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BFAS Money Line

Are We There Yet?

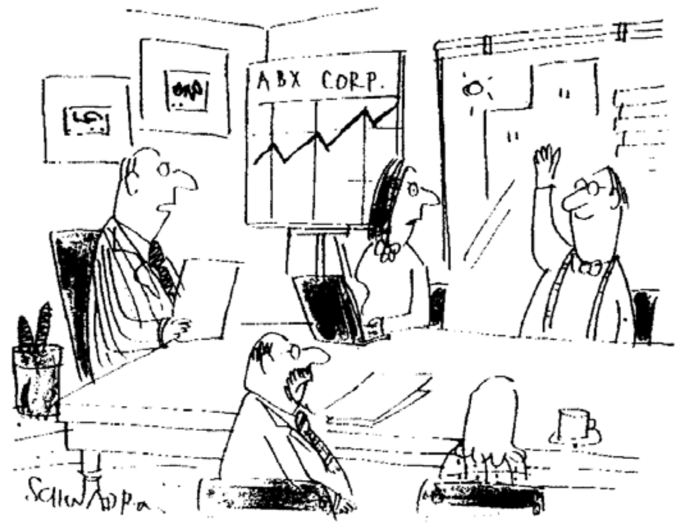
I opined in February that we might see a recession this year and this might be a good time to reduce some risk. While corporate profits are slowing along with the economy, the **stock market has been roaring for the last six weeks**. An opportunity lost or a sucker's rally? I couldn't say.

There seems to be much more to go in the ongoing housing slowdown. Foreclosures are way up and continuing to rise. Already some are talking about a taxpayer bailout (somewhat like the Savings & Loan bailout of the 80's) for those in jeopardy of losing homes.

Core inflation seems to be slowing somewhat. However, the food and energy costs not included in the core number are way up. Will the Federal Reserve only pay attention to the core number and lower interest rates later this year, or raise them due to concerns about the overall inflation rate (including food and energy)?

Will there be the first terrorist attack in the U.S. in six years?

Merrill Lynch's China analyst recently indicated the Chinese market might be over-bought and this would be a good time to take profits. Due to the trade deficit,



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"I agree, Sims, 'Honesty is the best policy.' It's just not our policy."

Congress is pressuring China to lower their exchange rate. This can cause higher costs in China and ultimately here. Further, protectionist trade policies (which seem good because they "protect American jobs") can dramatically reduce trade and severely hurt all the world's economies (and stock markets). Already, we are levying protectionist duties on some Chinese products. Does anyone think they won't retaliate?

The **yield curve is still inverted (a fairly reliable predictor of a recession sometime this year).**

All these indicators and many commentators say the market is due for a pullback as our economy enters a slowdown, if not an outright recession.

Since we are entering the vacation season, I thought it was appropriate to title this piece "Are We There Yet?" I don't think we are. We probably have a ways to go yet. The market has been very kind recently. Enjoy it, for it may not last!

The numbers in the chart below represent one-year returns:

Asset Class	1 Yr Rtn (04/30/07)
S & P 500	+15.24%
NASDAQ	+ 8.72%
Lg Cap Gwth	+10.57%
Lg Cap Val	+19.00%
Mid Cap Gwth	+11.66%
Mid Cap Val	+16.29%

Sml Cap Gwth	**+ 8.06%**
Sml Cap Val	**+12.50%**
Foreign	**+19.81%**
Interm Corp Bds	**+ 7.36%**
Foreign Bds	**+ 7.00%**

