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SENIORS/BOOMERS NEWSLETTER

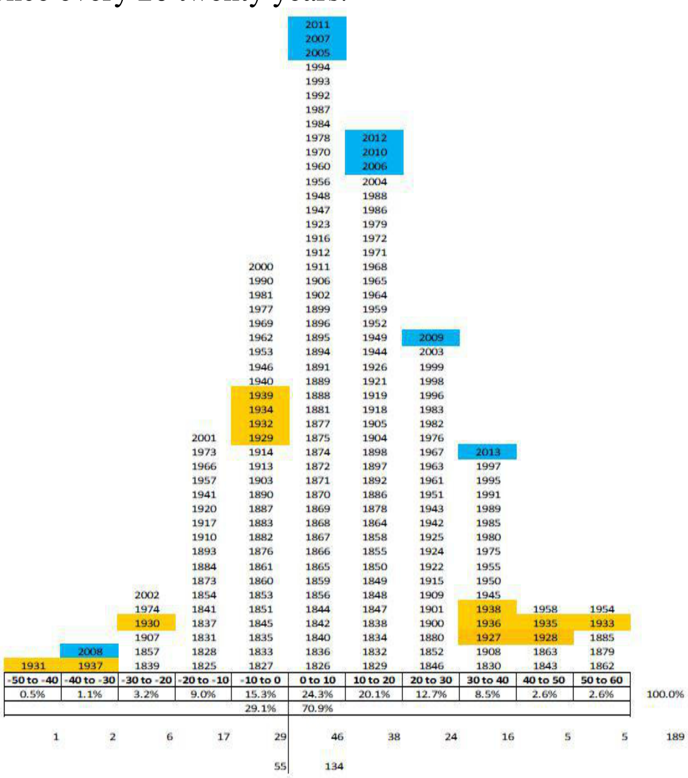
'the retirement experts'

March 2015

I stopped at a 24 hour grocery store and the guy was locking up. I said hey bud your sign says 24 hours. He said yeh, but not in a row.

The chart below provides some interesting facts. As we all know, over the long term, the market has a tendency to go up...but not necessarily all in a row! Between 1825 and 2013 (189 years) however, the market has had 134 positive years vs 55 negatives.

Forty-four percent of the time it finished between flat to up +20% for the year. Only 14% of the time did the market finish worse than -10%. And, only 4.8% did it finish worse than -20%. This is less than once every 20 twenty years.



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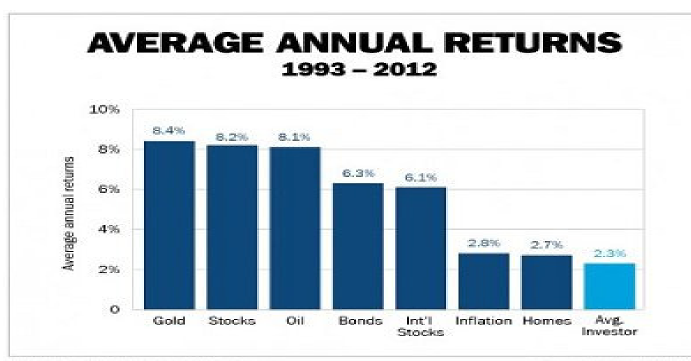
The reason I bring this up is that, although we can generally expect to show gains in our portfolios from year to year, there is no guarantee that this will be the case each and every year.

