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BFAS Money Line

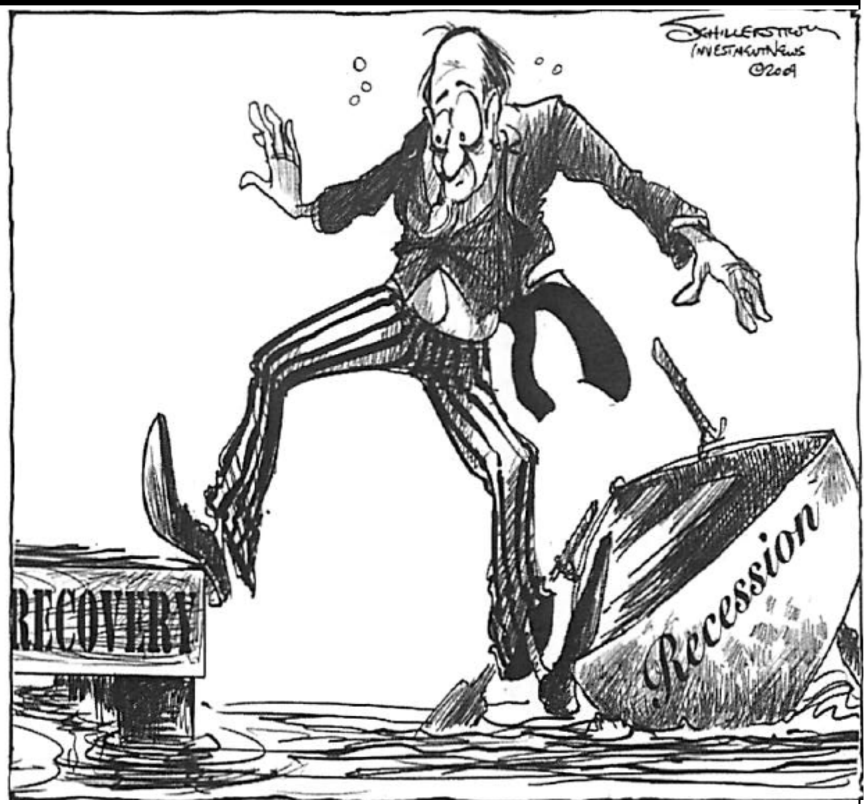
Recovery?

I used the same title last quarter and it is still appropriate. Even though **the stimulus generated 3.5% gross domestic product growth last quarter, business activity and job growth are very slow**. .

Harsh cutting of expenses has allowed businesses to make profits on flat sales. Jobs won't start coming back until sales grow substantially enough for businesses to feel comfortable making the long term commitment of hiring back staff.

Businesses are also concerned about regulatory uncertainty and tax uncertainty as well as potential climate and health bill impacts. This uncertainty is not conducive to making the job or equipment investment decisions necessary for growth. **It now looks like Congress will defer many decisions until next year**. This will further delay real economic (as opposed to temporary stimulus generated) growth.

The dollar is dropping and that raises foreign stock and bond prices (and makes it more expensive to travel overseas). It also makes imports more expensive and helps U.S. exports.



If U.S. and foreign stocks/bonds both earn 10% and the dollar drops 10%, you earn 20% on your foreign stocks/bonds. Due to heavy deficit spending by our government, the dollar is likely to continue dropping for some time. Thus, **foreign holdings will play an important role in portfolios for some time**.

There are a number of domestic and foreign policy decisions that could jeopardize our fragile recovery from **The Great Recession**. Raising taxes, protectionism (in an ill-considered effort to protect American jobs and ignoring the reaction by our trading partners), and higher costs of doing business due to environmental constraints could easily throw the economy back into recession.

Many people look back on the last 10 years of investing and expect the next ten years to be a repeat. The negative stock market return for the ten years ending December 2008 was only the sixth negative ten-year return in the last 100 years. The other periods were the ten years ending in 1914, 1921, 1932, 1938, 1974, and 1977. While it's natural for us to project the recent past into the future, the probability of having back-to-back ten year periods of negative market returns is infinitesimally small.

People say our current situation is so dire, that a market recovery is unlikely. They simply forget the challenges we've had in the past that didn't prevent the market from rising. Think back to the 60's when we were just a button-push away from nuclear war; we had anti-war protestors and racial unrest. We were in an expensive war.

In the 70's, we had the Arab Oil Embargo, Mideast wars, Vietnam and high inflation. In the 80's it was painful recessions (higher unemployment than today), Mideast conflict (Lebanon), aircraft hijackings, and a one-day 25% market loss (Oct 87). In the 90's, it was terrorist attacks and Balkan wars.

The point is that **there are always "reasons" why the market shouldn't do well, yet it does.** Over-obsessing about the economy's current challenges can lead to "deer-in-the-headlights" reactions where investors are too frightened to do anything.

