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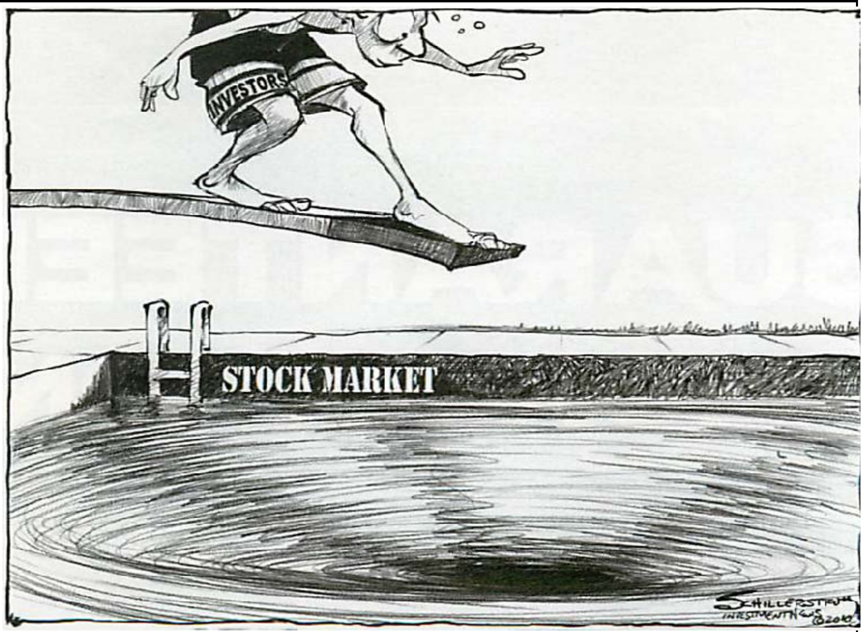
BFAS Money Line

Still Growing?



Government statistics show the **economy is still growing but the growth is slowing. Corporate earnings are up and companies have a historic $1.5 trillion in cash on hand.**

However, the growth is uneven. Big corporations are doing fairly well while mom and pop stores are not. Big corporations can sell bonds to generate cash for operations, while local companies only fund operations with credit from local banks that are still clogged with underwater commercial and residential real estate loans. It will take another 18 months for local banks to work through all those bad loans and restore normal credit to small businesses.

In addition, it doesn't FEEL like a recovery because unemployment remains stubbornly high. Consistently high unemployment erodes skills, and reduces future productivity and growth potential. It puts pressure on social safety nets and stretches government budgets at all levels. It makes the employed more cautious so that they spend less (lengthening the economic slowdown). Finally it causes companies and countries to become more inwardly oriented; thus, **they hold large cash balances rather than investing in equipment and people**.

The economy is adapting to an environment of lower credit, general deleveraging, higher regulation, and future tax increases. It's also adjusting to the impact of emerging countries like China and the uncertainty in Europe. Thus, **companies are not reacting to stimulus by expanding and hiring, they are still reducing costs and increasing cash balances**.

Economic progress will be slow and uneven for probably the next year.

I tend to be in the deficit reduction camp, however two very smart people (Bill Gross, manager of PIMCO Total Return, and Woody Brock) have made persuasive cases that **the right kind of deficit spending would be beneficial.** As noted before, stimulus in and of itself can not generate sustainable growth. Of the $787 billion in the 2009 stimulus package, only $32 billion (4%) was classified as infrastructure spending.

Gross and Brock say **we should be spending on high-rate-of-return projects like bullet trains, nuclear power plants, rebuilding the electric grid, new oil refineries, development of shale gas as an energy source, new health care capacity to meet the needs of the 30 million new insured while bringing down costs, and bridge and tunnel infrastructure.** Australia has developed a successful model of privatizing public projects, and managing those projects so as to avoid boondoggles and to be economically viable from start to finish.

Deficit spending for traditional public works or transfers-of-payments does not provide a similar return on investment. Bond vigilantes are more likely to be patient of deficit spending on high-payoff projects and should not drive interest rates to levels that could bankrupt the country.

It would take significant leadership to put such a "Marshall Plan" for the country in place. I wish I was confident that we have such leaders in place today.

