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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

December 2013

Free and fair elections are the mainstay of modern democracy; the only downside is that after the votes are counted a politician wins.

As a Standard & Poors analyst recently stated: 'members of Congress stood their ground…but as they have done many times before, they kicked the problem down the road again'.

Now, we are faced with a couple of more dates to be wary of: January 15th when the budget runs out and then February 15th when the debt limit is reached. Ironically, or maybe not so ironically, the investing public is dismissing all the Washington theatrics and instead is focusing on the companies making up the S&P 500.

All the U.S. markets have had a good run so far in 2013. However, they have been supported primarily by four main sectors:
INDUSTRIALS(conglomerates;aerospace; machinery)
DISCRETIONARY(retailers;hotels;autos;restaurants)
HEALTHCARE(health insurers; medical suppliers)
FINANCIALS(banks, insurance companies)
Going into 2013, these were generally not on the top of more investors 'must-own' lists. In fact, they were most likely on their list to avoid. This would explain why most people have not seen their accounts grow as much as what market has returned.

Now is not the time to let down your guard when it comes to buying stocks. As the American Institute for Economic Research has written, 'continued modest growth is the most likely path for the economy, despite the weakness created by government cutbacks'.

They also report that the business-cycle 12 leading economic indicators continue to show the U.S. economy on an expansionary course, as it has been now for the past 33 consecutive months. They also state that all of the 6 coincident and 6 lagging indicators confirm the economy is growing.

What investors need to be wary of are stock valuations. It is becoming more and more difficult to find value stocks. Right now the S&P 500 is trading at a *trailing 12 month* price/earnings multiple of 18.85. The Transports are at 21.60; the Dow Utilities at a lofty 24.80.

The most telling multiple in the market is that of the Russell 2000. This is the Index that measures the performance of the smallest securities listed on the exchanges. It's trailing 12 month P/E is in the nose-bleed section coming in at 75.55.

So the moral here is, CHOOSE WISELY.

The Federal Reserve is probably on hold to begin their 'tapering' of their bond buying until at least the March 18-19 meeting. It would be highly unlikely that Chairman Bernanke would do anything in his last meeting as chair in December. It would be far more likely that the incoming Chairman, Janet Yellen, would be the one to instigate any future changes in Fed policy.

Notwithstanding all the talk and speculation about tapering, I for one am looking forward to it. We all know that trees don't grow to the skies, and that sooner or later the Federal Reserve will have to stop its quantitative easing. When they do however, it means that the economy is really improving. An improving economy means that we will have strong reasons to buy stocks…not sell them.

So, bring it on!

I've been asked about IPO's and whether or not buying them gets you in on the ground floor. To paraphrase, one of the stock analysts I follow who has said…buying an IPO doesn't get you in on the ground floor. It gets you in on the top floor; you're just hoping that the company keeps building more floors above you.

When analyzing a stock, look for several metrics which will tell you if it's a good **value** buy or not.

1. Free Cash Flow. This is the excess cash profit left over in a business after it pays all its expenses and taxes. In essence it is what you pay for when you buy stock in a company.
2. Another is, Return on Invested Capital (ROIC). An example would be if you needed to put $10000 in a business and it returned to you $1000. That's a ROIC of 10%. Now imagine, if you had a business that returned $2000…$3000...$4000; you get the point.
3. How about Earnings Yield (EY)? This is a calculation of what a company earned per share in the past 12 months divided by its stock price. For instance, if a company earned $2/share and it traded at $10/share, it would give you an EY of 20%. Not too shabby!
4. Dividends. According to researchers at Ibbotson Associates, the S&P 500 returned 394% between 1990-2010. Forty-three percent of that came from dividends. Another study by Ned Davis Research went back and looked at the period from 1972-2004. They discovered that dividend paying stocks turned $100 into $2368; or, said another way, they returned 23 times your money. On non-dividend paying stocks, the amount returned was $395…only 4 times your money.
5. Investing in stock splits. Analysis indicates that companies that split their stock 2 for 1 tend to beat the broad market by more than 3 percentage points for the next two to three years after the split.

