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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

January 2014

HAPPY NEW YEAR!!

Money can't buy happiness, but it sure makes misery easier to live with.

As we begin 2014, we can look back at a year that saw improvements with our investment account statements (provided of course that you were invested). As I write this, we still have a few more trading days left in 2013, however; all the major indexes look to be up over 20%.

I mentioned in an earlier newsletter that few investors will have experienced those kind of returns because of where those returns were found. Believe it or not, roughly 80 stocks did about 2/3 of the heavy lifting for the market...or said another way, the other 6000+ stocks only accounted for about 33% of the overall gains.

According to a report from Market Watch, here's a list of the top 5 sectors for 2013:

BASIC MATERIAL	+66%
TECHNOLOGY	+58%
UTILITIES	+57%
HEALTH CARE	+53%
FINANCIAL	+50%

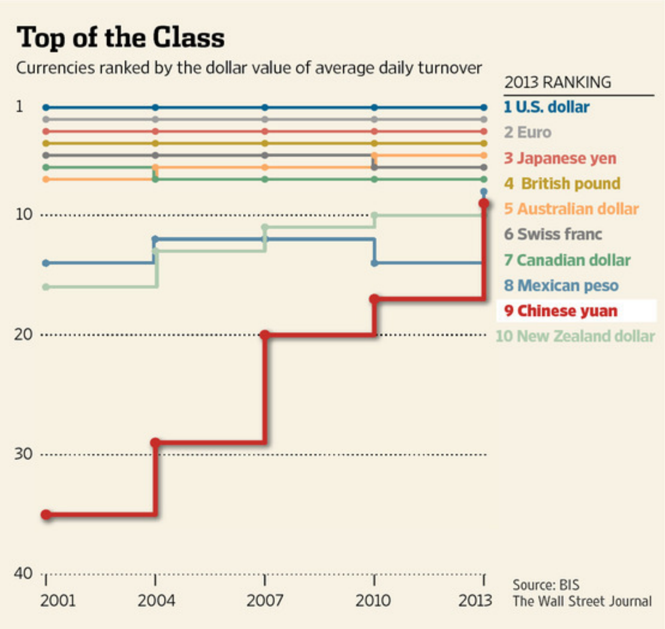
Very few investors were daring enough to jump into one or more of these sectors at the start of the year. However, hopefully everyone enjoyed profits for the year nonetheless.

I wondered why the baseball was getting bigger…then it hit me.

For the past year or so I've been writing about the changes we are witnessing with the U.S. dollar as the world's Reserve currency. (This has a HUGE impact on how much we pay in interest rates to our creditors and therefore how much of an effect it has on our budget deficits).

I've also been reporting on what the Chinese are doing to position their renminbi onto center stage with the Dollar, Euro, Yen and Sterling. In 2012, the Yuan, as it is also known, did not even make the list of the top 10 currencies in the world. Even little Norway was ahead of China. In fact 5 years ago basically no one traded, or accepted the Yuan…except the Chinese.

Now, take a look of what happened this year:



Top of the Class

Currencies ranked by the dollar value of average daily turnover

Source: BIS
The Wall Street Journal

Since January 1, 2010, here is what the Chinese have done to internationalize their currency:

*They signed a free-trade agreement with the 10 member Asean states of Southeast Asia. The ASEAN–China Free Trade Area is the largest free trade area in terms of population and third largest in terms of nominal GDP.

*They have bypassed use of the dollar by signing currency convertibility agreements with:

*Japan
*Russia
*Iran
*India
*Brazil
*South Africa
*Hong Kong
*United Arab Emirates
*Venezuela
*Argentina
*Belarus
*Turkey

The Chinese have been slowly and systematically divesting themselves of dollars by buying up hard assets all over the world. Here are a few examples:

- $2.2 billion invested in shale acreage owned by Chesapeake Energy.
- $3.1 billion for a 50% stake in Argentina's Bridas Energy.
- $1 billion into Chilean copper deposits.
- $4.6 billion for 9% of ConocoPhillips.
- $7.1 billion for 40% of Spain's Repsol
- $2.2 billion for potash owned by Canpotex.
- It has invested $1.1billion in Canadian minerals.
- Over $1 billion for coal deposits in Mozambique

They have been busy buying ownership stakes in gold mines from around the world: Canada, Australia, South Africa, Kazakhstan, Figi, etc. to the tune of over $1 billion. Most analysts think this is just the tip of the iceberg.

The vast majority of global specialists in Treasury research now feel that China's currency will become, at least, the third most important within 10 years…and probably sooner. The survey, "Offshore Renminbi" was undertaken by Standard Chartered Bank to gauge the global sentiment towards use of this rising currency.

Now the BIG news. China, in October, opened up bilateral *swap lines* with the European Central Bank and with Britain where they will exchange currencies…bypassing the U.S. dollar altogether. These types of transactions usually had to go through the dollar before foreign nations made the transfer. Now, most of the world commerce can trade freely with China without any mandated currency conversion through the U.S. dollar.

We can't fully know what the final ramifications will be for the U.S. dollar, but; it's safe to say world trade is changing radically, and we should position our stock and bond holdings accordingly.

CMG Global, a mutual fund company uses quantitative research to pick 50 stocks each year from a universe of 35,000 stocks in 150 nations. They screen for the best of the best. Their method has been given a five-star Morningstar rating. Their annual assessment is that we should be 20% invested in markets outside the U.S.A.

