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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

OCTOBER 2014

I Went To The Bookstore And Asked The Clerk Where The 'Self-Help' Section Was: She Said "If I Told You, That Would Defeat The Purpose"..........................Steven Wright

Over my many years specializing in retirement planning, I have been asked countless times how best to withdraw money to fund a retirement. This month I have put together a quick illustration which summarizes a possible solution.

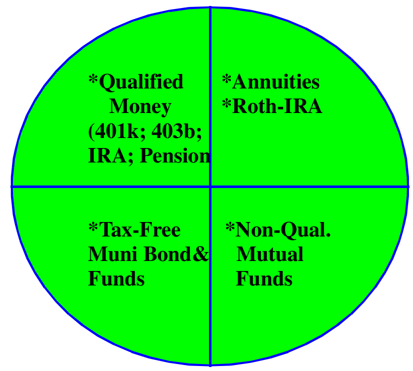
Please bear in mind that everyone's situation is as different as a fingerprint; therefore what you see here may, or may not apply to you; however; if you are as diversified as the 'green' example, this may be the way to save significant tax dollars.

LEAST EFFICIENT

INCOME DESIRED $100,000

Withdrawals from retirement account:	**$137,000**
Federal Income tax:	**- 30,500**
State Income tax :	**- 6,500**
Net Income :	**$100,000**
Taxes paid :	**$ 37,000**
	effective tax rate 37%

MOST EFFICIENT



INCOME DESIRED $100,000

Withdrawals from retirement account:	**$ 30,000**
Federal Income tax (15%):	**- 4,500**
State Income tax (6%) :	**- 1,800**
NET:	**$ 24,700**
Withdrawal from Mutual funds :	**$ 25,000**
(long-term capital gains (15%):	**- 3,750**
NET:	**$ 21,250**
Withdrawal from Roth-IRA (tax-free) :	**$ 15,300**
NET:	**$ 15,300**
Withdrawal from Annuity :	**$ 20,000**
@50% basis ($10,000@15% tax) :	**- 1,500**
NET:	**$ 18,500**
Withdrawal from Tax-free munis :	**$ 20,000**
NET:	**$ 20,000**
Net Income:	**=$100,000**
Taxes paid :	**=$ 11,550**
	effective tax rate:11.5%

(DISCLAIMER: tax rates shown here are for illustrative purposes only and this example does not constitute tax advice which can only be given by a qualified tax professional)

PREFERRED SHARES: DO THEY FIT YOUR RETIREMENT?? ……THEY ARE NOT FOR EVERYONE…..

As more and more retirees seek income in their portfolios, some are reaching out to the preferred share class.

Now, my clients know that I love preferreds...they offer among the highest yields while still incorporating a large margin of safety, however; it is **imperative** that every investor knows what the rules of engagement are. Otherwise they run the risk of being 'shaken out' of their positions because they didn't know up-front how these shares work.

Preferred shares are frequently issued by financial institutions and generally do not have a stated maturity date like a bond does. If and when they do have a date for maturity, the date is probably 30-40 years out.

The importance of this point (and I cannot overly stress this) is that preferreds are very interest rate sensitive. That means if interest rates rise here at home, the share value will likely fall.

When issued, preferred shares give a **fixed** rate of interest (for the life of the share) and are payable usually on a quarterly basis. They sell, again usually, for $25/share.

Like bonds they are also graded for investment quality. Therefore, it is very important that you look for for a grade that is **Baa3 or BBB-** or higher. This tells you that the issue is investment grade and the likelihood of a default is very, **very** low.

These securities are perfect for someone who wants a stream of income that can be counted on year in and year out...for the life of the issuer. Said another way: until, in the unlikely event, that the issuing company goes out of business.

Most preferred shares have an “out” in bad times, allowing them to skip their quarterly dividends. This is why it is so important to buy the preferred shares of strong companies.

If a dividend is skipped on that rare occasion, the company may be obligated to make it up on the next issued dividend. Also the issuing company cannot pay a dividend to common shareholders until their obligation is met for the missed dividend with the existing preferred shareholders.

Just so you put all this into perspective, I'd like to give you a true example of what happened during the last financial crisis.
*stocks went down 50%
*bonds went down 50%
*preferreds went down 50%

In other words there were a lot of babies thrown out with the bath water.

