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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

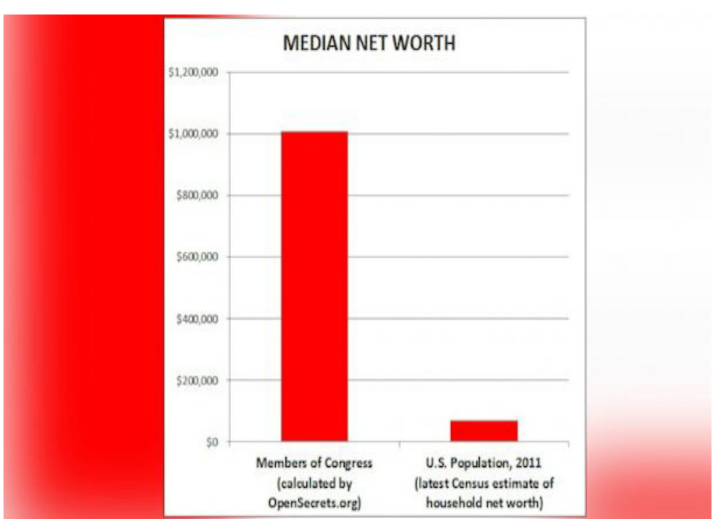
February 2014

I thought that I wanted a career…. turns out I just wanted pay checks.

Well, here's one for the books.

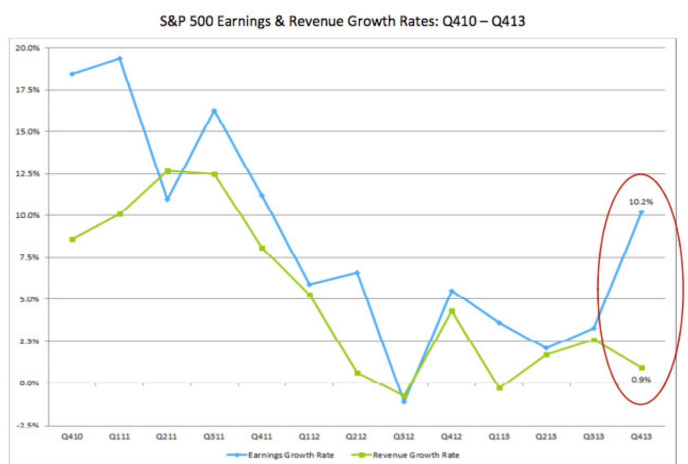
As of 2012, the base salary for all members of the U.S. House and Senate was $174,000 per year, plus benefits. That base salary is lower than that of many lawyers, doctors and business people in the United States. Both houses of Congress have not raised member salaries since 2009. Congressional members who reach leadership positions over time receive higher salaries. The highest of these is the compensation for the speaker of the House at $223,500, while the president pro tempore of the Senate and the majority and minority leaders in the House and Senate receive $193,400 annually, the Congressional Research Services notes.

So, a recent article in the Center for Responsive Politics publication kind of intrigued me: 'MORE MILLIONAIRES IN CONGRESS THAN EVER BEFORE. Turns out that 268 of the 535 members of Congress are worth more than $1,000,000. And here we thought our politicians didn't do much!



Are stocks getting a little frothy?

Although the advertised gains in the market last year were reported at around 30%, many investors got nothing close to that number. (See my January newsletter for an explanation). I bring this up because S&P earnings for 2013 were nowhere close to 30%. In fact, they were in the 4% to 5% gain.



The reason this is important is due to the fact that, ***generally,*** earnings drive stock valuations. There are many components, however, that go into what an investor is willing to pay for stocks: INFLATION; INTEREST RATES; ECONOMIC GROWTH; EARNINGS EXPECTATIONS; ALTERNATIVE INVESTMENTS and the big one GREED.

What this doesn't explain is why certain stocks can be bid up to the stratosphere. Amazon is currently trading at a price to earnings (P/E) of 1,390 and 20 times book value. Typically, I don't like paying a higher P/E than 10-12 or, more than 1 or 2 times book. I do not foresee my recommending that we buy this wonderful company anytime soon.