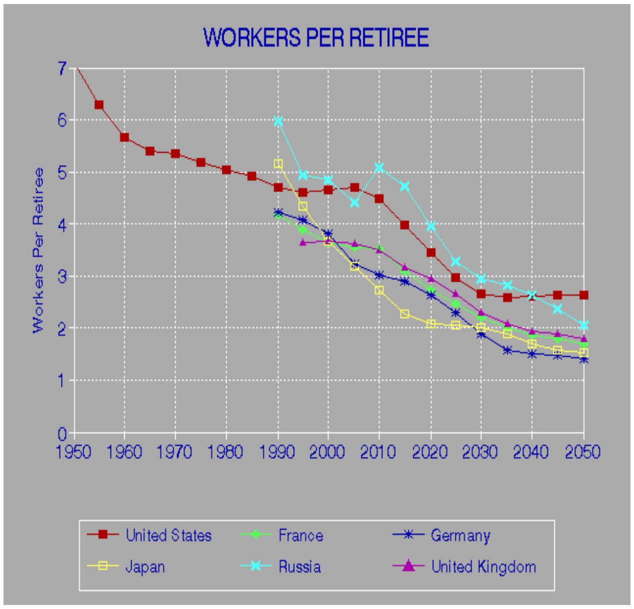
I don't approve of political jokes…I've seen too many of them get elected.

So, we have a two-year budget deal. Thank goodness. I don't think any of us can take more theatrics out of Washington. What, if anything, however, did this deal do to reduce the Federal deficit?

Well, here's the news. According to the House Budget Committee the deal will reduce the deficit by $23 billion……………….**over 10 years.** Kind of seems like a rounding error when we expect to be running a $1 trillion deficit sometime over that same 10 year period.

Over the next 25 years, estimates conclude that we will have more than 80 million residents age 65 and over, compared to the 45 million today. This will mean that there will only be 2.7 working citizens for each retiree, which is down from the 4.4 today. And, by 2050 we'll be down to 2. Yikes!

If it's any consolation, our friends in the rest of the developed western world aren't faring much better (see chart).



One final note here has to do with the medical miracles that we are witnessing today. Longevity is going to add to our fiscal woes and debts. I think it's a fair assumption that our kids are going to have to work a lot longer and probably get fewer benefits. Whatever their age today, we need to be encouraging them to start saving NOW for their retirement.

Some people are like Slinky's; not really good for anything, but you can't help smiling when you see one tumble down the stairs.

INSIDER TRADING: There's nothing better to see than the people trying to game the system by acting on non-public information get brought to justice. We, the *little people* play by the rules in our attempts to make money in the market…these other folks try to take short-cuts.

This past year has seen some pretty big cases:

SAC Capital's Michael Steinberg
Ex Microsoft executive has just been charged
Former Qualcom executive
Green Mountain employee and friend
Former high ranking official at Banco Santander
Traders involved in Onyx Pharma acquisition
Laidlaw Energy Group CEO
KPMG partner
The brother of Raj Rajaratnam

…to name a few.

However, there are some insider trades that are both legal and worthy of our attention. Peter Lynch, the former manager of the Fidelity Magellan Fund, had one of the best investing track records in Wall Street history. Here's what he had to say on the subject of legal insider trading in his classic book, *One Up on Wall Street*:

"There's no better tip-off to the probability of success of a stock than that people in the company are putting their own money into it. Insider selling usually means nothing, and it's silly to react to it. There are many reasons that officers might sell. They may need the money to pay their children's tuition or to buy a new house or to satisfy a debt. They may have decided to diversify into other stocks. But there's only one reason that insiders buy: They think the stock price is undervalued and will eventually go up."

The nice thing here is that this information is both public and relatively easy to get. You can go to the web site www.j3sg.com and sign up for free alerts. These reports can be a good starting point to do some research on the company. Happy hunting.

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☺ If you wish to do some research on your family tree, start by going to www.GenealogySpot.com

☺ Feeling stressed. Go to www.calm.com

☺ Looking for some help with your travels around the Northeast. Try

www.wanderu.com;

www.bustripping.com

Next, and for my regular readers, you know that I like to start off the New Year with the list of the 12 most common investing mistakes. This year however, I'm going to make this the Baker's Dozen: I hope you get some actionable advice here.

The 12 +(1/2) *MOST COMMON mistakes Investors make… and what* ***not*** *to do in 2014!*

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- **'market timing'** -and you'll get over 74 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. The saddest thing I've seen and read about since the market bottomed in March of 2009, is that many people were so shaken by the losses in the market that they never got back in. They missed a 250% rise since the March 2009 close of the Dow at 6443.

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 2014. **DO YOU KNOW HOW MUCH MONEY YOU'LL NEED IN RETIREMENT????** It's probably more than you think. **DO YOU KNOW HOW MANY YEARS YOU'LL SPEND IN RETIREMENT?** It's probably more than you think.

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 three times since the turn of the century. 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…subject to rule **12 ½ .**

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 a lofty 2.9% for a 10 year loan, or 3.9% for a 30 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. (There's my shameless plug for the year!).

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 you 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 thanks for his 2013 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 stayed way too long and lost way too much money.

Mistake No. 12 ½: Not using trailing stop-losses.

Trailing stop losses do 3 things for you:

1. They let you ride your winners up.
2. They get you out of a trade before you either lose your profits or lose more than you intended.
3. They give your investing discipline and take emotion out of your trading.

I hope you and your families have a wonderful & safe holiday season.

GOOD LUCK IN 2014!!!