HOWEVER

Preferred shares and bonds continued to pay their declared dividends. So, if the dividend rate at issuance was say 6% on a $25 share, that equaled $1.50/share/annum. That's exactly what happened. The $1.50/share came in yearly, on schedule, because the share price really didn't matter. In fact, during the ensuing economic recovery those same shares that may have dropped to $12.50 came back to their $25 value...or even higher.

The final point I would like to make about this security is this: **YOU MUST BE WILLING TO HOLD IT FOREVER.** The reason you bought it was to guarantee a revenue stream. Providing you don't sell it, that is exactly what you'll get.

I Want To Die Peacefully In My Sleep Like My Grandfather. . . . Not Screaming And Yelling Like The Passengers In His Car.

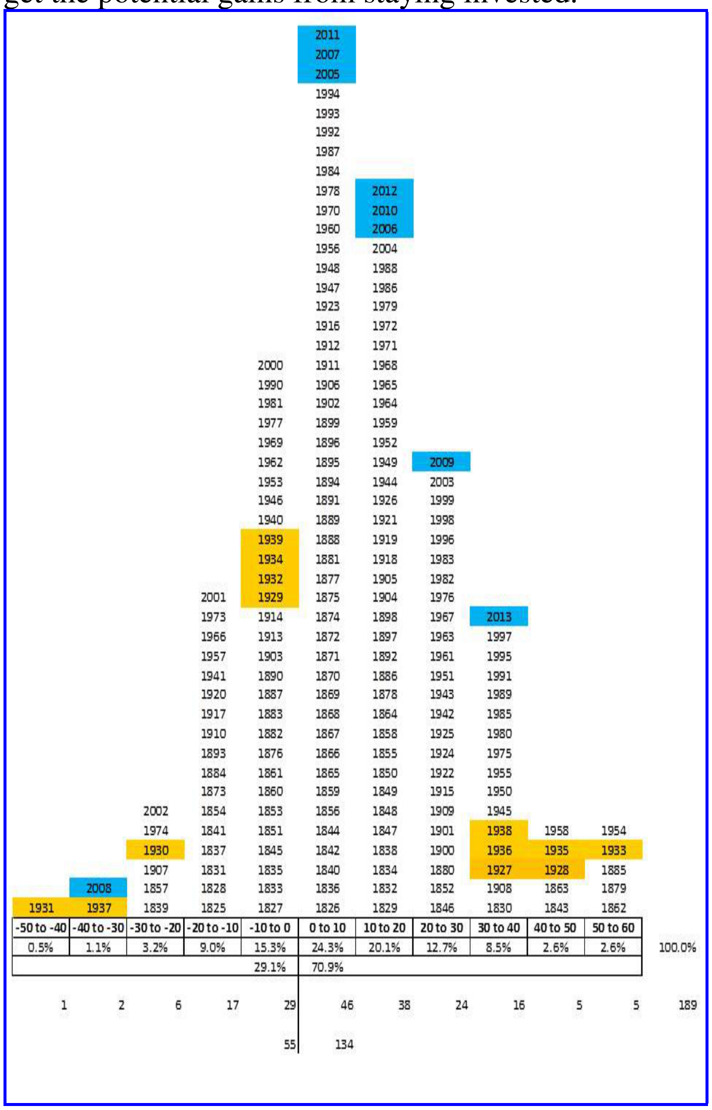
This joke came to mind when I thought about the talking heads on T.V. proclaiming the end of stock market as we know it. I am seriously at risk of sustaining an injury while frantically trying to change the channel as fast as humanly possible. Kind of reminds me of the personal injury lawyer commercials.

What I'm seeing more and more on these Financial networks is all doom and gloom. I guess the old adage of 'bad news sells' is alive and well. Although, and as I continue to say, we are closer to the end, than the beginning, of this six year old bull market, however: I do not believe the time to pack up and leave has arrived just quite yet.

I came across a great chart which looks at market performances between 1825 and 2013. What it shows us is the market is more likely to be up than down in any given year. In fact, over the 189 years this chart looks at, we have had 134 years in the black vs. only 55 years in the red.

Now, put another way, and if you continue to do your calculations, this means we have a 86% chance that the market will finish the year better than -10%.

No one likes to lose money, and I'm not making light of such a situation, however; if we have only a 14% chance of losing an amount greater than 10% in the average year...over a period of almost 200 years...I consider those pretty good odds in order to get the potential gains from staying invested.



There's also a lot of talk about the market being frothy. This may surprise you, but according to Bespoke Investment Group (a market statistics firm) the average S&P 500 stock is currently down 7.2% from its 52-week high.

