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ABEL Strategy — First Quarter 2007 — July 5, 2007
Managed Investments & Retirement Planning

Medicare—In Trouble?

You may say to yourself “This is of no interest to me. Medicare is for older people”. If you are age 50 or older this article IS for you. Baby boomers will aggravate the already stressed out program when they start participating in 2011. The system’s trustees estimate unfunded liabilities over the next 75 years to be nearly \$30 trillion. The best experts’ guess is that the eligibility age may change and certain benefits will come and go, but the system will survive.

Last year the Employee Benefit Research Institute projected that a 65-year-old couple will need **\$216,000** if they live to age 80, \$444,000 to age 90 and 778,000 if they live to 100 to cover healthcare spending.

When Medicare (“MC”) was introduced in 1965 there were 5.5 workers paying into the system for each beneficiary. Today the ratio is 3.9 to 1. By 2032 the ratio is expected to be 2 to 1. The average Medicare beneficiary in 1965 was expected to live 5 more years; now it’s 18 years.

The Congressional Budget Office (CBO) expects MC spending in 2007 to total \$428 billion, and rise to \$851 billion by 2017. At that time Medicare will represent 4% of the gross domestic product.

Until they hit 65, many Americans have little idea of what is and isn’t covered. One of the better resources is the Center for Medicare & Medicaid Services (www.cms.hhs.gov). To get you started—Part A covers hospital and has deductibles and co-insurance clauses, Part B covers outpatient services (doctor visits, lab & x-ray), Part C is a managed care alternative (HMO; PPO) to Parts A & B. And Part D is prescription drug coverage.

Part A is paid for by your MC payroll tax, and the employer’s match, while you work. The premium for Part B coverage is means tested, and ranges from \$93.50 to \$161.40 per month. Part C is privately funded with significant government reimbursements to insurers. But insurers appear and disappear often leaving clients stranded. Only 17% of beneficiaries are enrolled in Part C. Part D is voluntary, complicated and costly. A good place to research options for Part D is www.medicare.gov/mpdpf.

What if you continue to work past age 65? If the company has fewer than 20 employees, you still have to sign up for MC. At larger companies you have the option to get MC, or stay on the employers’ plan. When you do retire you must sign up for MC within 8 months.

Roughly 95% of retirees supplement MC with a private ‘medigap’ policy to cover items not covered by MC. Medigap options are too numerous to list and premiums can range from as low as \$60 a month (Florida) to over \$1000 (California—lucky us). A useful tool for comparing options is the Medical Personal Plan Finder at www.medicare.gov/mppf/home.asp.

A million dollars is a lot of money, but it doesn’t go very far in retirement unless you stay extremely healthy and then drop dead. As for Medicare, until it is revamped—universal care or a more privatized system - it will gradually cover somewhat less and cost somewhat more.

Jim Ellman

Joan Warner, Financial Planning Magazine April 2007 “What’s Next for Medicare”

The Goal of the ABEL Stock Strategy

- Lahcen Abidar, Portfolio Manager

The ABEL stock strategy has one goal and uses many roads to reach that goal. Which one depends on our list of approved stocks, research, and our psychological comfort with the stock to be bought. It is a **moderate** equity based strategy that aims to produce above average returns, while taking less risk than the stock market in general.

We stay fully invested as long as there are opportunities available to us. Occasionally our cash allocation can range as high as 30% until one of our target companies becomes too attractively priced not to own it. The strategy tries to hold on the a position until it has gone long-term (12 months+), but will not hesitate to take a short term gain in order to avoid seeing that gain dissipate, possibly turning into a loss.

We balance the goal of capital preservation with appreciation. Risk management is a serious consideration in each decision we make. We would not hesitate to raise cash to 100% if portfolios approached our downside threshold (-8%) at the end of any month. We could not avoid a 9/11 situation, but would have avoided much of the 2001-2002 market decline.

Buyers are from our master list of high quality companies; ones which have passed rigid fundamental filters. Once on our approved list, a company is considered for purchase when it reaches an attractive valuation, will add value to our portfolio, and we are comfortable with owning it.

It's impossible to pick the bottom so frequently a stock will experience further weakness after we have bought it. Often we will add to it when that happens. Selling at the top is also difficult. Once a position goes from being undervalued to fairly valued, or a bit overvalued, we sell. We diversify by sectors/ industries and it is not unusual for our portfolio to contain both large and small companies; some domestic in focus, others of a global nature; some based on growth potential, others based on value.