We saw the **market drop 57% from its peak in October 2007, then rise 56% (through the end of September) from the low in March**. Yet, even though the percentage rise virtually equals the loss, today's S & P 500 is 30% lower than at its peak. That's because the 57% loss applied to a much larger number (S & P 500 1565 at its peak) and the 56% gain was from a low of 666 (current 1067).

Thus, if your personal fortune is only 10% - 20% below its peak value, you are substantially ahead of the market and will likely regain your personal peak sooner than the market will.

Investment-wise, **foreign stocks, emerging markets, and foreign bonds (as well as U.S. bonds) have done well. Smaller stocks have outperformed the S & P 500, which is typical of recoveries. Commodities were coming off their historic high last fall; they bottomed in Feb and have had positive returns since (up 19%).** Looking back one year, it's hard to believe how well you would have done by investing during the terrible days last October. If we only knew then what we know now…:

Asset Class	1 Yr Rtn (10/31/09)
S & P 500	+ 9.81%
NASDAQ	+ 18.84%
Lg Cap Gwth	+ 15.35%
Lg Cap Val	+ 9.52%
Mid Cap Gwth	+ 16.23%
Mid Cap Val	+ 17.86%
Sml Cap Gwth	+ 13.17%
Sml Cap Val	+ 11.22%
Foreign	+ 27.72%
Interm Corp Bds	+ 17.52%
Foreign Bds	+ 22.15%
Commodities (DJ – AIG)	+ 00.10%

Odds and Ends

Money History – Each of us has a **money history**. Few give it much thought even though **it can unwittingly control your daily dealings with money**. We all have false assumptions, dysfunctional thinking and mental roadblocks burned into our minds at early ages.

One person in a couple might have been raised in a family where everyone worked to make everyday purchases (buy a car, maintain a car, entertain, even go to college). Another person's family may have felt the need to pay for everything. One person might very much understand the value of money and what it takes to earn it while the other might see a spouse's reluctance to spend as hoarding. **They are both living out the money script their families created**.

For example, take two children who received occasional allowances. One child spent the money immediately while the other saved it. The spendthrift would then moan about having no money, so the parents would give him more. But, when the saver asked for more, the parents said he didn't need it since he was such a good saver. The saver's money script says, "Not spending money on me is praiseworthy." Other money scripts include: It is far better to give money than receive it. Money corrupts.

I like to take a money history when I first start to work with someone and I have seen this exercise generate a number of "Ah Hah!" moments. Some people might need more in-depth work with professionals to address their issues with money. If you feel the need for some help, you might want to investigate a Healing Money Issues workshop (check the Internet) or a local professional counselor.

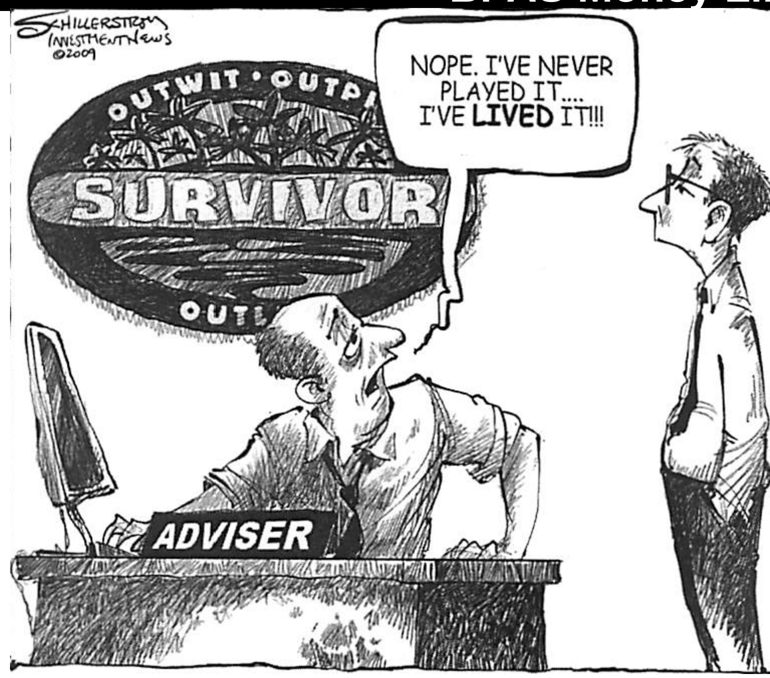
Taxes – Congress' focus on health care has overshadowed mounting uncertainty about taxes. While any health care plan will certainly raise taxes, it's income, capital gains and estate tax uncertainty that makes planning so difficult.

Will current income and capital gains tax rates sunset in 2010, then revert back to 2000 rates (top bracket 39.7% and 20% capital gains)? Will the Administration's plan to add a additional tax on high income earners raise the top rate to 45% (plus state and local taxes)?

