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SENIORS/BOOMERS NEWSLETTER

'the retirement experts'

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'We are happier in many ways when we are old than when we were young. The young sow wild oats. The old grow sage'..Churchill

The stock market has provided us with some turbulence over the past few months. The question on most investors minds right now is this the start of a correction?

As I have mentioned many times in the past, corrections generally begin with a recession; and we are ***not*** in recession mode right now. In fact, 2nd quarter GDP was revised upwards from 3.7% to 3.9%.

Consumer spending, the main engine for economic growth rose 3.6% in the quarter. Again, this does not usually happen when the economy is about to tank.

Home construction increased 9.3%. Exports grew 5.1%. The value of inventories increased by $113.5 billion. And most importantly, The Federal Reserve is still in accommodative mode.

But we have inflation to worry about. No, really we don't. How about job creation? We've averaged 200,000 jobs per month since January. How's unemployment doing? It's 5.1%...the lowest since 2008.

So, all in all, with all this positive data I am of the opinion that this market still has some upward mobility; notwithstanding the volatility.

The chart in the adjacent column gives you a summary of the current P/E ratios as well as the Forward P/E ratios for all sectors in the S&P 500. As you can see, although they are a little higher than the averages, they are not wildly so.

	P/E	Avg	Fwd P/E	Avg	P/S	Avg	P/FCF	Avg
ALL	20.19	19.18	16.19	14.83	1.99	1.58	27.32	24.7
Cons.Disc.	20.31	18.7	15.52	14.56	1.68	1.12	28.03	23.52
Cons.Stap.	23.84	20.48	18.58	16.27	2.14	1.54	42.76	39.28
Energy	19.26	17.8	29.29	14.38	1.42	1.94	18.48	30.59
Financials	17.32	16.16	13.68	12.38	2.7	2.03	23.12	12.26
Healthcare	25.88	23.76	17.13	16.85	3.4	2.93	28.83	30.04
Industrials	18	18.75	15.27	14.52	1.41	1.24	29.61	25.66
I.T. & Tel.	22.91	27.16	14.98	19.29	2.92	2.72	24.87	26.02
Materials	20.64	19.74	15.16	14.36	1.45	1.15	23.96	27.53
Utilities	17.33	15.21	15.3	13.15	1.59	1.11	34.7	41.5

This next chart illustrates the P/E ratios over the past 15 years. Again, today's number is reasonable for an expanding economy with zero interest rates.

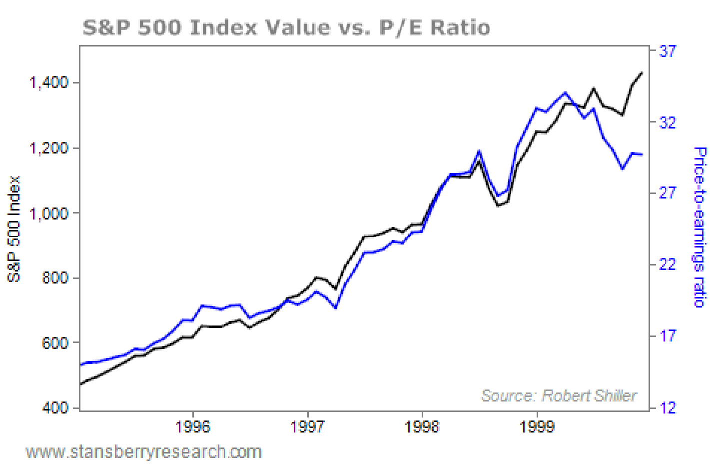
Finally, and I don't mean to 'chart' you to death, but I have 2 more illustration to show you. What I'm attempting to do is allay your fears so that you don't make wholesale changes to your portfolio just yet.

The 1990's were just about the greatest period for the stock market ever. The only year to sustain a loss in the S&P 500 was 1990...where the decrease was 3.1%.

Then in 1996, Alan Greenspan made his (in) famous statement about the market showing 'irrational exuberance' . Many people exited the market then and as you can see below, they missed spectacular gains for the rest of the decade!

YEAR	INCREASE
1991	30.20%
1992	7.50%
1993	10.00%
1994	1.30%
1995	37.20%
1996	22.70%
1997	33.10%
1998	28.30%
1999	20.90%

There's no question that this last chart shows a fairly steep rise in P/E values between 1996 and 2000, when the market actually crashed, however remember the prophetic words of John Maynard Keynes: “the market can stay irrational longer than you can remain solvent”.



So, the lesson here is don't be too hasty to exit your investing strategy until all the other signs are in place. And, one final point here...not to be understated is about earnings. They are still good. When we remove energy, earnings were actually up 5.2% in Q2.

Understanding the difference between Exchange Traded Funds (ETF) and Exchange Traded Notes (ETN)

Many investors tend to group both ETF’s and ETN’s in the same category. Both are tied to an index or basket of homogeneous companies and/or industries. Both offer lower fees than mutual funds and both trade like stocks throughout the day. Some of the dissimilarities are:

- **ETF’s actually own the underlying securities that go into their mix. ETN’s do not.**
- **Dividends are paid out in cash for ETF holders. ETN’s retain dividends in the total return of the note. This makes the ETN’s more tax friendly.**
- **ETN’s give the investor their promise to pay their NAV value but is backed only by the good faith of the issuer. Think Lehman Brothers. They can go out of business without any assets for you to get your hands on.**
- **ETF’s focus on stocks & bonds. ETN’s focus on asset classes more difficult to access, commodities and sometimes unusual strategies.**

Some aspects of trading ETF's and ETN's need to be understood so that you don't get whipsawed when trading them. Although they trade billions of shares every day...not every ETF / ETN trades in large volumes.

