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BFAS Money Line

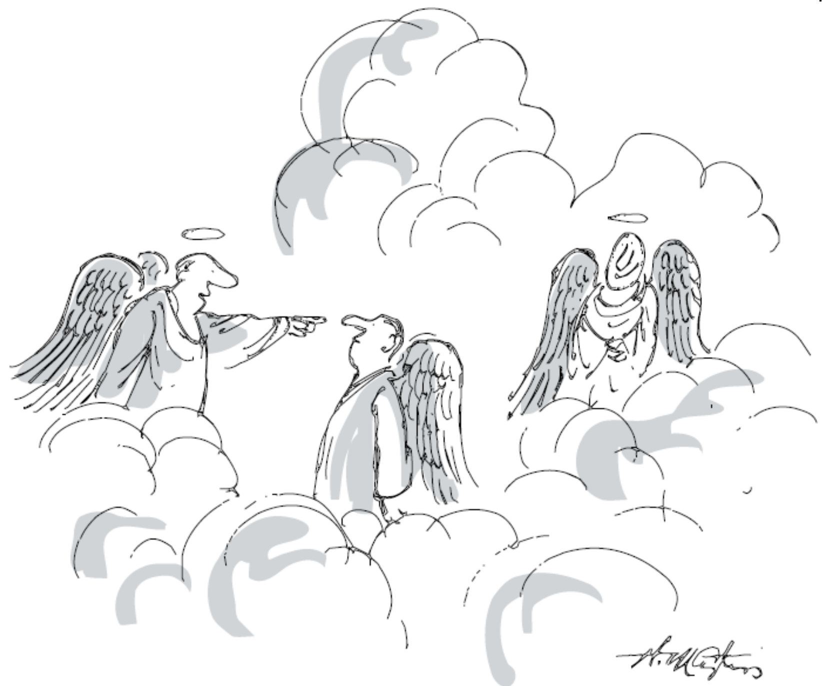
36% Rise, No Smiles?

My last newsletter suggested the market bottom was last November. Just a few short weeks later, the market created another bottom (10% lower) on March 9th (down 27% YTD). Since then, the market has climbed almost 36% to finally surpass the January 1st value.

So why are there no smiles after a 36% gain in the stock market? Primarily, it's because we have this natural human tendency to "**anchor**". That is, **we all remember the value of our portfolios on October 9, 2007 (market peak) and constantly compare the current numbers to it**. Since the 36% rise has only made up this year's losses, not last year's, frowns are still more common than smiles.

Will that 36% increase hold? I have no idea. The first quarter was pretty ugly and this quarter, with two car companies facing bankruptcy and bank solvency in doubt, does not look too good. Most people are pointing towards the fourth quarter for the economy to finally turn upwards. A large majority expect the economy to be out of recession in 2010.

Many economists believe this market rise is a bit premature and we might experience one more stomach churning drop before "the real Bull Market" starts. So, no, I don't know if this bull market is the real thing or not. Can't we just enjoy it?



"You were a Wall Street executive? Have Simkins over there recheck your paperwork."

The economy is giving us mixed signals right now. The stimulus package is just starting to have an impact. Manufacturing is improving and inventories are low. On the other hand, unemployment is high and headed higher (10% plus). Since unemployment traditionally continues to rise even after the economy starts growing, this is to be expected, though.

With unemployment staying high for awhile, more people will be falling behind on their credit. Credit card and mortgage defaults will continue to be a problem and slow the real estate recovery.

In addition, about $600 billion in commercial real estate loans must be rolled over this year. With the large banks limited by assets, many loans may default and cause even more empty storefronts/malls.

We consumers have cut back spending and increased savings, a wise thing to do. However, the reduced credit in the economy couple with reduced consumer spending probably means this

recovery will be less robust than past recoveries.

The 7 trillion dollars sitting in cash right now may well buoy the market once investor confidence improves, but **the market will be driven fundamentally by earnings, and they are likely to grow more slowly than in years past.** That will probably translate to **your portfolio taking longer than the normal year or so to recover all your losses**. It will happen, though!