Stocks have been very much up and down this year. They peaked on April 23rd, up about 10%, then dropped 15% to finish June down 6.5% for the year. July followed with a 7% rise to bring stocks back to where they started the year. **I expect to see continued up and down movement until the election in November, then expect to see the market modestly (6% - 10%) up for the year.**

Due primarily to the debt crisis in Europe, money flowed to the dollar during spring (Euro down about 13%). This caused foreign stocks to under-perform. However, most of that Euro loss has been recovered; I expect foreign, and especially emerging market stocks, to perform better in the second half.

Real estate funds have done very well just before the expected bust in commercial real estate.

Bonds continue to do well. While inflation, and expected increases in interest rates, can hurt bonds, both those possibilities seem to be well in the future. Right now I see much talk about deflation. Companies see soft consumer demand and don't have the power to raise prices.

Deflation is even more dangerous to our economic well-being than inflation. Hence, the Federal Reserve will go all out to fight deflation and will be wary of raising interest rates until the economy is sounder and inflation is firmly entrenched.

Asset Class	1 Yr Rtn (07/30/10)
S & P 500	+ 13.84%
NASDAQ	+ 13.96%
Lg Cap Gwth	+ 11.80%
Lg Cap Val	+ 12.75%
Mid Cap Gwth	+ 18.19%
Mid Cap Val	+ 20.97%
Sml Cap Gwth	+ 17.02%
Sml Cap Val	+ 21.25%
Foreign	+ 6.26%
Interm Corp Bds	+ 16.75%
Foreign Bds	+ 11.04%
Commodities	+ 06.27%

Odds and Ends

Financial Reform Bill – The recently passed financial reform bill (while not as game-changing as the 1930's Glass Stegall Act) will have far reaching implications for us all. Here are **some highlights:**

Directs the SEC to study the application of fiduciary duty to all those who work with retail investors (forcing brokers and insurance agents to work "in the best interests of the consumer" ~ not the case today).

Directs the GAO to study the regulation of financial planning as a separate profession (currently insurance and investment advice are regulated separately, but anyone can call themselves a financial planner).

Made permanent FDIC insurance for checking and savings accounts up to $250,000 (up from $100k).

Creates the Consumer Protection Financial Bureau inside the Federal Reserve to watch over financial products and services (mortgages, credit cards, student loans, pay-day loans, etc.)

Tightens credit card regulations, fees and disclosures. Free checking is probably history due to the reduction in bank revenues.

Derivatives will now be publically traded and have a clearing house. Hedge funds must now register with the SEC

Made credit rating agencies potentially liable for credit ratings that proved unreliable. As a result, credit rating agencies are not allowing bonds to use their credit ratings and this is complicating bond sales because many buyers (cities, pension funds, etc.) are required by law to only purchase AAA rated bonds.

Index-Linked CDs – Since the recessions, people are more risk averse. This last 15% drop in the market generated more angst than similar drops in the past. At the same time, rock-bottom interest rates mean money held in checking/money market funds or CDs earns very little.

Never letting an opportunity pass them by, banks and wire houses are churning out Index-Linked CDs. They are selling $billions of them. The concept is that the CD is insured and can't lose money, but you participate in an index (typically the S & P 500) if the market goes up.

Seems like a no-brainer, right! So, what are the downsides? High fees for one – commissions range from 1% to 3%. Some CDs are not insured. Rate of return will depend upon the date of maturity. If the market was up substantially, then dived just before your CD matures, you get nothing. If the index is less than when you bought the CD, you get nothing. You will owe taxes every year on "market gains" even though the CD has not matured and you have not received any money yet. These taxes, by the way, are ordinary income taxes, not capital gains taxes.

You can build your own Index-Linked CD by simply purchasing a zero-coupon Treasury bond, then investing the difference in an Index fund or ETF. For example, you could buy a zero-coupon bond priced at $910 with a face value of $1,000 that matures in February 2015 and invest the remaining $90 in an index fund or ETF. By doing it this way, your money is not tied up for five year in an Index-Linked CD. If the markets go up or interest rates increase, you can unwind your own investments.

I'm not currently recommending Structured Securities, including Index-Linked CDs, for my clients because I don't think they are in my client's best interests. These products are targeted at "nervous Nellie's". Is that you?