Social Security Tips/Traps

- Check your annual estimate of Social Security (SS) benefits to make sure your earnings history is correct.
- If both spouses work, each is entitled to a benefit based on his/her earnings history. However, the spouse with the lower benefit is entitled to the greater of 50% of spouse's benefit or his/her own benefit.
- Early versus regular SS retirement benefit analysis usually finds a break-even of age 78. If you will live past age 78, you'll be better off waiting until full retirement age.
- Choose direct deposit for your SS checks to avoid them getting "lost in the mail".
- If your spouse has a pension that will pay over only his/her life, delay taking SS so you'll get the maximum SS benefit.
- If you're divorced and your ex-spouse remarried, both you and the new spouse can collect benefits on the ex-spouse's SS record provided you were married for 10 years and you apply after age 62.
- If you are still working late in life, delay taking benefits until age 70. You'll receive about 30% more SS benefits annually (assuming good health).
- If you are a widow, you can take SS at age 60 (reduced benefit) or age 50 if disabled.
- Even though Medicare starts at 65, full SS benefits start later for those born after 1938.
- If you choose to take SS after 65, apply for Medicare about three months before 65.
- You must have 40 quarterly credits to receive SS (thus must have worked 10 years, not necessarily consecutively).
- If your Adjusted Gross Income is over $32,000 married/$25,000 single, you will pay income tax on 50% of your SS benefit. If over $44,000 married/$34,000 single you will pay income tax on 85%.
- If you take SS early at age 62, you'll not only limit your own benefit, but that of your spouse.
- If you are younger than full retirement age and work, earning over $12,960, you'll lose $1 for every $2 you earn above $12,960 and $1 for every $3 you earn above $34,440. After full retirement age, you can work without losing any benefits.
- If you go to prison, your benefits stop (although dependents can collect benefits).
- You can live abroad and collect SS benefits (except in Cuba or North Korea).

David vs. Goliath

In a little-noticed ruling in late March, the U.S. Court of Appeals for the District of Columbia ruled that the Securities and Exchange Commission (SEC) improperly created an exemption for brokers to give advice while avoiding the fiduciary requirements tied to advice-giving. This ruling could have a profound impact on your financial future.

For most of our history, financial services have been provided by brokers selling products for commissions and guided by the Securities Act of 1933. The best brokers develop good relationships with clients and try to help them by recommending "suitable" products. However, they are limited in what they can do by the firm they represent (they have a fiduciary duty to the firm, not the client).

Time after time, brokers have succumbed to the lure of buying and selling in an account (churning) to generate commissions, have sold clients stocks that the parent company is trying to get rid of, or have sold inappropriate products due to the lure of higher commissions.

In the last two decades, some financial advisors broke away from the product-selling mold and starting giving advice for fees only (hourly fee, flat fee, retainer fee or an annual fee on the investments being managed). They operated under **the Investment Advisers Act of 1940 that requires upfront disclosure of conflicts of interest, educational background and other professional qualifications, disciplinary history, business affiliations and clear disclosure of fees as well as specifying a fiduciary duty to the client.**

As the Fee-Only movement grew, the consumer press supported it since fiduciary advice reduced conflicts of interest and **placed the priority on the client's best interests.**

Sensing this new trend in advice, the major wirehouses (e.g. Merrill Lynch) met with the SEC in 1999 and asked for an exemption for their brokers to offer advice without having to register as Investment Advisors subject to fiduciary duty. Note: **Wirehouses have run from fiduciary duty the way Dracula avoids sunlight**. The wirehouses claimed that allowing brokers to give advice in fee accounts (wrap accounts) was incidental to the brokerage relationship and gave clients a choice of how to pay for financial service (commission or fee). They further argued that **brokers should only be subject to the suitability standard which covers all commission transactions**.

"We're expecting stocks to rally but we don't know which ones and when."

The SEC agreed with the wirehouses and approved the exemption because they felt it improved consumer choice. Subsequently, the **wirehouse advertising** (big bucks) **emphasized their role as advice givers** (this was incidental to brokerage activity?) We have all seem commercials by Ameriprise (Dream book), Morgan Stanley, Merrill Lynch (Total Merrill), etc.

As a result of the SEC ruling, **consumers incorrectly assumed that a broker providing investment advice** (as opposed to executing transactions for a client) **and an independent Investment Advisor both had a fiduciary duty to the client**. Numerous surveys have confirmed this confusion.