Whether or not this is "The Bull", whether or not you have delayed your retirement due to the market drop, and whether or not you have reined in your spending to conserve your smaller portfolio, you should remember that **happiness and fulfillment are not directly related to the size of your wallet, they are directly related to the size of your life**.

You should remind yourselves to ignore the talking heads on TV and focus on the things available to us through our wits and imagination. Here are some suggestions:

- Start a gratitude journal, every morning and evening write down 5 things for which you are grateful
- Write a poem
- Read books while drinking all the tea accumulating in your cupboard
- Make a game out of cooking dinner for a week using only the ingredients in your pantry/freezer (adding fresh vegetables)
- Write a letter to a soldier
- Have a book swap party
- Teach a teenager to balance a checkbook
- Take an elderly neighbor to lunch
- Play cards or a board game with someone fun
- Make a hobby out of finding free weekend activities and planning activities with family friends
- Volunteer at an animal shelter
- Plant some vegetables or flowers from seed

Investment-wise, **emerging markets and technology have performed best thus far this year**. The one year numbers below don't reflect this since the fourth quarter losses in 2008 still drag down one year returns.

As the following chart shows, all asset categories are negative over the last twelve months:

Asset Class	1 Yr Rtn (04/30/09)
S & P 500	- 35.31%
NASDAQ	- 28.83%
Lg Cap Gwth	- 33.52%
Lg Cap Val	- 36.25%
Mid Cap Gwth	- 35.46%
Mid Cap Val	- 33.51%
Sml Cap Gwth	- 32.70%
Sml Cap Val	- 30.85%
Foreign	- 42.76%
Interm Corp Bds	- 4.82%
Foreign Bds	- 6.10%
Commodities (DJ – AIG)	- 46.50%

Odds and Ends

Numbers – The four worst total return years in the last 75 years for the S & P 500 were 2008, 1937, 1974, and 2002. The stock index gained +31.1% in 1938, +37.2% in 1975 and +28.7% in 2003.

A 40 year old employee who invests $1,000 per month at the beginning of every month in a 401(k) account will accumulate $510,000 by age 60 if the funds grow at 7% per year. However, if that person suspended the monthly deferral for just 4 years from ages 45 – 48, the account is worth just $394,000 at age 60. Moral: Don't stop your 401(k) contributions.

The unemployment rate on 3/31/09 was 8.5% (currently 8.9%). The unemployment rate for adults with a college degree was 4.3%. Consider educating or reeducating yourself. Community colleges are inexpensive. Don't be the buggy whip maker in an automotive world!

Harry Dent, a stock market watcher predicted in a book in 2000 that the Dow would be at 40,000 by the end of this year. Now, he has a new book about the coming Great Depression where he predicts the Dow will fall to 3800 within the next three years. Why would anyone listen to him?

Four of five Americans are either spending less or saving more than they were a year ago.

The medical expenses incurred during an individual's

last year of life represents 22% of all medical expenditures. (Where do you think the government will try to recoup savings once the impact of the $1.5 trillion additional cost of universal medical coverage hits?).

If you put **$100,000 into a pre-tax account on 1/01/84 and allocated it 60% stocks/40% bonds, it would have been worth $918,088 on 12/31/08 if you never touched it.** On the other hand, **if you rebalanced it back to 60/40 every year, it would have been worth $994,689**. One of the values of an advisor is to rebalance your account to "earn" the premium that comes from rebalancing!

College Planning – Enrollment in college and technical classes typically spike during recessions. Remember that **529 plans can be used for adult education at eligible institutions** (any accredited post-secondary school, including community colleges and many privately-held online universities). If the institution is part of the federal student aid system, it is eligible for 529 money.

You can set up a 529 account for yourself and use it tax-free to pay for courses. Even part-time students can do this. Although you may cringe, **a 529 plan for your children can be a source of funding for your re-training**. You can change the beneficiary to yourself, use the money for re-education and use the money in your new job to repay the 529 for your child. Keeping food on the table trumps future education money in an economy like the one we are in currently.