Credit Scores - With loans much harder to come by, some are focusing more on their credit scores. **Even if you pay your bills on time, your credit score might be mediocre.**

About one-third of your FICO score is based upon your **utilization ratio**. **It's how much you've charged that counts, regardless of whether you pay your balance in full each month**. To boost your score, **try to keep credit-card balances to 20% or less of your credit limits**. Thus, paying down your credit balances can improve your score. Increasing your available credit helps, while closing an unused account hurts.

Try not to open or close accounts or make dramatic changes in the way you use credit within three to six months before you apply for a mortgage or other loan.

You also want to **correct any mistakes on your credit report**. You can obtain a **free credit report** from each of the three credit bureaus every 12 months at www.annualcreditreport.com. You can check out ways to improve your score by using the **Score Simulator at www.myfico.com**.

New Housing Option

While it varies around the country, in Virginia housing options for people with intellectual disabilities fall into several categories:
1) Living at home with family
2) Group homes (typically with five residents locally)
3) Condos with two residents (primarily for higher functioning residents)
4) Intermediate care facilities of five to many more (for the most medically fragile)

In the last few years some enterprising parents have developed **a new housing option. It incorporates the concept of separating the housing component from the staffing component**. There are now 26 such homes in Virginia.

How does it work? If the person with a disability has significant needs and is **entitled to Medicaid Waiver services then they can opt to either chose a Sponsored Residential Provider (such as Blue Ridge Residential Services) and live in the Sponsor's home OR purchase their own home and live independently in this home with their care-giver/Sponsor**. Parents can be Sponsors.

There are many variations to this scenario. Basically, if the person/family wants security of owning their own home, thereby insuring they never get moved about or have to live with people they might not want to ~ then they (with the guidance of an Attorney familiar with this process) set up a small Corporation (an LLC, S Corp or C Corp).

Up to 100% low-interest loans are available from the Virginia Housing Development Authority (VHDA). Applying for Section 8 money is also recommended. The purchased home is titled to the Corp.

The individual uses up to $400 of his SSI and, if lucky enough to get it, Section 8 subsidy to pay his/her portion of the housing/utility cost. If the care-giver lives with the individual, he/she pays rent equal to his/her share of the mortgage/utilities.

The Sponsor's salary varies, depending on the number of hours the individual needs (as approved by DMAS). A person with significant needs can result in an income to his/her care-giver of $50,000 to $65,000 (non-taxable income). This alone, would help to insure staff retention and stability in the services.

Also, **those with MR Waiver can also utilize up to $5,000 per year (dropping to $3,000 in 2011) to make necessary modifications to the home**.

The key to making all this work for the long term is setting up a **network of support for the person with a disability**. A "**Microboard**", a concept first developed in British Columbia and now embraced by most states, **is a small Corp that operates solely for the one individual** (hence, "Microboard"). Board members often include parents, siblings, extended family, friends that know the individual and the individual with disability**. Board members need not be co-located with the person with a disability.**

To make things less complicated, some families have been forming "Microboards" for their family member with a disability and using this entity to purchase and hold title to the home as well as to be the Circle of Support for the person. This gives families peace of mind. Should anything happen to them, the individual now has their own home, a care-giver and over-sight agency of their choice, and a Microboard to insure that life remains "good" for the person.

There are many variations on this concept. If a person is high functioning they can still go through the same process to secure funding and own a home. They might be entitled only to minimal supports. It's often financially prudent to then have the home shared by, maybe, two people with disabilities. The Microboard (one for each person, remember) would still provide the support they need if and when family members are not present.

For those interested in exploring this further, here are some points of contact:

Sponsored Residential Services ~ Rich Gilman at Blue Ridge Residential Services, 888-782-2687, rgilman@blueridgeservices.net

Funding ~ Bill Fuller at VHDA 804-343-5754 bill.fuller@vhda.com

Realtor ~ Patti Wright at Rose & Womble 635-4476 pwright@roseandwomble.com

Corporate filing and Closing ~ Dave Johnson, Esq, at Virginia Beach Law Group, 486-4520 djohnson@vabeachlawgroup.com

Parent ~ Linda Ritter, terryorlinda@gmail.com

Some of you know that I'm a volunteer trustee for the Virginia Beach Community Trust (VBCT). This trust receives, invests and distributes money gifted by family members to benefit those with mental illness or intellectual disabilities. We are proud to report our website has been upgraded. Now you can learn more about the VBCT online at www.vbcommunitytrust.com . Please check it out!

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