We have had an extraordinary run with the market since the correction which began in October 2007, and which bottomed on March 9, 2009. Look at the numbers:

	10/09/2007		03/09/2009		~ end Feb, 2015
S&P	1565		676		~2100
		-57%		**+310%**	
DOW	14164		6547		~18000
		-54%		**+275%**	

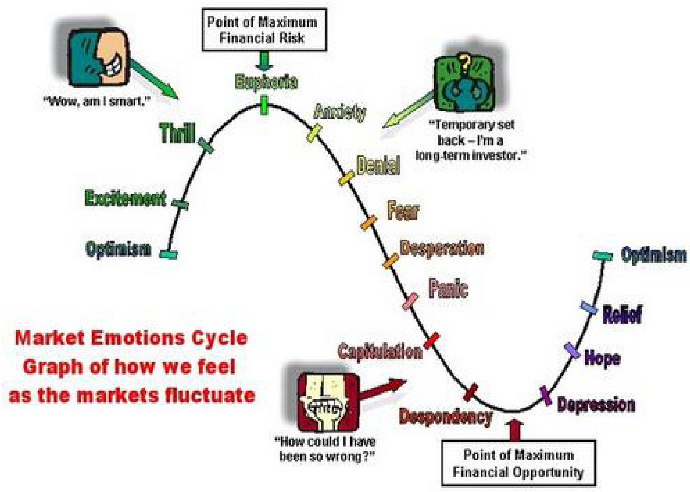
I hope you stayed in the market and participated in the gains. Unfortunately, many investors got out...and never got back in. They were waiting for the right time to make their move...which didn't materialize. Market timing just doesn't work!

This next chart actually shows the investment returns by category over the past twenty years. As you can see the average investor has significantly under-performed the market.



The reasons for this are numerous. There are high fees (especially with some mutual funds); lack of diversification and excessive trading to name a few.

But one of the biggest reasons for this phenomenon is selling out of fear...or holding onto their losers far too long. Emotional trading is a killer to a portfolio. The chart below outlines the pattern of emotional trading.



This brings me up to the next point, which is:

How to take emotion out of the equation.

There's an old truism which states 'well bought is half sold'. Do not pay too much for your stock purchases. It pays to be cheap! If you do adequate research beforehand, you should know if you're getting a screaming deal or not.

Remember these specific rules which will protect you in every kind of market.

1. Don't overspend for your stocks, to begin with.
2. Diversify your portfolio.
3. Use Asset Allocation.
4. Position size: no more than 5% on any one stock.
5. Use trailing stop losses.

The next feature of taking emotion out of the game is to stick to the **facts..**everyone's got an **opinion.** <u>Handy Hand-Outs</u> teaches school aged children how to tell the difference (my kids had this).

They say:
A fact states something that:

- **Happens.** "A lunar eclipse happens when the moon aligns exactly with the earth and sun."
- **Has happened** "Thomas Jefferson wrote the Declaration of Independence."
- **Is real or exists**. "The sun is a star."

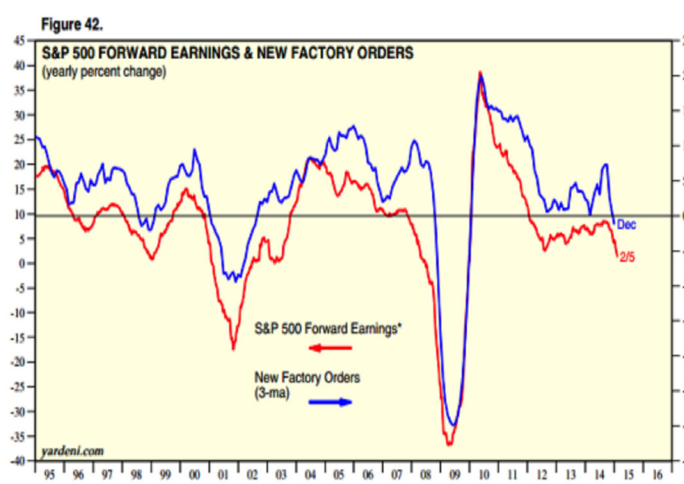
An opinion states something:

- **<u>Believed</u> to have occurred.**"The teacher gave a pop quiz because she got mad at the class."
- **<u>Believed</u> to exist**."The bus stop close to my house was built so I wouldn't miss the bus."
- **<u>Believed</u> to be true**."Grandma and Grandpa love me the most."