This year's estate tax exemption is $3.5 million; next year it drops to zero, in 2011 it goes back to $1 million. How does someone with a nice house and some life insurance plan for that??? Those who need to update their estate planning documents are left to wonder which scenario they should plan for.

I can't predict what Congress will do, like the weather- anything can happen! Still there are some things you can do to take advantage of this situation of tax uncertainty.

Many of you have harvested tax losses; yet don't have sufficient gains this year to offset them. No problem. Capital gains offsets this year only save you the current 15% capital gains rate. When the capital gains rate reverts back to a 20% rate, your losses will be saving you even more money than they would today. Thus, **review your portfolio to identify all potential capital loss harvesting opportunities**. They could be worth more next year than they are today!



This year's elimination of the mandatory IRA distributions has created another possibility. Since the mandatory IRA distributions you are not getting this year are taxed at ordinary income tax rates, your taxable income this year should be less than in years past. In addition, in most cases, **your mutual funds will not be distributing capital gains this year**. This will also lower your taxable income for 2009.

If your taxable income puts you in the 15% tax bracket (taxable income up to $33,950 single, $67,900 married), any capital gains you have this year are taxed at 0%! Just make sure the capital gains don't put you over the taxable income limit for the 15% tax bracket. So, **this could be a good year to sell (hopefully high) some of your legacy stock positions that you've held onto to avoid the taxes.**

Even if you don't have capital gains that can be taxed at 0%, **you might want to take a distribution from your IRA this year**. You would only want to take out enough to remain in your current tax bracket. This will lower your IRA account so that next year's mandatory distribution won't be as high. Next year, when mandatory distributions resume, they might bump you into a higher tax bracket. **Better to take some out now and, hopefully, pay lower taxes.**

What Financial Planners Do – Most of the public thinks that financial planners simply invest your money. Yet financial planners do a lot more: helping track your spending, creating a spending plan, helping set up savings plans, putting in place necessary insurance to protect against various risks, helping get estate planning done, choosing employee benefits, identifying tax savings and preparing for retirement.

Sure financial planners also invest their client's money, but they do so while keeping in mind the client's whole financial picture. This is called "comprehensive financial planning." For these planners, investing is not an isolated activity; it relates to every other part of the financial plan. This type of planning is intensive and can't be done for more than 50 – 75 clients at a time.

There are thousands of "comprehensive financial planners" available, but hundreds of thousands of people calling themselves financial planners. The biggest difference between them is that "comprehensive financial planners" are selling advice while the other group is selling products (stocks, bonds, life insurance, annuities, etc.)

As the public has responded favorably to the "comprehensive financial planning" type relationship, the financial services industry (Broker Dealers, Banks, Insurance Companies) have stopped using terms like broker or insurance agent and co-opted the term financial planner (advisor). Some even provide investment advice for a fee, similar to "comprehensive financial planners". They may even provide a generic financial plan (which invariably suggests buying the firm's products).

Since the financial services firms spend millions on advertising touting their "advice" for clients, it's no wonder that the public has difficulty distinguishing between salespeople masquerading as "advice givers" and true advice givers.

There is a bill in the House of Representatives termed the **Investor Protection Act.** One of the things it does is require the highest standard of investor protection, the **fiduciary standard (advice must be in your best interest**), for all who provide investment advice to the public. Currently, those who work for the financial services industry are only held to a suitability standard (advice must only be in your interest somehow).

As you can imagine, there is a verbal war going on behind the scenes between the well-funded financial services industry who looks upon the fiduciary standard like Dracula looks upon a cross. Hopefully, the coalition of financial planning organizations, the Consumer Federation of America, and state regulators will be able to overcome the tsunami of dollars by the opposition and Congress will finally require all those who work with you to be working in your best interests!

SS Rep Payee

If a person receiving Social Security benefits (minor children, adults with disabilities or lacking competence) is not capable of handling the money, Social Security allows/requires the naming of a Representative Payee. The Rep Payee has substantial duties and responsibilities.

The Rep Payee must set up a separate checking account and keep records of expenditures to prove that all the money was spent for the payee's benefit. Money should be spent first for food and shelter, then for personal needs such as clothing, recreation, utilities, dental care, personal hygiene, education, rehabilitation, medical care and insurance.

The Rep Payee cannot use the payee's funds for the representative's personal expenses or spend funds in a way that would leave the payee without shelter, food and medical care. The Rep Payee also cannot put the payee's money into the representative's or another person's checking account. The representative also can't keep payee funds once they cease being the representative nor can they charge the payee for services unless authorized by Social Security.

If you suspect someone of violating their responsibilities, you can report potential violations to the Office of the Inspector General of the Social Security Administration.

SBP and SSI

Congress threw everything but the kitchen sink into the Defense Department bill this year, but it appears that a fix to the **military Survivor Benefit Plan (SBP) conflict with Supplemental Security Income (SSI) and/or Medicaid** wasn't one of them. As the Cubs say, maybe next year!

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