One final note here is to be ready for the unexpected. You never know when an event can come into play and totally disrupt the market. Keep your trailing stop-losses in place. As the old saying goes, a boxer rarely gets decked from the punch he was expecting.

Dividend Income

Can You Count On Dividend Income?

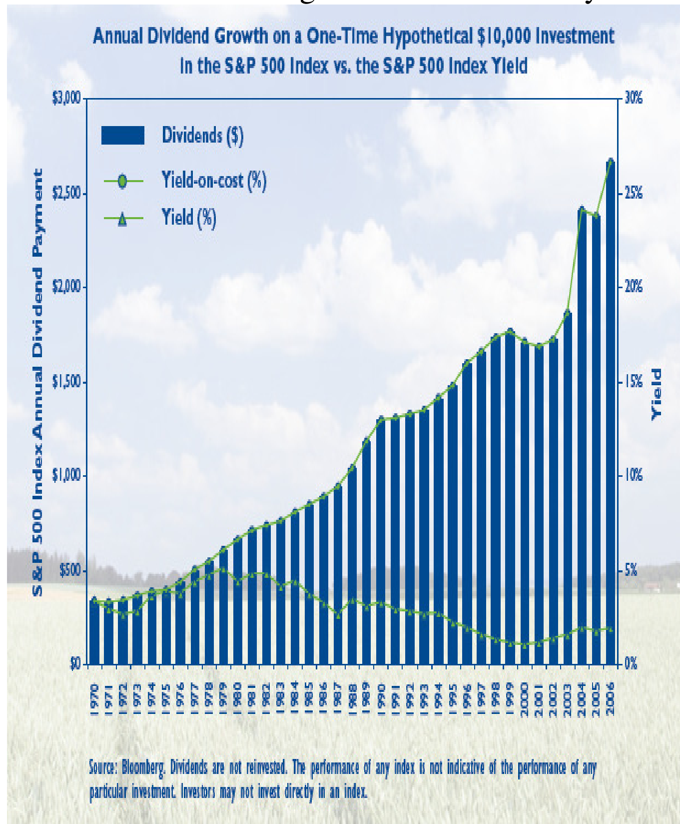
One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Probably, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk losing what could be a significant portion of your income should the company decide to discontinue their dividend payments. With a diversified portfolio, your regular dividend income stream could continue, buffered by the on-going payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly-regulated markets such as electric utilities or telephone companies are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

The chart on the next page illustrates the effect of dividends over a long period of time. As you can see the 'yield on cost' over many years of receiving

dividend payments rises exponentially. This is how Warren Buffet made a great deal of his money.



Another way to invest in a diversified portfolio of high-quality dividend-paying stocks, if you cannot do it yourself, is to choose a dividend income fund. A dividend income fund offers diversification in a mutual fund investment. Plus, a fund offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf.

Please note, however, that stocks and mutual funds are investments that involve market risk, and investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than the original value.

Is there an alternative to money market funds?

Investors are often told that they should keep a cash reserve of three to six months' worth of living expenses to pay for unexpected bills, such as a medical emergency, or home or car repair. But with money-market mutual funds yielding an average of barely 0.5% vs. ***true*** inflation over 2%v, your just-in-case money could actually be losing purchasing power with each passing day.

So what's the solution? Yield conscience investors may want to look at ultra short-term bond funds as an alternative.

Ultra short bond funds have shorter average maturities than most other bond funds. This means that their share price should fluctuate less whenever interest rates change. In addition, with yields that have averaged about 1..25% for the past year, they are certainly worth a look. However, not all ultra short bond funds are the same and can possibly leave you with negative returns.

Ultra short bond fund managers have a goal to deliver a higher yield than money market funds. To meet this expectation, some have invested heavily in lower-quality issues and taken on significant credit risk in industries such as telecommunications or bank loan pools. When the economy takes a downturn, those bonds can lose value or default. Shareholders then end up with negative returns and discover that they may have been better off in a money market fund. For that reason, it is important for you to understand what the fund owns before you invest money.

Mutual Funds are sold by Prospectus only. Please carefully consider investment objectives, risks, charges, and expenses before investing.

