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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

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Don't Ask the Barber if You Need a Haircut

As you undoubtedly know, ***many*** market pundits are telling anyone who cares to listen, that it's time to scale back on investments because we haven't had a meaningful correction for.....

Although I am more tentative than say, last year or the year before, it's only due to the fact that it is increasingly more difficult to find bargain prices for interesting stocks. It has nothing to do with how long it's been since we suffered a market correction. That really is nothing more than a historical statistic.

I read an interesting take on this from one of the newsletter writers that I follow, Dr. David Eifrig (a former 'WallStreeter') who states that the market doesn't know where it's been or how well, or poorly it's performed. It has no memory. It lives in the here and now and responds to economic strength, business fundamentals and valuations.

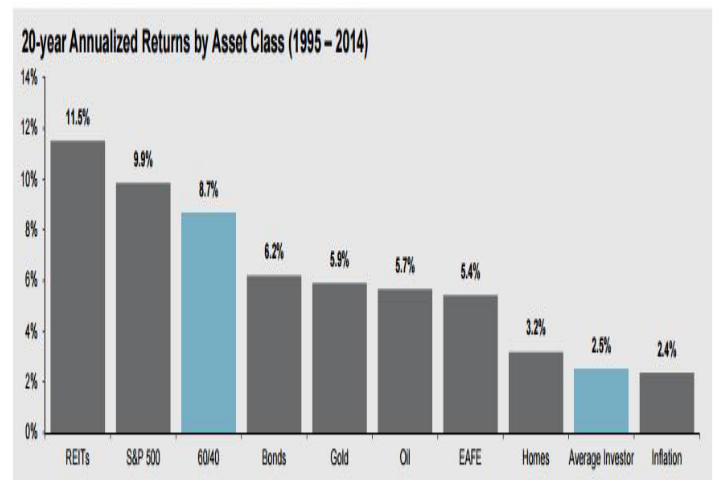
The analogy for this kind of thinking is called the 'gambler's fallacy'. For instance, the odds of flipping a coin and getting heads ten times in a row is 1 in 1,024. Therefore the question now is: if you flipped a coin nine times and got heads each time, what are the odds of the next flip also being a heads?

Many (most) people would tell you that it would be virtually impossible, but in fact that would not be the right answer. The next flip has a 50/50 chance of being a heads. There are only two possible outcomes.

The moral here is to not get caught up in the discussions that the market is over-due. It will correct, no doubt, but it will probably be for better reasons.

How are You Doing in the Market?

Quick. Without looking at the chart below, what have been the best investments over the past twenty years? How well do you think individual investors did?



Source: JPMorgan

Well, here goes. Real Estate Investment Trusts win hands down. But, a sobering statistic for you to look at is: While the S&P 500 has generated annualized returns of 9.9% over the past 20 years - and a boring old asset allocation of 60% stocks and 40% bonds has managed to return a solid 8.7% - the average investor has completely under underperformed with a 2.5% return.

The worse part is that inflation has averaged 2.4% over this same period, meaning that in real terms the average investor has returned pretty close to zero. And this during one of the best periods in this history of the U.S. stock market.

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This begs the question. How are returns that bad even possible? If the Efficient Market Hypothesis is to be believed, investors should roughly track the S&P 500 over time, not under-perform it by 75%.

There are a myriad of answers, including everything from over-trading to under-diversification, but the biggest contributing factor is performance chasing.

Investors don't park their cash in the mutual funds, stocks or sectors promising the best value. Often, they jump on whatever is trendy which epitomizes the case of closing the barn door after the horse has already bolted.

Source: [JPMorgan]

Statistics bear out the fact that the ***best*** mutual fund performers from last year seldom repeat. Their marketing shows a great year...which will bring up their 3 -5 & 10 average returns. Don't fall prey to this. Even strong a company stock that outperformed last year is likely to be beaten out by another company this year. Stay with fundamentals and tune out the noise.

