

WILL THE MARKET RECOVERY HOLD?

By John L. Jenkins, AEP, EA, CFP®

Our quick answer to this question is that we don't think so. Those of you who have met with us in the last few months have listened to our outlook, which remains unchanged.

We believe that there are simply too many challenges and that the economic problems are too significant for this market run-up to hold.

We have looked deeply into the third-quarter GDP numbers that are due out on October 29th to answer this question: Just how strong is the economy?

The components of GDP and their changes from the second-quarter revised data, are available on the Bureau of Economic Analysis website <http://www.bea.gov/index.htm>.

What the numbers show is that nearly every single component of Personal Consumption Expenditure (PCE) is negative. These include spending on things like cars, furnishings, recreational goods, clothing and footwear, gasoline and energy goods, trans-

portation services, food services, etc. Only Healthcare and Financial Services show a significant increase.

Next, we looked at private fixed investment (PFI). Total private fixed investment decreased 13.5% from the prior quarter. Although this is a much lower decline than the first-quarter drop of 39%, it is still a decline. We found troubling the continued, significant negative trend in housing even though inventories are high and we have the \$8,000 credit for first time homebuyers in place along with historically low mortgage rates.

So, is there any good news? Overall, the GDP's 6.4% drop in the first quarter of 2009 decelerated to only 1% in the second quarter. But note that the 6.4% increase in Government Consumption Expenditures and Gross Investment (CEGI) accounted for nearly all the turnaround. In other words, without the spending of borrowed money by the federal, state and local governments, the GDP would have continued to shrink in the second quarter at a

faster rate than indicated by the top line overall number of -1%. However, the silver lining is that (a) the shrinkage was much less in most cases in the second quarter and (b) the final revisions showed even further improvement from the original release.

What it means

Second-quarter GDP was helped by a splurge in government spending. We had the first-time homebuyer credit and stimulus money that primarily flowed through states and localities into infrastructure projects.

But what we really care about is the stock market. We should be well into earnings season by the time you're reading this, and we are assuming that earnings will be a net positive for the market's short-term momentum. But how far and how fast we rally will ultimately depend on this economy's ability to generate more and consume more privately produced goods and services. After all, you can't buy stock in government spending.

There is a very poor correlation between GDP and the stock market, but in the long run the stock market must have a value based on private GDP. Without true private GDP expansion, this rally could be nearing its end. In that case you may want to consider

moving to the more conservative end of your asset allocation model .

This is what we have been and continue to recommend. Our focus is much more on risk mitigation than it is on attempting to capture large gains.

You can look at our July and September newsletters online at www.asset-preservation.com to see our thoughts and recommendations.

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A PRIMER ON MEDICARE AND MEDIGAP COVERAGE

Despite all the public discussion about health care, very few people under the age of 65 understand the basics of Medicare, the federal health program for seniors and certain disabled individuals, or Medigap, the supplemental private coverage many buy to cover treatment that shortfalls what the federal program doesn't pay.

Even if you have years before you qualify, why focus on Medicare and Medigap now? Because as big changes happen in our health-

care system, those who understand the programs and products ahead of time will not only be better equipped to plan for their post-retirement healthcare options, but they'll have a better understanding of these critical federal programs change over time.

A visit with a CERTIFIED FINANCIAL PLANNER™ professional can give a broader view of what the federal government will and won't pay and how you should plan your coverage going forward.

Here's a summary:

Who is eligible for Medicare?

More people than you might think. Medicare is available to anyone over the age of 65 who is a U.S. citizen or a permanent legal resident for five continuous years. Yet people under the age of 65 qualify under certain circumstances, including: If they are permanently disabled and have received Social Security disability payments for the last two years, or if they need a kidney transplant, are under dialysis for permanent kidney failure or have Amyotrophic Lateral Sclerosis, also known as Lou Gehrig's disease.

How does Medicare cover expenses? Medicare coverage is divided into three primary parts: Part A, Part B and Part D. And yes, there is a Part C. Here's what each part covers:

Part A is the segment of the program most associated with hospital care. It covers hospital inpa-

tient care, a limited amount of care at some skilled nursing facilities, some specific home health care alternatives and hospice care. Most people are enrolled automatically in Part A when they reach 65 and they get this coverage for free. What's important is that Medicare doesn't cover long-term nursing home expenses, so that's why long-term care planning is necessary for all individuals.

Part B is all about outpatient services. This is the part of the plan that covers doctors' visits, outpatient care and some other medical services that Part A doesn't cover, such as the services of physical and occupational therapists, and other aspects of home health care. You do have to pay a monthly premium for Part B coverage with a deductible – in 2009, the basic premium is \$96.40 per month though it might be higher for some people based on income. By the way, you'll sometimes hear people refer to Part A and Part B coverage as "Original Medicare."

Part D is Medicare's prescription drug coverage. Part D is administered by a number of private insurance companies that operate in various areas of the country, so this requires some shopping on your part to make sure you're getting the right drugs at the right price. Financial assistance might be available if you need it.

