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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

January 2013

HAPPY NEW YEAR!!

"Life is simpler when you plow around the stump". **Old Farmers' Advice**

I waited until after the last full trading day of the year to write this newsletter, in the hopes that our elected representatives got their collective acts together and figured out a way to plow around the stump. Regrettably, it doesn't appear like this is going to happen before January 1st.

Although Congressional Leaders expect to be working the weekend leading up to New Year's Day, it certainly doesn't look like they'll get a comprehensive deal done on time. If anything, (and if we're lucky) we may see a piecemeal deal done on a few items with the rest to be negotiated sometime in January or February...along with the spending ceiling. So, here we are, with over a year since our politicians knew they had to hammer out a solution to this economic calamity and instead they are all giggling in the back of the bus as they drive it over the 'fiscal cliff'.

This leads us to the question. The vast majority of polls indicate that most Americans have come to the realization that in order to balance a budget, where we borrow $0.40 of every dollar we spend, taxes need to go up. (No one wants higher taxes, but being adults we recognize that this is inevitable). The other part of this same equation is we need to spend less. Why don't they get that in Washington?

The most plausible explanation for what is about to happen, came in an interview I saw this morning. Because both Democrats and Republicans are intent on running into the stump due to their unwillingness to 'negotiate', both sides are going to win. All members of Congress and the Senate will come away with their positions intact and their re-election prospects looking bright.

From the Democrat's point of view, as promised, taxes will go up. Not just on the top 2% however …but everyone. The Republicans can also say that they did not waiver on their positions of needing spending cuts and not raising taxes; the cliff took that decision out of their hands.

So, as the bureaucrats begin to put patches in place and **bring down** taxes on most Americans from the automatic levels they are going to, and dealing with the corresponding spending cuts required by the sequestration...everyone's a hero!

Everyone wins. Except for us.

What are the consequences? According to a recent article by CBS News, here what we could expect.

*Various federal tax cuts and breaks enacted under President George W. Bush expire as well as the payroll tax holiday enacted under President Obama.

*About $1.2 trillion in federal spending cuts begin to kick in (approximately $110 billion a year for 10 years), divided equally between the Pentagon and most other federal agencies.

*Federal jobless benefits expire for 2 million unemployed Americans.

*The double whammy of tax increases and spending cuts is what's called going over the "fiscal cliff." If allowed to unfold over 2013, it could lead to recession, a big jump in unemployment and financial market turmoil, economists predict.

Taxes

"If lawmakers fail to work out any sort of deal, there will be severe long-term consequences for the economy: According to the Tax Policy Center, going off the "cliff" would affect 88 percent of U.S. taxpayers, with their taxes rising by an average of

$3,500 a year; taxes would jump $2,400 on average for families with incomes of $50,000 to $75,000. Because consumers would get less of their paychecks to spend, businesses and jobs would suffer.

Many economists, as well as the nonpartisan Congressional Budget Office, say the combination of spending cuts and tax hikes that are set to take effect would tip the economy into a new recession. The Congressional Budget Office has forecast that implementing all the mandated government spending cuts and tax hikes would reduce real GDP by 0.5 percent in 2013, with growth sinking in the first half of the year before resuming at a modest clip later in the year. The CBO forecasts that inaction would push up the unemployment rate to 9.1 percent by the end of 2013.

"The consequences of that would be felt by everybody," Federal Reserve Chairman Ben Bernanke said.

Spending Cuts

If the nation goes over the fiscal cliff, budget cuts of 8 percent or 9 percent would hit most of the federal government, touching all sorts of things from agriculture to law enforcement and the military to weather forecasting. A few areas, such as Social Security benefits, Veterans Affairs and some programs for the poor, are exempt.

The spending cuts, meanwhile, are phased in gradually. It's not as though $1.2 trillion would suddenly disappear from the economy at the end of the year: The cuts, while undeniably significant, are set to be phased in over a decade. In addition, there are budgetary maneuvers that can be taken to at least somewhat soften the blow of both the tax hikes and spending cuts. (The Treasury Department could, for instance, freeze paycheck withholding levels.) Certainly, total inaction on the "fiscal cliff" over the long term would likely have a deeply negative impact on the economy. But if a deal comes in January or February, after the deadline - as it well could - the structural damage could be relatively small."

VIEW OF THE ECONOMY GOING ITO 2013

If we are able to overcome the hurdles which lie ahead, it is generally felt that we could see a strong year ahead.