Something Interesting Happened on the Way to New Market Highs

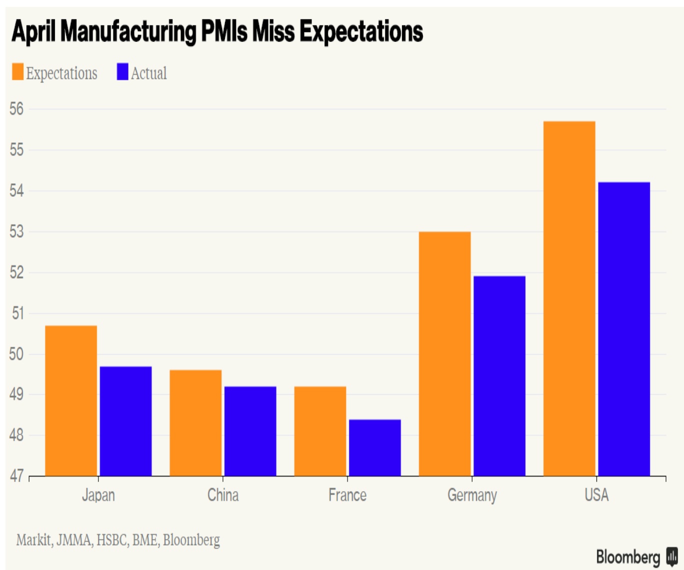
What the chart on the bottom, opposite (courtesy of Bloomberg), shows is rather interesting. As you know I've been cautioning prudence for some time now. Be very selective with your stock purchases. When you find a 'steal'...steal it! Otherwise, sit on your hands.

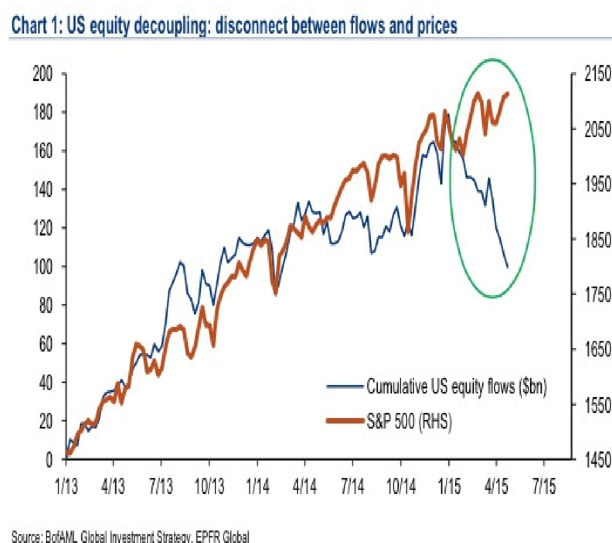
The markets are making new highs, as you know. So the assumption is that the world economies are done fine. Heck, better than fine. Great! But the chart shows a different story.

Manufacturing numbers from five of the world's economic leaders came up short in April. This should not be happening in rising markets. Also, we are now half way through earnings season and 53% of companies missed their sales estimates...which were already lowered.

So, how can markets continue to grow and make new highs when the companies who make up the markets are not? Great question. Struggling for an answer. Also, the Institute of Supply Management (ISM) showed the March numbers to be weak.

This next chart shows a sizable withdrawal of funds, almost 80 billion, that came out of the market since around the start of the year. That by itself, is not terribly significant, however coupled with the ISM reports and the earnings reports, reminds us that we should use caution in a fully valued stock market.
Stick to the fundamentals.





So maybe the growth leaders in the BRIC countries did better. Let's see.

MANUFACTURING				Number of consecutive months	
	Latest	Previous	Year ago	Below 50	Above 50
Brazil	46.2	49.6	50.6	2	
Russia	48.1	49.7	48.3	4	
China	49.6	50.7	48.0	1	
India	52.1	51.2	51.3		17

Sorry, no cigar. Oh well.

How is Your Credit Score Calculated?

There are 5 main factors that determine your FICOscore:

Payment history. If your credit score was a pie, the biggest piece would belong to payment history. It accounts for 35% of your score. That means making on-time or late payments on all your credit accounts can really make or break you.

Debt balance. The next piece is how much debt you owe -- it makes up 30% of your score. Credit companies really like people who use less than 30% of their available debt limit. That means if you've got three credit cards with a total credit line of $10,000, you don't want to ever carry a balance of more than $3,000.