Part C is actually the Medicare Advantage Plan, which is an optional plan individuals may choose so they receive their Medicare benefits through private

health plans. You'll also hear this plan referred to as Medicare+Choice. These private plans include conventional HMOs and PPOs and are required by law to offer benefits that cover everything that Medicare covers, but they don't have to cover everything exactly as Medicare Part A and B do. There might be some customized options that allow for lower copayments or lower total out-of-pocket expenses. In simplest language, Medicare Advantage plans blend the benefits of Original Medicare and Medigap plans (more on this below). By law, you can't buy Medigap supplemental insurance if you've chosen Medicare Advantage. However, it's very important to get some expertise on the choice between Original Medicare and Medicare Advantage plans based on your anticipated health needs to make sure the coverage you buy covers what you really need.

What about Medigap? So-called "Medigap" coverage is supplemental coverage that's available for people who opt to be covered under Original Medicare – Part A and B coverage. You buy Medigap insurance from a private insurer, and your primary goal is to determine whether that supplementary coverage actually pays for the things you know you'll need that Medicare doesn't cover. You do have to pay a monthly premium for this coverage. And again, if you choose Medicare Advantage (Part C) coverage, you're not allowed to buy Medigap coverage.

To compare Medicare and Medigap coverage, visit the Medicare Personal Plan Finder on the Medicare.gov website.

When do I enroll for Medicare?

You have a six-month window to enroll for Medicare that starts three months before your 65th birthday and ends three months after. As mentioned above, if you're already receiving Social Security at age 65, you'll automatically be enrolled in Part A, but if not and you enroll more than three months after your 65th, you may be subject to a late enrollment penalty.

By the way, what's Medicaid?

This is the name for the federal program – and corresponding state programs – that pick up healthcare costs for indigent children and adults. Unless you're below the poverty line or you spend out your assets in your senior years, this won't be part of the discussion.

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10 THINGS YOU CAN DO IMMEDIATELY TO SLASH DEBT AND SPENDING

Any financial planning process begins with a change in financial behavior and expectations. The degree of change varies based on financial priorities, but in the end, it's about adopting new habits and abandoning others.

Before you take any of the following steps, it makes sense to talk to an expert who can help you see your whole financial picture. A CERTIFIED FINANCIAL PLAN-

NER™ professional can examine all your sources of income and expenses and find the most efficient ways to cut expenses, pay off debt and boost the money you have for saving and investing.

In the meantime, here are some ideas:

Refinance if you can: Mortgage rates are still at historically low levels. You'll need at least 10 percent equity (20% of equity will save you the PMI insurance cost) in your home and a credit score exceeding 720 to qualify for the best rates, but start negotiating with your current lender first and see how well you do.

Track your spending for a week:

Either on paper or on the computer, write down every dollar you spend in the average week (and cut off credit card use during that week). At the end of that week, start marking out non-essential items just to see how much you could live without. Start with coffee and restaurant or carryout meals and work backward from there.

Make a budget: Once you've established how your income covers the essential expenses you must plan for, and a few inexpensive treats that should stay in, build a budget that includes specific amounts you can allocate toward debt. Keep a running total of your spending going forward, and revisit how that budget is working on a monthly basis until you start to see some positive results, and then you can review the performance of that budget a little less frequently.

Reset your entertainment expectations: Find ways to save money with friends – cook more meals at

home or rent a movie instead of going out to see one. Also, get used to checking entertainment listings for free events that interest you.

If you can do it safely, take over home and auto maintenance yourself:

The do-it-yourself movement is in a new phase with the economic downturn. For any home or auto maintenance chores you may have during the year, learn as much as you can about those tasks and estimate the cost of materials and your time before doing them yourself. Previous generations made do-it-yourself a necessity. See if that option is right for you and you might save considerable money doing it. Also, for bigger jobs, pair up with friends and family and you can help each other save money.

Set a new gift policy with your adult friends and family:

Does everyone on your gift list over the age of 21 really need a present for birthdays and major holidays? Suggest to family and friends to have a gift drawing, a budget limit, a moratorium on gifts, or some other alternative where you trade off gifts for quality time. Even though the holidays are a few months away, it's not too early to think about reining in the traditional holiday overspending.

Go debit: Debit cards wearing a bankcard logo are typically welcome at most stores where credit cards are accepted. This way, you pay cash without carrying cash. If you don't have such a card, you can get one from your bank to re-

place your traditional ATM card, but remember to tell them to limit your buying power on the card to only what you have in your account. And use the overdraft protection to avoid fees.

Revamp your shopping list:

Give this a shot: start a central weekly shopping list on a single piece of paper and add a dollar value for each. Write everything you think you need to buy on that single sheet, from groceries to clothes for the kids. That way, you'll see all your proposed spending in front of you, and you can get a closer look at what your true priorities are. You'll be surprised at all the "essentials" that are not really that essential that you can cross off before you spend.

Talk to your family about spending:

When you're talking to kids about budgeting and lowering your expenses, you have to walk a fine line between discipline and fear. But setting money priorities is part of growing up, and it's essential to discuss and agree upon them as a family.

