and 401(k)s further down the road. There is a logical reason for this--prolonging withdrawals from your qualified accounts gives these assets additional time to grow with the benefit of tax-deferral. There are other reasons why this strategy could be efficient from a federal income tax perspective.

Let's say that you have three sources of investment funds, a regular taxable account (which could hold individual stocks, bonds, or mutual funds) and two qualified accounts: a traditional IRA and a Roth IRA. What happens if you tap your traditional IRA? First, all withdrawals from a traditional IRA are taxed at your current income tax rate. Second, a 10% federal income tax penalty will usually apply to traditional IRA withdrawals taken prior to age 59½ (subject to a few limited exceptions explained in IRS Publication 590. Exceptions include but are not limited to: withdrawals for qualified higher education expenses, first-time home buyers, medical insurance premiums for certain unemployed taxpayers, and withdrawals taken by disabled taxpayers).

What about taking money from a Roth IRA? If you are less than 59½ years of age, or you do not hold the Roth for more than five years, the distribution could also be subject to the 10% federal income tax penalty. By leaving the money in the traditional and Roth IRAs, you have the opportunity to accumulate tax-deferred investment growth over the life of both the owner and the beneficiaries. Assuming the age and holding period requirements are met, all Roth distributions also come out free of future federal income taxes to the account owner, as well as the beneficiaries.

What if you tap your taxable account first? You will owe taxes on any capital gains you realize from the sale of investments in this portfolio. Assuming you have held the asset for more than one year, your rate could be lower than your current income tax rate

The new capital gains tax rates for 2013 and future years are as follows:

- **0%** applies to long-term gains and dividend income if a person is in the 10% and 15% tax brackets,
- **15%** applies to long-term gains and dividend income if a person is in the 25%, 28%, 33%, or 35% tax brackets, and
- **20%** applies to long-term gains and dividend income if a person is in the 39.6% tax bracket.

Also beginning in 2013, capital gain income will be subject to an additional 3.8% Medicare tax for taxpayers with income at or above $200,000 for singles; $250,000 for marrieds.

You might also be able to soften the blow of your annual tax bill. As you gradually tap your taxable account, the distributions you receive from these investments will slowly recede, thus lowering your tax burden from dividends and capital gains paid to you. Moreover, your qualified accounts could potentially have longer time to grow with the power of tax-deferral, which could enhance the value of your qualified retirement funds.

Eventually, you will have to take minimum distributions from your traditional IRA once you reach age 70½. Although these distributions will be taxed at your ordinary income tax rate, you could be in a lower tax bracket by then. As previously mentioned, these distributions are taken, in many cases, over the life expectancies of the owner and the beneficiaries. On the other hand, traditional IRAs do not receive a step-up in income-tax basis when they are transferred to younger beneficiaries at the owner's death. Although there is something to be said about the power of deferring taxes, one should also consider future income tax consequences to younger family members before making a decision.

Assuming you have assets in Roth IRAs, you should know that minimum distributions are not required. In view of this and the fact that withdrawals will come out free of federal income taxes (assuming the age and holding period rules are met), you may want to consider your Roth assets as your source of last resort.

Deciding which account to tap first depends on your financial and tax situation now and during your retirement years. **If you would like to review some withdrawal strategies for your various investment accounts, please call my office.**