You're probably wondering how can this be, with the S&P hitting record highs almost every week. This can happen because the S&P 500 index is 'capitalization weighted' and is therefore directly influenced by the largest stocks in the 500 group.

So, maybe it's not so frothy afrer all. Another point of interest : Prior to the market correction of 2000, P/E multiples then were about 50% higher than they are today.

The fact of the matter is that throughout history virtually all major market corrections happened because of an overly tight monetary policy (which is clearly not the case today) or a recession (which is also not the case). So my question to all the nay-sayers is this: What is going to precipitate the next major correction? Again, I'm talking abut something bigger than 10%.

As I've said in the past, I'll be looking at a couple of signs that the party is coming to an end.

-rising interest rates (probably not til Q2, 2015)

-lower, or falling S&P earnings

-lower, or negative GDP growth

I am also including a chart of the "10 Worst Bear Markets from 1929 to present, and their Subsequent Bull Market Rallies". The chart was created in March 2009; ironically that's the month that this newest bull market began. I updated the data through March 2010 in order to have the same comparison with the subsequent one year rebound.

The overriding conclusion, when these two charts are carefully examined, is that the stock market is a very resilient mechanism. It has proven itself to be quite predictable over almost two centuries.

The worst thing an investor can do is to allow he/she to be frightened out of the market. Trying to time when to get in or out of the S&P 500 has not proven to be a very effective strategy.

There have been far too many people, in this last bear market, who turned their paper losses into real ones...and then didn't get back in. They missed out on one of the best bull markets in history.

In summary: this market, which has been going strong for the past 5 years, is without a doubt the most hated in history. Don't let the screaming and yelling from the back-seat passengers scare you away.

Top 10 Worst Declines and Rebounds Within One Year*

	Decline	Rebound
Sept. 1929-July 1932	-89.5%	+172.2%
Mar. 1937-Mar. 1938	-50.2%	+63.0%
Jan. 1973-Dec. 1974	-46.6%	+56.0%
Sept. 1939-Apr. 1942	-41.3%	+48.3%
Aug. 1987-Oct. 1987	-41.2%	+35.8%
Jan. 2000-Oct. 2002	-38.8%	+36.9%
Dec. 1968-May 1970	-36.9%	+52.7%
Nov. 1961-June 1962	-29.2%	+39.7%
Sept. 1976-Feb. 1978	-27.7%	+22.3%
Feb. 1966-Oct. 1966	-26.50%	+29.4%
THIS IS OUR MARKET TODAY Oct. 2007- Mar. 2009	**4TH WORST -44.50%**	**ALLTIME +66.60%**
AVERAGE REBOUND		**+55.6%**

(As I mentioned this chart was created in March 2009...which was the bottom of the last bear market that we just went through. Since its nadir, the Dow has gone from 6496 to its current level of 17,210. That's a gain of 265%.)

I've been saying for a very long time, the best way to protect your portfolio is:

1. **Don't overspend for your stocks.**
2. **Diversify.**
3. **Use Asset Allocation.**
4. **Position size: 5% or less per stock.**
5. **Use trailing stop losses.**

MISCELLANY ☺

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☺ **If you're going on a cruise be sure to check out the inside information on www.CruiseReviews.com**

☺ **VERY IMPORTANT: The Medicare fall open-enrollment is fast approaching...from October 15th through December 7th. This is your chance to change health plans and/or prescription drugs plans. If you need help evaluating plans and costs, call my office for assistance.**

☺ **This is probably something you haven't heard much about. It hasn't received a lot of press. The SEC has approved new rules forcing 'money market' funds to float their rate. This means it will no longer be the stable $1 per share NAV. Also, the funds will be allowed to *charge exit fees to avoid a rush for the exits* if/when the market severely corrects. Fortunately, we have time to figure out how to circumvent this rule which goes into effect in two years.**

☺ **I bet you didn't know that you can send a fax without a fax machine...for free. Well, you can. This is so cool. Go to www.faxzero.com**

☺ **Food for thought: Leaving an IRA to your grand kids, rather than spouse or your children, can maximize investment growth substantially because of the lower Required Minimum Distributions and their much longer life expectancy.**

☺ **More IRA rules: Beginning in 2015 the U.S. Tax court has stated that you are only allowed one IRA rollover per year....NOT per IRA account. One for the year, period, no matter how many IRA's you have.**

☺ **Finally, an IRA rule we can enjoy. The IRS has given positive guidance allowing us to convert 'after-tax' money from a 401k directly into a Roth-IRA...tax free!**