

Why Buy & Hold Won't Work Now

By John L. Jenkins, AEP, EA, CFP®

There is lots of talk about the market run-up since the low of March 9, 2009. The market is up roughly 35% from its low. Is this the start of a new bull market? Will the economy come out of recession in the second half of this year? Should I get back into the market or increase my equity exposure? All of these are difficult questions to answer given the current economic backdrop.

It is our view that this is not the start of the next great bull market. That said, we hope that we are completely wrong. We would love nothing more than to have this market keep running and restore the trillion dollars in lost net worth that the American public has absorbed. We just don't believe that this will happen at this time, however.

Common Sense

We believe that a sustainable bull market won't be achievable until the following economic infrastructure pieces are in place.

1. A stable banking system;
2. A stable housing market;
3. Jobs growth; and

4. Manufacturing growth.

None of these economic pieces are in place at this time. We find it inconceivable that a sustainable bull market could develop without these critical pieces in place. In addition, we know that the banks have not gotten rid of their toxic assets. There are trillions in mortgage-backed securities, primarily sub-prime loans that are in default or headed there. There has been talk about the Treasury buying these toxic assets from the banks, but nothing has occurred to date.

We also believe that inflation will rear its ugly head in the near future. It's bound to given the fact that we are printing money like it's water.

We lastly believe that we will see up to another two million foreclosures starting in 2010 through 2011 as the millions of 5 year Adjustable Rate Mortgages written at the peak of the real estate market in 2005 begin to reset their interest rates. We'll see the first wave of these in February of 2010.

Fuel on the Fire

So, what has driven the market up some 35% from its low? In our view the billions of dollars that have been thrown into the economy in the form of stimulus packages and bail-outs has been the source of fuel sparking this cyclical bull market. Throw enough money into people's pockets and they're bound to spend it.

The problem is that we have literally run out of this resource. The Federal Government cannot keep throwing money at the problem without sacrificing the future economic stability of this country. There isn't an unlimited resource for the trillions of dollars that are necessary to completely fix the economy—and ultimately everyone knows it.

Strategy

The conclusion we draw from these facts is that we are in a Secular (long term) Bear Market which actually began in 2000. We think it has several years left to run.

This does not mean that investors cannot make money in this market - quite the contrary. It does mean however, that return is much more difficult to come by and that we have to work hard to get it.

Specifically, we believe that tactical rather than strategic investment management strategies have to be employed. A tactical manager is more nimble and will allocate to both markets and sectors based on any number of factors. We do not believe that one can purchase an index fund and hold on because the markets always go up. The last secular bear market in this country lasted from 1965 to 1982. That's a lot of waiting for the market to turn around!

We also believe that portfolios have to be more broadly diversified to include asset categories beyond stocks and bonds. Real estate and alternative investments, which carry higher risk exposure, should be considered in small percentages. Inflation will drive the prices of real estate, energy, precious metals and other commodities up. We are currently positioning portfolios to participate in these sectors in preparation for higher inflation. We're also taking inflation into consideration on the fixed income side by adding Treasury Inflation Protected Securities (TIPs) and Structured Products.

We continue to be proactive with clients and are currently inviting them in to review their holdings in light of the current economic outlook. Please feel free to contact us to schedule your appointment.

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advice or a recommendation of any specific security. Past performance does not guarantee future results.

Diversification does not ensure a profit nor protect against loss in a declining market. Investing involves risk, including loss of principle. An investor's shares, when redeemed, may be worth less or more than the original investment price.

Alternative investments can be subject to substantial risks including but not limited to the possibility that sale or redemption may be for more or less than the original amount invested, the absence of a public market for the securities, and no assurance that the stated objectives of the investment will be met.

Real estate investing is subject to certain risks, including price fluctuation, liquidity, and concentration risks. Special risks associated with investing in real estate also include the possibility of declining real estate values, the possible lack of availability of mortgage funds, and changes in interest rates.

Investing in specific sectors of the market, such as energy or precious metals may subject your portfolio to unique risks associated with that specific industry.

An investment in Treasury Inflation Protected Securities (TIPS) is subject to the same risks as other bond investments such as interest rate risk and credit rate risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. TIPS are exempt from state and local income taxes but interest payments are subject to federal income tax. In addition, gains from inflation adjustments to the value of the TIPS' principal are taxable in the year they occur.

Structured products are securities derived from or based on a single security, basket of securities, index, commodity, debt issuance, or foreign security. Risks associated with an investment in struc-

tured product include, but are not limited to, possible loss of principal and the possibility that at expiration the investor will own the reference asset at a depressed price.

Preserve and Protect Your Business

Presented by Gregory R. Banner, CFP®, CLU®, CRTP

In previous articles we talked about how owners can use cash flow as a tool: Today we discuss four areas where it might be used to preserve and protect value:

- Reducing Expenses
- Minimizing Risk
- Minimizing Taxes
- Ensuring Business Continuity

Expenses

Most owners have, by now, taken action to eliminate non-essential expenses. These actions, or reactions to the faltering economy, typically include terminating or laying off employees, reviewing company financial information, eliminating "perks," and reducing and/or eliminating employer contributions to 401(k) plans. If you would like more information about what other companies are doing to reduce expenses, please contact us.