Length of credit history. 15% of your score is determined by how old your credit history is -- in general the older your accounts are, the better it is for your score. But even people who haven't been using credit long can have high scores, depending on how good the rest of their credit report is, according to FICO.

New credit applications. Applying for new credit takes up 10% of the pie. If you apply for new credit every other month, that sends a red flag to credit bureaus.

Types of credit. As for the types of credit you have, this constitutes another 10% of your score. It's better to have low levels of revolving debt like credit cards and more kinds of non-revolving debt like a car loan or student debt. It just makes you look less risky.

Now that you know how your score is calculated, you'd probably like to know how to see your score as well. It costs about $15 to get your score from MyFico.com. If you don't want to pay up, some credit card companies have been adding credit scores to their customers' accounts as a kind of bonus. Barclaycard, First National Bank and Discover each provide the FICO score for free.

There are also plenty of free ways to check your credit score estimate online through sites like CreditKarma, Credit.com, Quizzle or Credit Sesame.

Just keep in mind that these sites don't give you your actual FICO score. They base your credit score on your credit history from one of the three major credit bureaus and then use their own algorithms to generate an estimate of your score.

Woodruff/YahooFinance

Would Your Heirs Spend It All?

Like most seniors, you have worked hard to get where you are financially. And you want to make sure that your heirs receive everything that you had planned to leave them.

To accomplish this, you may have even established a trust to reduce transfer costs and possibly shelter taxes. But what will happen once your loved ones receive their inheritance?

Will they invest it wisely for the future or quickly spend it all? Or will angry creditors line up at their door to get paid? You can be in control. An additional special clause within your trust may

possibly assure that the assets that you pass to your beneficiaries will last as long as you had wished.

A spendthrift clause prevents trust beneficiaries from voluntarily or involuntarily transferring current or future rights in the trust. Without this, beneficiaries have unrestricted ability to use the assets, and thus their creditors can attach those funds.

State laws determine the exact language and the degree of creditor protection spendthrift trusts offer. Nevertheless, the concept restricts the beneficiaries' access to the trust's property.

The trustee whom you select is usually given the discretion to distribute money as needed to the beneficiaries. This may be an ideal choice for a beneficiary who is financially irresponsible and likes to spend. Or you may want to provide for a loved one who has special physical or mental needs.

If you worry about how your children, grandchildren, or other beneficiaries might spend the money you leave them, you should plan to see an Estate Planning Attorney.

Valuing Your Valuables

When was the last time you had your valuables, collectibles, jewelry, coins, art, guns, and so forth appraised? Do you know what your "things" are worth? A valuation or appraisal of prized items could be important for several reasons.

First, your homeowner's insurance may have very low limits on these high-dollar-value items. Without a current appraisal, you might not be able to get the additional insurance coverage you need to replace these (often) irreplaceable treasures. Take a look at your policy. You might be covered for no more than $1,000 to $2,000 for jewelry, guns, silver, art, and other valuables.

In many cases, you can get a good appraisal at a shop that specializes in selling similar items. But you might want to make sure that the appraiser is certified by a professional organization (e.g., American Gemological Institute for jewelry appraisals). Without an appraisal it' could be difficult to know if you have enough insurance coverage.

Second, at some point you may want to sell the items for your own benefit. For example, you may have a large collection of your parents' and grandparents' antique furniture. Without an appraisal, it could be difficult to really know what these items are worth, which could hinder your efforts to obtain a fair and reasonable price for the items.

Also, it could be difficult to distribute your treasures fairly to your heirs if you don't have reasonable information on their value. Even worse, your heirs could be misinformed of the value of these things. In some cases, they might end up selling them at an estate sale, auction or even a garage sale for pennies on the dollar.

On a final note, the appraisal information you obtain could come in handy when making decisions about whether to insure something or store it in a safe location. For instance, the insurance value (replacement cost) of some items of jewelry or collectibles could run so high that you might choose to keep the items in a safe deposit box or fireproof safe and only take them out for special occasions. Of course, everyone's situation is different in this regard.

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