In 2005, the Financial Planning Association filed a lawsuit against the SEC's ruling allowing the broker exemption. Groups objecting to the exemption included AARP, AICPA, CFP Board, Consumer Federation of America, TD Ameritrade and T. Rowe Price. Groups supporting the exemption included Merrill Lynch, American Express, Morgan Stanley, Northwestern Mutual, Smith Barney and Wachovia.

Thus, it was a **huge upset** when the financial community learned in late March **that the exemption had been overturned by the Appeals Court**. The **wirehouses now have a few months to eliminate the fee accounts (make them brokerage accounts again) or to convert their brokers to Investment Advisors with fiduciary duty**.

As an alternative, their big bucks might go to Congress to achieve there what the court has denied them. Almost 50% of Investment Advisors are small solo shops who have limited marketing budgets and virtually no money to buy influence in Congress. Thus, David has won so far. Time will tell whether the wirehouses will "get it" and create advice divisions with fiduciary duty and appropriate firewalls from the brokerage side. Then, their clients will actually have a choice and all clients of any advisor who pay a fee for advice will know that the advisor has a fiduciary duty to them.

Like I said, little noticed, but big possible impact on your financial future.

LTC Ins

Although many people think Medicare pays for Long Term Care in nursing home, the reality is Medicare rarely pays. Medicare fully covers skilled nursing care (such as after a knee replacement) for only 20 days (up to 100 days with a large daily deductible).

Many people have resorted to Medicaid, but recent Congressional action has made it very difficult to qualify. Congress clearly wants you to self insure or purchase LTC Insurance.

LTC Insurance is complicated, with myriad options. The Virginia Bureau of Insurance has **a Long-Term Care Insurance Rate Guide** that gives you questions to ask, describes terms and (most importantly) provides rate comparisons for a number of LTC policies.

As an example, it shows a $100 daily benefit for a nursing home and a $50 daily benefit for home health care with a 0 – 20 day elimination period and a total of two years of benefits. Prices for a 60 year old range from $484 for United Teachers Associates to $2,448 for AFLAC. **Call 804-371-9741 to get your copy!**

SSI and Living Costs

This year's maximum SSI payment is $623. When your child with a disability lives with you, Social Security asks you a number of questions to determine the child's "fair share" of living costs.

Social Security will want to know your how many people live in the household, monthly expenses for mortgage, insurance, utilities, groceries, etc. They will divide the total monthly cost of living by the number of people living in the household to determine a "fair share" of living costs.

If the child is not paying their fair share, SS will deduct one-third of the SSI amount to make up for the living costs the family is "giving" to the child with a disability. This year, that amount of deduction is $206 and this **reduces the SSI payment to $417**.

Many families receive this reduced amount and believe that nothing can be done to receive the maximum $623.

Here is an example of how this can work. Assume the monthly living expenses for a family of three is $1500/month. The child's "fair share" would be $500. However, upon applying for SSI, the initial payment for the child would be the reduced amount of $417. Even if all of the $417 was applied to living costs, the child would not be able to pay their fair share and the benefit would seemingly be forever stuck at the lower amount.

Mr. Earl Johnson, who is the spokesperson for the Regional Social Security office, says that**, if the child is paying a flat monthly amount for living costs and if that amount is at least $250/month or so, you should be receiving the maximum SSI payment of $623**. Sadly, the Virginia Beach Social Security office is interpreting the Social Security regulations differently and refusing to count a flat rate towards living costs.

I am currently appealing just such a decision by the Virginia Beach office and will advise you of the results (I expect to win since I have the exact sections of the SS manual that discusses flat rates).

On a side note, I have also received information that the Virginia Beach Social Security office has been rude and insulting to applicants for SSI. The national point of contact for financial advisors says that, if you run into such conduct, politely but firmly ask to speak to the office manager (not the person's supervisor).

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