Gifting – The **gift tax exclusion amount this year is $13,000**. Thus, **a married couple can gift up to $26,000 annually to any single individual without filing a gift tax return.**

Many times, I see well-meaning parents placing their adult children on their bank accounts and/or on the deed to their home. By doing this, you will have "gifted" 50% of the value of the account/house to your adult child.

This can be especially problematic when one child is your primary caregiver and there are non caregiver children living elsewhere. **By putting the caregiver's name on the account/deed for the sake of convenience, you are disinheriting your other children. Once you die, a joint owner with right of survivorship automatically inherits the account/house no matter what the will says!** Talk about a set-up for intra-family discord after you are gone!

Many times, such actions are done to "save" the cost of legal fees for wills and Powers of Attorney. This is false savings! There are ways to accomplish what you need without inadvertently disinheriting your other children and sowing family discord. See an attorney!

In this time of economic difficulty, **consider incentive gifting**. Offer to **match your child/grandchild's contributions to their retirement plan or college savings 529 plan**. Maybe you could match 50% to 100% of their contributions. This would really leverage their contributions and get them thinking more about the future!

Social Security – When you choose to start taking benefits can dramatically impact your income during your retirement years. Most people file for

benefits as soon as they are eligible at age 62.

Married couples have a number of options. (There is no one right option for everyone. The "right" option depends upon your particular situation). Individuals in a couple can file early, on time or late for their own benefits, benefits based upon one half of their spouse's benefit, or by using the survivor benefit when their spouse dies.

Your age, health and expected longevity weigh heavily in the decision to start benefits. If both of you are in poor health and/or have poor life expectancies, filing early does make sense. However, **if you are a healthy spouse with little earnings of your own, you should encourage your partner to delay filing until age 70**.

If you are healthy and you have recommended your spouse delay until age 70, when should you start your own benefits? You can start them at age 62 but will incur a 25% penalty for both your own benefits as well as the ½ of spouse benefit when your spouse does finally file at age 70.

Say John would be eligible for $3,066 monthly at age 70. By filing at 62, Mary would receive only $1,149 monthly instead of the $1,533 she would receive at 66.

When John dies, Mary will drop her benefit and receive all of John's benefit ($3,066) even if she filed at age 62. Thus, Mary should probably file for benefits at age 66 to avoid the loss of benefits while John is alive. By doing this (her filing at 66, him at 70) the couple's income will be 14% higher than filing early and 22% over both filing at full retirement age.

A high earning wife or a single person should only consider their own life expectancy when making filing decisions. If healthy, they should delay filing. Filing early only makes sense for people who have reasons to doubt their longevity.

If you have been divorced after a marriage lasting at least ten years, you have the choice of benefits from your current spouse or your previous spouse(s). You would need to consult social security about all the options before making a final decision.

Social Security benefits can be worth over $250,000. Don't make these decisions quickly or carelessly!

(the above was condensed from Marotta on Money newsletters by David John Marotta and Matthew Illian)

Know Your Beneficiaries

One of the most common errors I see in estate planning is a person's beneficiary designations in conflict with their will/revocable living trust (I'll use will going forward). Overwhelmingly, this is due to the person thinking that having a will is all they need. Not true!!

Almost everyone has designated a beneficiary for military benefits (page 2 of service record), an IRA, an annuity, an insurance policy, a 401(k), 403(b), etc. Let's say you were single when you set up one of these accounts and named your parents as beneficiary. Later, you marry and being a conscientious person you obtain a will naming your loving spouse to inherit your worldly goods.

Upon your demise, your spouse would then receive your jointly owned home and checking accounts as well as our personal belongings. However, she would be dumbfounded to learn that her in-laws would be receiving all of your life insurance, annuities, IRA's, 401(k)'s, etc.

This can be especially disheartening when the will plans to leave money to a Special Needs Trust for the Benefit of Johnny and there ends up being no money available. **It's critically important to change the beneficiaries of all of the above to conform to your estate plan as described in your will!**

If you end up in the unfortunate situation described above, seek legal help. While you probably can't "force" the unintended beneficiary to "return" the money, there may be ways accomplish a return from a willing participant without running afoul of the limits of gifting laws.

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