1. **Be sure you know what the trading volumes are.**
2. **Volumes can be very limited for exotic markets and/or regions.**
3. **Make it a point to know what the**

holdings are. Some may be illiquid.

4. **Smaller ones do shut down leaving you at risk for your share of the NAV.**
5. **Never trade using market orders. Some ETF / ETN can have spreads of over $1. ALWAYS place limit orders which gives you control over price.**
6. **BEWARE of high yield bond funds. You can literally lose your shirt on these. If everyone runs for the exit at the same time, prices are going to drop like a stone.**
7. **Also, some funds could own an investment grade bond that is re-classified as junk. That means that any fund that is only allowed to buy investment grade will not be buying that bond. This recently happened to the Brazilian oil company Petrobras and a fund company is now 'holding the bag' on $550 million of bonds they can't sell...unless they give them away!**

There are two theories to arguing with a woman. Neither works! **Will Rogers**

'Lady Luck never gives...she only lends'. (Proverb). This is a great old saying and one that we should heed when it comes to investing. We should not mistake luck for skill.

Nothing can replace good old fashioned research when it comes to finding a stock worth buying. (that's where the skill comes in). Doing your due diligence may not be easy but is is usually rewarding.

5 Ways To Analyze A Stock

There are a multitude of things to look for when you are analyzing a stock. Below are five metrics which will tell you if it's a good **value** to buy or not.

1. Free Cash Flow. This is the excess cash profit left over in a business after it pays all its expenses and taxes. In essence it is what you pay for when you buy stock in a company.
2. Another is, Return on Invested Capital (ROIC). An example would be if you needed to put $10000 in a business and it returned to you $1000; that's a ROIC of 10%. Now imagine, if you had a business that returned $2000…$3000...$4000; you get the point.
3. How about Earnings Yield (EY)? This is a calculation of what a company earned per share in the past 12 months divided by its stock price. For instance, if a company earned $2/share and it traded at $10/share, it would give you an EY of 20%. Not too shabby!
4. Dividends. According to researchers at Ibbotson Associates, the S&P 500 returned 394% between 1990-2010. Forty-three percent of that came from dividends. Another study by Ned Davis Research went back and looked at the period from 1972-2004. They discovered that dividend paying stocks turned $100 into $2368; or, said another way, they returned 23 times your money. On non-dividend paying stocks, the amount returned was $395…only 4 times your money.
5. Investing in stock splits. Analysis indicates that companies that split their stock 2 for 1 tend to beat the broad market by more than 3 percentage points for the next two to three years after the split.

One final note here is to be ready for the unexpected. You never know when a black swan event can come into play and totally disrupt the market. Keep your trailing stop-losses in place. As the old saying goes, a boxer rarely gets decked from the punch he was expecting.

MISCELLANY ☺

☺Beware of car rental companies offering auto-toll paying devices (like E-Z-Pass). Some charge as much as $4.95/day whether you use it or not.

☺If you are getting rid of a cell phone make

sure you remove your SIM card, then wipe the internal memory clean. You do this by going to SETTINGS/ GENERAL/ RESET/ ERASE/ ALL CONTENTS AND SETTINGS.

☺You can get 'free' printable planners at www.ScatteredSquirrel.com

☺If you want to be sure that you're getting the best price off Amazon, you can check at http://CamelCamelCamel.com/

☺It's pretty unbelievable what kinds of apps you can get for your smart phone today. How about:

***InstantHeartRate gives you your heart rate by simply placing your fingertip over the phone camera lens. ($1.99 in the app store)**

***Measure height and distance using your phone and this free app, Dot Measure in the app store.**

***The Google Translate app covers translations of major languages into English by pointing your phone's video camera at any printed material (including road signs).**

***CamScanner allows you to take a picture of any document and convert it into a PDF or JPG file for free.**

***Change the fonts to something maybe larger on your smart phone by going to Settings / General / Accessibility / Larger Text.**

☺You can get help getting your home ready for living in place by checking out www.nahb.org **then search for CAPS Directory (Certified Aging-in-Place Specialists.**

How Should You Position Yourself IF You Think INFLATION Is coming?

If we expect inflation sooner or later, (and we do) there are several things we can do to protect your investments and your spending power.

1. Diversify your portfolio… stocks, bonds, emerging markets, international markets, commodities, etc.

2. Invest in precious metals and/or the companies that mine them.

3. Purchase real estate (I know you're probably saying…are you nuts?). Remember, however, real estate mortgage rates are locked in for 30 years, so rising interest rates and inflation won't have any effect on the expense associated with this asset. You can also invest in real estate through Real Estate Investment Trusts (REIT's).

4. Load up on companies with pricing power. You know, the ones that make things that we can't do without. Groceries, medicines, razor blades, toilet paper, etc. These companies can usually pass on price increases faster than most.

5. Foreign Bonds. These usually pay higher coupons and are denominated in a foreign currency...IE; not in U.S. dollars.

6. Inflation-indexed bonds. For instance, Treasury Inflation Protected Securities (TIPS) keep pace with inflation.

7. Buy cash rich blue-chip stocks. The ones with a clean balance sheet, no debt and lots of cash on hand. Many of these companies today are trading at very low multiples and, therefore have little room to drop further.

8. Look for companies that get the majority of their sales & profits overseas. When they repatriate their earnings, those Rubles, Yen, Yuan, Reals, etc. they will buy more U.S. dollars when converted.

9. Dividend paying stocks have to be part of your protective shield. Here you want to look for not just any company paying a dividend, but a strong well known brand name. What's especially useful is a company who increases their dividend yearly. Every dividend increase is a pay raise for you…and a way to keep pace or keep ahead of inflation.