Richard Fisher, President of the Dallas Fed was interviewed by CNBC in mid December and laid out a powerful case for American business. His points are encouraging:

- ☺ American businesses are better equipped than ever before to compete on the world stage
- ☺ They have driven down their costs to make them 'hyper' efficient
- ☺ The collective balance sheets are the strongest they have ever been.
- ☺ Any debt on the balance sheet is being funded by ultra low interest rates
- ☺ Business is at the top of its game leading the world in I.T.
- ☺ Again, collectively, business is 'hyper' productive

In Fisher's words, 'America is the world's only thoroughbred'.

The 12 *MOST COMMON mistakes Investors make… and what <u>not</u> to do in 2013!*

Every year in the January newsletter, I re-emphasize the most common investing mistakes that you want to avoid. As your refresher, here they are:

Mistake No. 1: Procrastination.
Over your lifetime, waiting for the right time to get into the market can ruin your investments. The right time is NOW. Google- **<u>'market timing'</u>** -and you'll get over 10 million results. Aside from a few sites telling you "how to" do it (I call these snake oil salesmen) virtually all respectable sources will tell you it can't be done successfully over an extended period of time. The irony is the longer you wait to begin investing, the less time you have. Every day you delay is a day of opportunity lost that you can never get back again.

Mistake No. 2: No written plan.
If you don't know where you're going, any road will take you there! Different articles published in *Fortune* magazine, Money Magazine, MSN Money, Kiplinger's and others have stated that people with written financial plans end up with **two to five times**

more money during retirement than those without written plans. If you don't have an investment plan that's right for you, developing one should be a top priority in 2013. **DO YOU KNOW HOW MUCH MONEY YOU'LL NEED IN RETIREMENT????**

Mistake No. 3: Taking too much risk.
Investment risk is not a theoretical concept. There is a very real possibility that you will lose money in the stock market. We've seen this twice in the past 10 years. Investing, by definition, requires taking some risk. There is a direct correlation between risk & reward. Some however, take on too much risk for their comfort level. The right amount of risk will maximize your returns while still letting you sleep at night. Most investors don't understand what could go wrong with an investment when they make it… and they don't have a plan for what to do if things go badly. Having unrealistic expectations on how much an investment should appreciate will kill your portfolio. Most stocks don't make a major move of more than 20% in a short period of time. These are winners and, many times, should be cashed in.

Mistake No. 4: Taking too little risk.
To contrast Mistake # 3, some people are paranoid about the thought of losing any money at all. They want everything, absolutely guaranteed. Very low risk however, almost always equates with low returns. If you put your emergency money in a bank account and earn 1, 1.25, or even 1.5 percent, you may think you're taking no risk. But in fact you are taking on the very real risk that **inflation** will rob your money of its purchasing power…not to mention the taxes you'll have to pay on the little interest you did earn. Among the *'safest'* investments today, you will find government bonds paying you less than a lofty 2% for a 10 year loan. When you factor in inflation, how much do you think you'll pay for a gallon of milk ten years from now? Also, think about all of our modern day medical miracles. The good news is you're living longer. The bad news is, you're living longer…**that costs money.**

Mistake No. 5: Paying too much money to others.
Fees. Fees. And more fees. Some are overt, but not really talked about. For example, mutual fund investors throw a lot of money away by buying front end load funds (paying as much as 5.75 %) instead of no-load funds or ETF's. Some are covert. Like, the ongoing expenses these funds charge (usually in excess of 1% annually). Investment expenses take away a significant portion of an investor's annual returns in order to pay the fund managers and the sales commissions first. Be prudent about how you absorb fees. Typically, an Investment Advisor will save you a lot of money here.

Mistake No. 6: Trusting institutions.
This mistake is one of the least understood. Like, why shouldn't you trust your bank or brokerage firm? O.K. let's examine both and you decide how much you should trust their advice.
BANKS: A classic conflict of interest. Your best interests are served by accounts that pay the highest interest rates. Your bank's best interests are served by accounts that pay you little or no interest at all, like passbook savings and checking accounts. Does your bank tell you to move your money somewhere else within the bank to get a higher return? Not usually! Does your bank push you into unsuitable annuities or mutual funds where they may have sales agreements paying them a lot of money?
BROKERAGE HOUSES: They also have a conflict of interest with their investors. Their first responsibility as a public company is to their shareholders…not their clients. Don't be lulled into thinking that they have your best interests at heart. The advisor might…the brokerage house, probably not. And, guess who the broker works for and gets paid by? Who do you think the broker is going to thank for his 2012 Wall Street bonus?