After the initial round of expense reduction, there may be more you can do — even if you have resuscitated your company's cash flow. Cost cutting increases gross margins, increases cash flow, and

thus increases business value. Second-round cuts often include benchmarking expenses to industry standards to see if they vary significantly from industry norms. If they do, owners are asking the hard question, “Why?”

Another strategy is to subject employee costs to further scrutiny. For many businesses, labor constitutes a huge chunk of their budgets, but for all business owners, having a successful, motivated management team in place is critical to a successful exit. Because balancing these two is no easy task, many owners are conducting employee-by-employee reviews, are re-aligning salaries and incentive programs and evaluating whether their current employees are the best ones to meet today’s economic challenges.

Risk

Every company faces risk from both inside and outside its doors. Today’s economic climate, however, has increased the level of risk that many companies face from claims of discrimination by laid-off employees, employee fraud, or patent infringement by desperate competitors.

While many owners see their Property & Casualty (P&C) premiums as a great place to cut costs, they forget that their exposure to risk is heightened and their ability to absorb a claim (given their weakened financial state) is compromised. Consider meeting with your P&C firm to examine deductibles and coverage limits, but this year, ask questions about the strength of the insurer and its loss reduction programs.

Smart owners also are taking a close look at the financial condition of their suppliers and customers. Especially if owners have depended on a small number of suppliers, or if suppliers are in an especially hard-hit industry, owners are diversifying their supplier lists. They also are reviewing credit-granting policies, updating them as necessary and most importantly, adhering to them.

Many owners find themselves on the receiving end of “let’s talk about that line of credit” calls from their bankers. Others are preempting that call by creating written plans that show how their companies will respond to today’s challenges. They are sitting down with their bankers to examine those plans and often renegotiating the payment terms of their loans.

No discussion of risk is complete without considering the personal component: Do you have a plan to protect your personal assets? And, does that plan include ensuring that your family receives full value for your company if you do not live to sell or transfer it? Since each owner’s situation is unique, we encourage you to schedule a time for a frank conversation with your advisors about your family’s exposure to risk.

Taxes

Every new presidential administration brings with it new tax rules affecting your company. Under the Obama Administration, the rules governing the treatment of net operating losses have changed as have those related to the built-in gains assessed in conversion from a C to S corporation. If you haven’t already done so, take time to talk to your CPA about his or her ideas

about how these (and other) new rules can reduce your personal and company’s tax liability.

Business Continuity

This last area of protecting your company during tough economic times is one that many owners overlook: business continuity. Is your business continuity plan appropriate for the current value of your company? Many owners created their plans when all they could foresee was growth. If that is your situation, we remind you that the disability or departure of a co-owner could have a devastating affect on your company. The departing shareholder will want his or her buy-out at the highest reasonable value — one the remaining shareholder may simply be unable to pay (given cash flow constraints) or, in this credit market, unable to finance.

Unless your business continuity plan specifically states that the value of the company will be its fair value — as determined by an impartial appraisal — on the date of the triggering event, one of you (the remaining or the departing shareholder) will be unfairly harmed and the other unfairly enriched. So, pull that business continuity agreement out of your bottom drawer and read it carefully.

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Don't Let Economic Troubles Threaten Your Retirement Plans

As the economy has worsened, not only have retirement funds dropped in value with the market, but also many people have been tempted to tap savings as a way to cut debt or otherwise shore up their finances after a job loss. Still more have found that employers have dropped matching contributions to shore up their own finances.

Worry about retirement seems to be widespread. A January survey by the National Institute on Retirement Security noted that 83 percent of Americans are concerned about their ability to retire.

Yet the worst thing you can do is tap or give up on your retirement funds. No one can know with any certainty when the investment markets will rebound, but even if you can contribute something, you stand to gain once markets start to rebound. Even more important, you risk penalties and the lost potential for the earnings if you turn your back.

Before you make a move, seek out some advice. It's a good idea to check in with an expert such as a Certified Financial Planner™ professional to see where your retirement funds stand in light of all your finances before you do anything.

In the meantime, here are things you can do to put your retirement funds in better shape.

Don't stop funding your 401(k) under any circumstances: In March, the Spectrem Group, a Chicago-based consulting firm, reported that 34 percent of U.S. employers have reduced or eliminated matching contributions to their defined contribution retirement plans – which include 401(k)s and 403(b)s – since January 2008. The Pension Rights Center reports that besides the Big Three automakers, dozens of major companies have cut back their match, including Motorola, Starbucks, and JPMorgan Chase & Co. It's a significant impact. *US News & World Report* recently reported that a worker who earns \$50,000 annually and receives a full employer match of 50 cents to the dollar on six percent of his or her pay, the match cut means \$16,000 less for retirement. An employer dropping its contribution is bad news, but you should make every effort to keep up with your contribution because if you don't, you'll miss valuable tax deductions and the chance to build your funds more effectively for the long term.