Buy used for yourself: Make someone else's poor luck your good luck. If you need clothing, a car or a new watch to replace the old one that's past fixing, it might

be worthwhile to buy second-hand. The best places to find these gems are on the internet on places like craigslist. Plenty of people have unloaded items in relatively good shape to bring in cash during the recent downturn. You might do very well, and if anyone asks, don't call it used; call it "vintage."

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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.**

The Three Doors of Estate Planning

presented by John L. Jenkins, AEP, EA, CFP®, Asset Preservation Strategies, Inc. on Thursday, November 12th.

This workshop will explore the 3

You can't build a reputation
on what you are going to do.
- Henry Ford

doors of estate planning: family; charity; and IRS. It will point out that client estates normally go through only two of the three doors - the ones they choose either consciously (through planning) or unconsciously (without planning).

John will further demonstrate the planning strategies available to maximize the benefits to families and minimize if not completely zero-out the benefit to the IRS

Town Hall Open Forums

We will once again host Town Hall Meetings during the last calendar quarter of this year, *dates and times to be determined—watch your email.*

The meetings will be facilitated by John Jenkins and Greg Banner.

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.

The Falling Dollar and Hidden Inflation

Where do we go from here?

By Greg Banner, CFP,
CLU, CRTP

Over the last seven months the value of the U.S. dollar has plunged approximately 15%.

(Source: <http://futures.tradingcharts.com/chart/US/M>)

This means that a dollar we had seven months ago is now worth \$.85. What does it all mean and why should you care? As the value of the dollar falls it makes goods we buy and sell more expensive because we lose purchasing power, otherwise known as buying power. These higher costs can come in many forms such as higher food, energy and raw materials costs. These costs then get passed on to consumers as the cost to produce and distribute goods increases.

While the dollar has fallen approximately 15% this year we have watched the price of gold increase commensurately and oil prices more than double since their lows earlier in the year. The drop in the dollar is one of the big factors that caused these prices to increase. If you listen to the news, the government says we currently have no inflation. This

can be hard to believe when it seems like things cost more! These facts are often hidden because the government has the ability to define what components comprise inflation through the Consumer Price index (CPI). A few years ago the government decided that the costs of food and energy should no longer be included in the CPI so they were removed from the formula. If you were to add back these two components you would see that costs have dramatically increased.

The largest factor in the decline of the dollar comes from the continued spending of the government. We expect this trend to continue at least into the middle of next year. This is a double-edged sword for the U.S. because a lower dollar means it costs less to payback the massive amount of debt to foreigners. It also means U.S. goods are cheaper for foreigners to purchase. Unfortunately, we are very dependent on foreign goods (especially oil).

The dilemma occurs when the dollar falls to a point where other countries lose faith in the U.S. monetary system and decide to purchase other country debt besides the U.S. If this occurred it could potentially lead to a spiral down effect in the value of the dollar. Right now the value of the dollar is still in a manageable stage and within historical norms. If the government continues to spend money it doesn't have it would lead to many concerns.

Here is where the double edge comes in. *(continued on page 6)*

Referrals

Thank you for your Referrals

Most of our new clients come as a result of referrals from people like you. If you know a friend, family member or small business owner who might benefit from our services, please let us know. Be assured that anyone you refer to our firm will be treated with the same high standards of professionalism and confidentiality that we extend to you and all of our clients.

Encinitas Guitar Orchestra and San Diego Botanic Garden Performances

Guitar Orchestra Holiday Concert

The Encinitas Guitar Orchestra will present its first holiday concert at 8:00 PM on Friday night, December 18th at Bethlehem Lutheran Church, 925 Balour Dr. in Encinitas.

John Jenkins continues to perform with the orchestra and will be featured with solo, duo and trio per-

formances in addition to playing with the orchestra.

San Diego Botanic Garden Festival of Lights

John has once again been invited to perform during their annual festival. Dates and times TBA. Visit <http://www.sdbgarden.org/lights.htm>.

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APS Holiday Party December 10, 2009

Please mark your calendar and plan to join us between the hours of 11:00 AM and 8:00 PM in Suite 450 as we once again host our annual holiday party. John will again lead caroling at 1:00, 4:00 and 7:00 PM.

(continued from page 5)

One of the things the Federal Reserve can do to stop the fall of the dollar and encourage foreign investment is to start raising interest rates. The worry is that if they raise rates too soon or too fast before the country has had time to recover from the recession it could put this country right back into another recession. An increase in rates would also lead to higher corporate costs as corporations are forced to refinance debt coming due thus leading to lower earnings and growth.

All of the factors discussed, including our fear of inflation in the future, help us with our daily decisions on what investments and allocations to make.

There are many more factors and market decisions that we consider before making any recommendations. Feel free to contact us with any questions about this article or how these thoughts might impact your portfolio.

Save the Date— Circle of Friends Gala

Please mark you calendars and plan to join us at our annual Circle of Friends Gala on February 25, 2010 from 6:00 - 11:00 PM. In years past this wonderful event has benefitted Muscular Dystrophy, Sharp and Rady Children's Hospitals.