Mistake No. 7: Believing publications & TV.
"Best Funds for Next Year and Beyond"
"The 100 Best Mutual Funds"
"These Stocks are Real Steals"
"Star Funds: Six Standouts You've Never Heard of"
Those are all real headlines from the covers of popular personal finance magazines. Study after study shows that the majority of stocks and funds touted in such articles fail to do as well as the average of other stocks and funds in their class. Don't get sucked in! The investments being touted here were perhaps, last years' winners. This does not mean that they'll repeat this year. DO NOT chase performance.

Mistake No. 8: Failing to take little steps that can sometimes make a big difference.
Some examples:
- People fail to fund their IRA contributions by April 15th .
- People leave money in taxable accounts when it could more appropriately go into IRAs, Roth's, 401(k)

plans and annuities where they will save taxes by having their money grow tax deferred.

- Some employees don't maximize their 401(k) plan savings.
- Others may not maximize their employer contributions in their 401(k) plan savings by simply putting in matching dollars. This is free money.
- Investors have multiple small IRA accounts, paying an annual fee for each one instead of consolidating them into an account large enough to avoid a fee in the first place.
- People don't move their money from a checking account to a money-market deposit account at their bank. Or, they don't move their money from their bank's money-market deposit account to a non-bank money-market fund.

Each of these little steps makes a difference. And over a lifetime these little differences add up to one big difference.

Mistake No. 9: Accepting investment advice and referrals from amateurs.

If you had a serious illness, I hope you'd consult a doctor, not somebody on the street who had an opinion about what you should do. You should treat your life savings and your financial future with the same care as you would treat your health.

Too many people, however, make big financial decisions based on things they hear. The lure of the hot tip is all but irresistible to some investors eager to find a shortcut to wealth. Unfortunately, many investors have to learn the hard way that there are no safe shortcuts. Also, as I always mention at my seminars, "if it sounds too good to be true, it usually is".

Mistake No. 10: Letting emotions – especially greed and fear – drive investment decisions.

The two most powerful forces driving Wall Street trends are greed and fear. There's fear of rising interest rates, fear of inflation, fear of falling profits. Fear is why so many investors bail out of carefully planned investments when things look bleak – and since everybody seems to be selling at the same time…prices DO go down. That, in turn, reduces profits or increases your losses.

Greed blinds investors, making them forget what they ought to know. As I said earlier, if it sounds too good to be true, it probably **is too good to be true.** Too often, greed prompts many inexperienced investors – and some experienced ones too – to stuff their portfolios with aggressive assets that frequently lose them money.

There's another axiom in the investment business which has to do with trying to buy at the bottom or sell at the top. I call this the 20/60/20 rule. Those in the bottom 20% are trying to buy at the bottom and usually miss fantastic opportunities because the stock turned around and started heading north, and never came back their way again. They miss. Same thing goes for those trying to get out at the top. The stock makes a 'high' then retreats (maybe forever). They miss too. If you're satisfied in the 60% range you'll beat the other two types…hands down.

Mistake No. 11: Focusing on the wrong things.

It's generally agreed that asset allocation – the choice of which assets you invest in – accounts for over 90 percent of investment returns. That leaves less than 10 percent of your gains being attributed to choosing the best stocks and the best mutual funds and timing the market (which you cannot do). Most investors however, do things in reverse. They focus 90 percent of their attention on choosing funds and stocks and only 10% thinking about how to invest their money properly. This action greatly diminishes returns! And, once you do have proper asset allocation, remember that it applies only for today. Re-balancing is how you keep it *re-balanced.*

Mistake No. 12: Not understanding how investing works.

Diversification…diversification…diversification
(putting together non-correlated asset classes).

The entire point of diversification is to always have some things in a portfolio that don't work the same way as the others. This year's asset class winners may be next year's asset class losers. Another mistake: investors may put too much of their money into a single stock or mutual fund. Frequently, an investor's emotional attachment to one type of security takes on a life of its own. Then when their favored investment starts falling behind, the investor's confidence (stubbornness) persists. By the time the investor is finally willing to admit that things have changed, he or she has probably sta yed way too long and lost way too much money.

GOOD LUCK IN 2013 !!!