Stay invested: Because no one precisely knows when the market

is headed up or down it's best to stay invested at a time when everyone is waiting for a rebound. Keep in mind that the market's top performing days typically come at the start of a recovery, so leave your money in your 401(k) and IRAs.

Keep in mind that withdrawing or borrowing your funds can be costly: If you have an emergency situation, be careful. Workplace 401(k) plans do allow for hardship withdrawals, but you might have an option to take a loan, which would save you the taxes and the 10 percent penalty that accompany hardship withdrawals for account holders under the age of 59. The majority of 401(k) plans allow you to borrow up to 50 percent if your vested account balance or \$50,000, whichever is less.

Adjust your spending so you can save more: If you have an existing Roth or traditional IRA or other means of saving for retirement, do whatever you can to get more money into these accounts. It may not come close to meeting the shortfall from losing an employer's contribution or the chance to add to a 401(k) after you've lost your job, but it's critical to keep some savings going.

Don't knock the weather. If it didn't change once in a while, nine out of ten people couldn't start a conversation.
- Kin Hubbard

Workshops

All workshops take place at the Southern California Institute, 3636 Nobel Drive, Suite 450, San Diego, CA 92122 *unless otherwise noted*. **Please RSVP to Sam at (858) 455-1825 or samhaskell@asset-preservation.com.**

Strategies for the Large IRA

will be presented by John L. Jenkins, AEP, EA, CFP® on Thursday, July 2, 2009 from 2:30—4:00 PM.

This workshop will provide a comprehensive set of strategies for the large IRA. Topics include leveraging the large IRA through life insurance, stretching the IRA over the life expectancies of younger beneficiaries and converting the IRA to a Roth IRA all while using Tax Bracket Maximization. John will discuss the “how to”, the “why” and “why not”, along with the most appropriate circumstances and the benefits available.

Seven Steps to a Successful Business Exit

with Gregory Banner, CFP® CLU®, Asset Preservation Strategies, Inc., and Alejandro Matuk, Esq., Strazzeri Mancini LLP, will take place on August 6, 2009 from 2:30—4:00 PM at the Southern CA Institute.

Every business owner needs to plan with the end in mind as to how they are going to transition

out of their business. Exit planning is a customized process of setting goals and deciding how to best achieve them. Proper exit planning will help maximize a business owner’s return and minimize the tax liability when the business is transferred or sold.

Town Hall Meetings Open Forums

We are once again hosting Town Hall Meetings on Tuesday, August 18, 2009 from 10:30 - Noon and from 6:00 to 7:30 PM.

The meetings will be facilitated by John Jenkins, Greg Banner and Joe Strazzeri, Esquire.

You should consider attending if you are nervous about the economy & your investments. Topics will include:

- Why the financial strategies you used in the past may not be appropriate today or in the future
- What to do now/future expectations
- Concern about a possible prolonged recession
- Concern about outliving your assets
- The impact inflation will have on your financial future, retirement and legacy

In addition, we will facilitate an open, question and answer session on any additional topics, concerns or questions you may have.

Please RSVP and bring a friend along with your questions.

Who Should be the Beneficiary of Your IRA?

Will be presented by John L. Jenkins, AEP, EA, CFP® on Thursday, Sept. 3, 2009 from 2:30—4:00 PM.

This workshop explores all of the beneficiary choices available to an IRA owner from spouses, children and grandchildren to trusts, charities and other entities. The Rollover IRA, Roth IRA Conversion and Inherited IRA strategies will also be discussed with examples illustrating the ramification of various beneficiary designations.

This workshop is for clients and planners who want to learn how to optimize the potential benefits of their retirement accounts.

Time to Reassess

We are currently offering a complete, updated retirement projection and portfolio analysis service. If like us, you also believe that our economy has been permanently reset and that we are in a long-term bear market, then perhaps it is time to re-project retirement even if you are already retired. We do charge for this analysis which includes not only the projection, but our recommendations to modify the portfolio to better position portfolios for the challenges ahead.

Please contact us if you would like more information or to schedule an appointment.

Encinitas Guitar Orchestra

The Encinitas Guitar summer session is currently under way. Rehearsals take place until August 21, 2009 when our next concert will be performed. Mark your calendar now and plan to attend on the 21st at 8:00 PM at Bethlehem Lutheran Church in Encinitas.

John still has a few CDs of past orchestra recordings available. There is a \$10 cost to reimburse production expenses. Just let us know if you would like one.

APS Validates Parking

If you have visited our office recently you have noticed that paid parking has been installed. Not to worry, we do validate parking charges. Just make sure that you check with Sam before leaving our suite to pick up your validation.

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