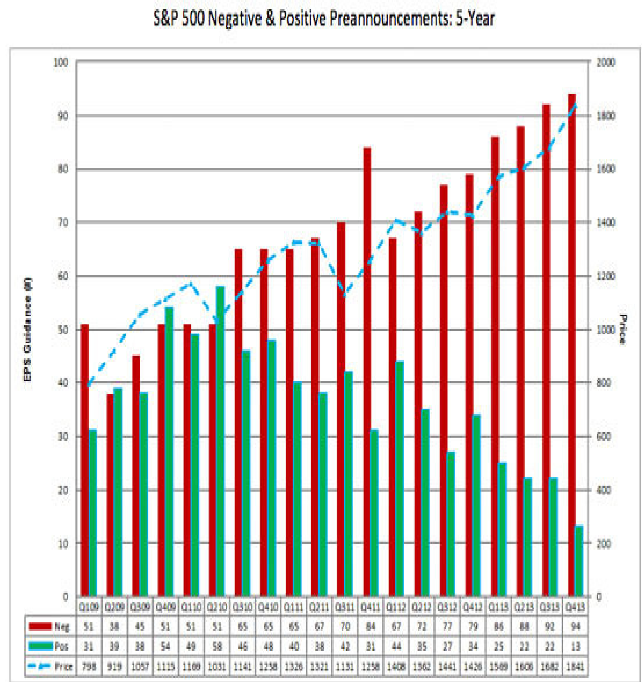
3D Systems trades for 21 times sales and 74 times forward earnings. Google's market cap grew by $90 billion in just the 4th quarter last year. $90,000,000,000! As the French would say, 'incroyable'.

By most valuation measures, stocks are currently trading above their intrinsic 'fair-value' at about 19.6 for the trailing twelve months. Stocks however, can move beyond slightly over-valued to very over-valued and finally to ridiculously over-valued, while you sit and watch. As John Maynard Keynes famously said, 'markets can remain irrational longer than you can remain solvent'.

Here's a chart of the S&P 500 covering the past 4 years. The important thing to note here is momentum. Since mid-2012 the trend has been up. There has been a series of higher highs and higher lows…meaning that the likelihood of the marker rising further from here is quite good, notwithstanding valuations.

But, there are caution signs out there that we need to be aware of. According to John Butters, senior earnings analyst at FactSet, 94 out of the 107 companies on the S&P 500 Index that have issued an earnings outlook for the fourth quarter have fallen below Wall Street consensus. That's a negative rate of 88%, the most pessimistic reading since FactSet started tracking the data in 2006.

It also marks the seventh quarter in a row that the number of companies issuing negative earnings guidance has risen, Butters said. By his count, the estimated earnings growth rate for the S&P 500 in the fourth quarter is 6.3%.



	Q109	Q209	Q309	Q409	Q110	Q210	Q310	Q410	Q111	Q211	Q311	Q411	Q112	Q212	Q312	Q412	Q113	Q213	Q313	Q413
Neg	51	38	45	51	51	51	65	65	65	67	70	84	67	72	77	79	86	88	92	94
Pos	31	39	38	54	49	58	46	48	40	38	42	31	44	35	27	34	25	22	22	13
Price	798	919	1057	1115	1169	1031	1141	1258	1326	1321	1131	1258	1408	1362	1441	1426	1569	1606	1682	1841

The American Institute of Economic Research recently put out a paper examining the economy and the market and what they hold for 2014. Although they feel that the economic expansion will continue through early 2014, they are cautiously watching 6 areas:

1. Fed tapering and interest rates and what the bond market reaction to both will look like.
2. Housing, and whether sales continue to grow, stall or contract.
3. Energy price swings.
4. Capital spending has been weak or negative in four of the last five quarters. Accelerated growth here is a support for the economy. Weakness, on the other hand indicates a slowdown.
5. Profit margins for U.S. companies are near record highs and will be difficult to maintain at current levels.
6. Debt demand and credit growth are a concern. Unless there is some acceleration in consumer and business borrowing, the U.S. economy is likely to be constrained.

At this point I think it would be wise to expect no more gains in 2014 than can be supported by earnings growth…probably in the single digits. Analyst forecasts right now are calling for just under 10% (which is probably a bit of a stretch).

For 2014 I suggest that you look for companies with good earnings power that are trading at reasonable valuations. Base hits score more runs than grand slams.

Are you having trouble finding yield?

Bank CD's	-NO
Treasuries	-NIETE
Junk Bonds	-NOT WORTH THE RISK

So, where do we go when we're looking for yield? There are in fact, several very good places out there. Below are my current favorites:

1. Preferred shares. They are paying between 6% to 7% and, if investment grade, are quite safe.
2. Blue chip dividend-paying stocks can be found offering yields between 3% - 5%, AND allow you to sleep at night.
3. Master Limited Partnerships are paying 4, 5 and 6 percent and are the backbone of our energy delivery system in the United States.
4. Electric utilities are offering dividends averaging about 4%.
5. Real Estate Investment Trusts (REIT's) give you a hedge with real estate exposure and generate about 4% to 5%.
6. Telecom stocks continue to pay 4% and 5%+.

In Search of Income—International Bond Funds

Frequently foreign governments offer a higher interest rate on their bonds than the US government does. Additionally, some foreign corporations might also offer a higher interest rate than the US companies. For investors, this could prove to be an opportunity to diversify in an area that offers potentially higher returns.