So, now that we have opinions out of the way (including what you may hear on the T.V. or radio) we'll take the Joe Friday approach...'just the facts ma'am'

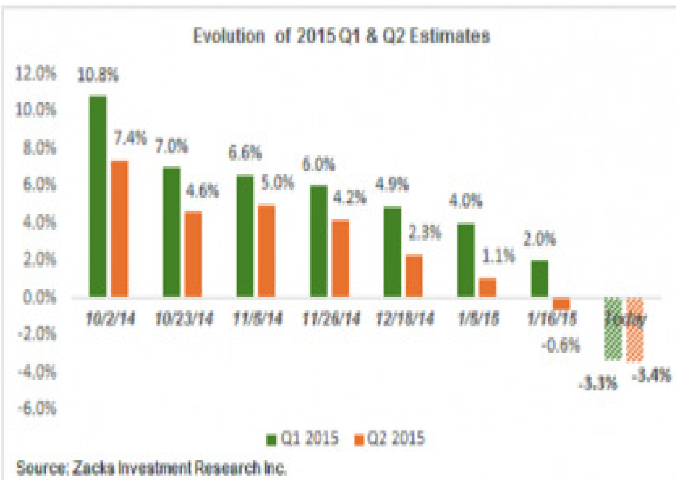
O.K. So here are some facts to consider for today's market, expressed in charts.

S&P 500 Earnings peaked in 2010 and have been going down ever since. When it comes to deciding what to pay for a stock, earnings are what drive stock valuations.



* 52-week forward consensus expected S&P 500 operating earnings per share. Monthly through March 1994, weekly thereafter. Time-weighted average of current and next year's consensus earnings estimates.
Source: Thomson Reuters I/B/E/S and Board of Governors of the Federal Reserve System.

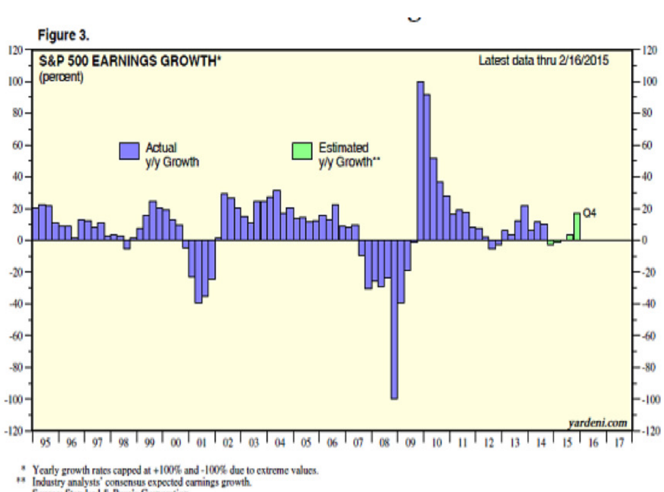
But, wait, you say. All the analysts are raving about the strong earnings season we're having so far this year. A report out a few days ago stated that of the 391 companies that have reported earnings, 77% have beaten the street's mean estimate. But, when it comes to facts, the devil is always in the details.



The chart above is very enlightening. Starting in October, downward earning revisions have been coming in faster than drink orders at last call.

The bar has been set so low that most of the companies have been able to step over it. According to Fact Set, even though earnings have not been great thus far, they aren't even as good as they pretend to be. Fully half can be attributed to Apple all by itself.

Here's another chart which clearly indicates just how poor earnings have been.



What is of most concern to me is that as bad as these earnings are...again, they don't tell the whole story. More from the devil.

Earnings have been artificially buoyed by many companies looking to put on a pretty face for Wall Street.

According to the chief investment strategist at BHWM Asset Management, “there's an awful lot of lipstick on the pigs this year with all of the buybacks. S&P companies are issuing high levels of debt and using the proceeds to buy their own shares instead of funding growth”.

Howard Silverblatt, senior analyst at S&P Dow Jones stated that in 2014 S&P companies bought back $599 billion of stock. That's a 20% increase over 2013.