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☺ If you are interested in cruises, you can check on destinations, dates, durations, etc., as well as hidden costs at www.CruiseCritic.com

☺ Looking for scholarships? Try one of these sites:

www.scholarships.com

www.bigfuture.org

www.cappex.com

www.zinch.com

www.fastweb.com

☺ December Checklist:

***Medicare deadline is December 7th.**

***Donations to charity are tax deductible for 2013 if you have a cancelled check and can prove that the check was mailed by December 31st .**

If you're travelling over the holidays, you can check the list of prohibited items on airplanes. Go to www.tsa.gov/traveler-information/prohibited-items

Also, don't forget pack only *unwrapped* gifts.

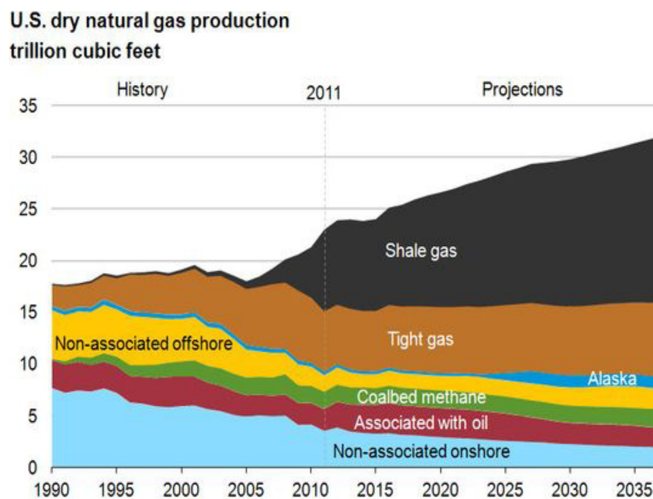
☺ A new report out from the Census Bureau contained some pretty depressing information for the number of Americans getting social assistance.

Public Housing	**13.4 million recipients**
S.S.I.	**20.2**
Food Stamps	**49.1**
Temporary Aid	**5.9**
Other Cash Aid	**5.0**
Women & Children	**23.2**
Medicaid	**82.5**
	199.3

☺ Be careful when looking at mutual fund 1-3-5 year returns. We are now 5 years beyond the financial crisis and stock market meltdown. Ten year averages would be more indicative of performance.

☺ The USA will overtake Russia as the world's largest oil producer by 2015.

☺ The USA has overtaken Saudi Arabia this year, 2013, as the world's largest producer of oil and gas.



Source: U.S. Energy Information Administration, *Annual Energy Outlook 2013 Early Release*

What happens to Bondholders when a company goes Bankrupt?

Seniors like bonds because they can possibly provide a steady income, diversify a stock portfolio, and are backed by the insurer's financial strength. But things don't always go as planned. Companies occasionally have financial problems and must file for bankruptcy.

Investors holding bonds in bankrupt companies can at least have the comfort in knowing that as unsecured creditors they are second in line for payment. Secured creditors, those with claims backed by collateral, such as equipment or real estate, are paid first. Stockholders come last, and that is only if there is any money left after the creditors have been paid.

There are two general forms of bankruptcy: Chapter 7 and Chapter 11. With Chapter 7, the company is liquidated and bondholders should file a claim to receive a portion of the value of their bonds. In Chapter 11 proceedings, however, the process is quite different.

Chapter 11 allows the corporation to reorganize. Its bonds might continue to trade, but holders will not receive principal and interest payments. As a result, a default could occur, and the value of the bonds might decline significantly, or the court may approve an exchange of the old bonds for new ones (which could have a lower value).

How can you find out if a company that you lent money to by purchasing their bond has filed for bankruptcy? TV reports, newspapers, and financial magazines often give an account of companies that recently declared bankruptcy. The company will also send you information on the reorganization plan and ask you to vote on it. If a financial institution holds the bond for you, it should forward everything from the company.

If you would like a free credit report on bonds you currently own, call me with the CUSIP numbers and issuers' names and I'll be happy to help.

I'd like to take this opportunity to wish you and your family a safe and happy holiday season!!!