International bond funds invest primarily in bonds issued by foreign governments and corporations. There are different types of international bond funds—single country, single region, global (which includes US bonds), and foreign (no US bonds included). There are also industry and sector funds—utilities, government, telecommunications, and so forth.

What are some other reasons to consider international bond investments? Interest rates can move in different directions throughout other parts of the world. For instance, when US rates are low, rates in other stable countries may be higher. The same could happen to movements in the stock markets. Beware: of course, the opposite could also happen.

When you buy international bonds or bond fund shares you are opting for the potential of higher returns in exchange for accepting some additional risks. For example, foreign markets are often more volatile than the U.S. markets. These investments involve other special risks, including currency exchange, political and economic uncertainties as well.

Professional managers can sometimes help to mitigate these risks by monitoring international market developments and by adopting strategies to hedge against currency exchange rates. However, the additional time involved in managing these risks will usually result in higher management fees.

There are also international bond funds that invest in the area of emerging market bonds. Investing in emerging markets involves greater risk and potential reward than investing in more established markets. However, the risks associated with emerging markets include the risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates, and also adverse political developments.

Investing a small percentage of your assets in international bond funds could potentially increase your income by giving you the opportunity to profit from growth in other economies. However, you should have a complete understanding of the associated risks of these investments. For free information on the potential benefits and risks of these funds, please contact my office.

For Income-Seeking Investors TIPS are an Alternative for Immediate Cash Flow Needs

Low yields from bonds have led some income-seeking investors to seek out cash-flow-friendly alternatives. Treasury Inflation Protected Securities (TIPS), which are issued by the federal government, have been popular with income investors since their introduction in 1997 for this very reason. Plus, they offer a safe buffer from the threat of rising prices.

Additionally, some big name corporations are tapping the demand for inflation-protected securities by issuing bonds that are pegged to the consumer price index. These corporate inflation-indexed notes are also proving to be popular with investors, since they offer monthly payments that are adjusted immediately to reflect changing prices.

Corporate inflation-indexed notes are suitable for investors looking for immediate cash flow, whereas TIPS are generally suited for people seeking protection from rising prices down the road. That's because TIPS primarily adjust for inflation by increasing the principal value of the bond. For corporate inflation-indexed notes, however, changes in inflation are applied to the bond's monthly coupon rate. Therefore, corporate inflation-indexed notes often adjust more quickly to changes in interest rates, which can possibly provide more income over time.

Taxes can be a tricky issue with corporate inflation-indexed notes. Income from these corporate-issued bonds is subject to federal, state, and local taxes, while income from TIPS are exempt from state and local taxation. Because of this difference, effective after-tax yields for corporate inflation-indexed notes could be lower than those for TIPS (depending upon the investor's income tax bracket).

On the other hand, corporate inflation-indexed notes avoid a tax trap that often catches TIPS investors. When the TIPS' principal value is adjusted for inflation, the IRS considers this taxable income. The TIPS holder must pay income taxes on this income when it is realized—in the year that the bond's value is increased—even though the investor does not actually receive the income until the bond is sold or matures. Because the inflation adjustment for the corporate notes is made on the bond's coupon rate, and the bondholder immediately receives all income that is realized, the "phantom tax" that affects TIPS does not have an impact on holders of the corporate inflation-index notes.

It is important to keep in mind that consumer prices do not always rise, but can decrease, as was the case in the United States during the 1930's and Japan during the 1990's. Falling prices or "deflation" over a prolonged period would decrease the interest payments received by TIPS owners; additionally a TIPS investor could experience a loss of principal if the TIPS is sold prior to maturity.

Aside from the tax-consequences, keep in mind that corporate notes are subject to higher credit risk than TIPS since they are based on the credit-worthiness of the company issuing the bonds. In contrast, TIPS are backed by the full, faith, and credit of the federal government.

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☹ Beware of an IRS phone scam going around right now. The caller ID is spoofed to look like the IRS and they inform you that if you don't pay the fine, you will be prosecuted. Just know that the IRS only initiates contact via US mail; never by phone or e-mail.

☹ If you are a Medicare recipient and are hospitalized for 2 or more nights, be absolutely certain that you are admitted as an "inpatient", and not as "observation status". From Medicare's point of view, observation status is outpatient status which is NOT covered under Part A. That means that you are billed under Medicare Part B and are responsible for 20% of the hospital bill after meeting your deductible.

☺ An instruction letter is the best gift to leave your heirs and executor. The link below will help. http://www.owmlaw.com/PDF/documents/EstateMate.pdf

☺ If you're looking for deals when eating out, there are several web sites that can help:

www.yelp.com

www.foursquare.com

www.forks..com

☺ Thousands of forms for the IRS and Social Security can be found at: www.usa.gov/topics/reference-shelf/forms.shtml

☺ You can locate a variety of public records at www.publicrecords.onlinesearches.com