Goldman Sachs estimates that we will see an additional 18% increase this year bringing the buyback total to $707 billion for 2015. The reduced share count obviously *'gooses'* earnings/share.

A third reason earnings look better than they actually are has to do with corporate profit margins. The more you cut operating costs and corporate expenses, the better the earnings. Matt Coffina of Morningstar had this to say about current earnings:

“ Much of the recent growth has really been driven by margin expansion. We can debate whether current margin levels, which are near all-time highs, are sustainable; but I don't think too many people out there believe that margins are going to continue expanding indefinitely into the future, which means that, inevitably earnings per share growth is going to have to slow”.

Kevin Cook of Zack's Research had a very interesting webinar a few weeks ago. Currently S&P earnings are projected to be $117 for 2015. Again, remember, this is likely to be revised (likely lower).

Nonetheless, if we go on the the high side for earnings at $125 instead of $117 we come up with a projected year end value on the S&P of 2000 based on an average P/E multiple for the S&P at 16 (16x125).

If we take the $117 instead, we could see the S&P end the year at 1872. (16x117). As we sit today the index is right around 2100.

A fourth reason to be wary of earnings is due to the surging value of the U.S. Dollar. As we saw in 4th quarter 2014 earnings reports, multinational companies are buying a lot fewer dollars with the currencies they are being paid in, and consequently are reporting sharply reduced earnings.

Finally, the last point for your consideration is the expected Federal Reserve rate increase by mid year. Higher rates will have an effect on earnings as borrowing costs are going to go up.

So there you have it. I'm not going to proffer an opinion here because YOU have the facts to make decisions for yourself. All I would say is that caution is probably warranted.

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☺ **If you ever accidentally closed a tab in your browser, you can get it back by pressing Control+Shift+T**

☺ **Did you know that you will often get 2 different prices for air travel between the same two points? Check the travel site for each country to see which gives you the best rate. (Eg; Expedia.com {for the USA} vs Expedia.fr {for France} for travel between NYC and Paris.)**

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☺ **The value of bond funds will drop if rates rise. Check the duration of the fund. For every 1% rise in interest rates, the reduction will be equivalent to the duration. (Eg: a bond fund with a duration of 3 years will decrease by 3% for every 1% rise in rates.**

☺ **Beware of the latest fraud against seniors. Some unscrupulous hospice companies may be claiming that non-hospice patients are eligible for broader Medicare funded services like nurse visits to their home, pain meds, oxygen, etc. These are aggressive enrollment practices.**

Could Your Deductions Increase Your Tax Bill?

As a diligent taxpayer, you probably keep good records so you can make the most of itemized deductions when you or your accountant fills out your tax return. Did you realize though, that those deductions might expose you to an entirely different set of rules that could result in additional taxes?

The alternative minimum tax (AMT) is a tax that could be more than the regular income tax. Congress's logic for the AMT was to stop individuals with high incomes from using special tax breaks and thus paying little or no tax at all. However, more and more ordinary taxpayers are finding themselves caught in the web of the AMT.

The Taxpayer Advocate Service, an independent organization within the IRS, reported that the AMT affects substantial numbers of middle-income taxpayers.

Especially exposed are those with incomes between $100,000 and $500,000. However, for taxpayers with incomes between $75,000 and $500,000[1] you too have to watch out.

The AMT has its own rules that are not as generous as the regular rules to determine how much a taxpayer should pay. If your regular income tax is below the AMT, you may be subject to pay the extra tax.

There are a number of items that are flags to the IRS.

- Exemptions for a spouse and dependents
- Medical expense deductions
- Income from passive activities
- Interest on second mortgages, unless the money was used to buy, build, or improve the home
- Interest on home equity loans, unless the money was used for home improvements
- Miscellaneous itemized deductions
- Investment interest expenses reported on form 4952
- Incentive stock options
- Tax-exempt interest from private-activity bonds

GOOD LUCK THIS TAX SEASON

1 http://www.cbo.gov/showdoc.cfm?index=6370&sequence=0