We are paid to select the individual issues and determine when to buy and when to sell. We encourage you to focus on your PORTFOLIO rather than companies in the portfolio. Consider the portfolio's performance over the past 12 months, rather than what one company did last month.

(Continued on page 3)

"We live from one paycheck to the next, we're struggling to save, and we never seem to have enough money to do anything fun."

Amy Schuetts, who earns \$150,000 a year
Money magazine

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Statistics ...

38Percentage of tax-payers incorrectly reporting capital gains or losses on their tax returns due to confusion over how to calculate the numbers. (GAO)

39 ... Percentage of adults who have enough money in cash-equivalent accounts to cover three months of living expenses. (Bankrate.com)

26.7 ... Percentage of new mortgages in 2005 that were interest-only, versus 10.2% in 2003. (NY Times)

41 ... Percentage of summer vacationers who have no travel budget. (WSJ Online/Harris Interactive)

2,434 ... Average square footage of new homes in 2005. (Census Bureau)

1,660 ... Average square footage of new homes in 1973. (Census Bureau)

33.4... Share of the nation's net worth held in 2004 by the wealthiest 1% of Americans, up from 32.7% in 2001. (WSJ)

39.9... Percentage of 2005 residential real estate transactions that were second home purchases. (NAR)

6... Number, in billions, of pre-approved credit card offers mailed to American consumers in 2005. (Synovate Market Research)

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Currently most accounts hold around 25% in cash which is earmarked for future buys. This has not hurt performance, and has reduced volatility, as our portfolio - thanks to God – has beat the market year-to-date. *Lahcen*

	2nd Qtr	12 Mos	3 years
Dow	+ 9.1%	+23.0%	+11.2%/yr
S&P500	+ 6.3%	+20.6%	+11.7%/yr
Nasdaq	+ 7.5%	+19.9%	+ 8.3%/yr
ABEL Strategy	+ 6.4%	+27.7%	+14.4%/yr *

* includes mix of Stocks, Funds and Cash

⇒ Index numbers from Morningstar online

Disappointed with the investment options or the performance of your 401k plan? Ask if an "In Service Distribution" can be made to an IRA. If "Yes", call us.

Gas Pains—

High pump prices are not reducing demand much because they aren't imposing the economic pain politicians claim.

Nominal gas prices in 1949 were 27 cents a gallon. Inflation adjust them to today and we have \$1.90 a gallon. Now adjust for increases in disposable income and we find that gasoline would have to cost \$6.68 per gallon before it took the same bite out of our wallets as it did 58 years ago.

Comparing 1962 to today, 31 cent per gallon gas would have to cost \$4.48 to be a comparable burden.

Jerry Taylor, Cato Institute

Every Year, Everything You Buy Costs More

In 1980 a stamp cost fifteen cents; today we just went up to 41 cents. Trying to watch inflation is like trying to watch erosion take place. You can't do it.

The joint life expectancy of an American couple of average retirement age (62) is now 30 years, and rising.

The boomers greatest financial enemy, over the last thirty years of their life won't be the loss of principal, but rather the erosion of their purchasing power.

Before boomer retirees, no before ANY retiree can accept the need to have their assets managed in a similar manner during retirement as they had them managed before retiring, they have to recognize that every year, everything you buy costs more. Always has and always will.

You shouldn't worry about defending your principal with bond investments, but rather concentrate on defending your purchasing power...with equities. You want something to worry about—be afraid of running out of money before you run out of time.

Your next thirty years are going to be just like the last forty.

Since Alexander Hamilton became Washington's first Treasury secretary there have been 188 rolling 30 year periods. None, not one of them, posted a negative return

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Credit to Nick Murray for the subject of this article

Graduating From College With No Debt

A recently completed investment company survey of 1508 college graduates age 21 to 35, found only 501 who graduated debt-free. The purpose of the study was to gauge the effect debt has on graduates' financial security, career and lifestyle choices.

Almost half those with debt said they had not achieved what they had expected to by this point in their lives: delayed buying a home -44%; having children -28%; living with parents longer—32%. Respondents reported an outstanding balance of more than \$29,000 on average.

A \$30,000 loan @ 6% over 10 years = payments of \$333. The same payments invested in a 529 Plan @ 6% over 10 years = \$54,600; 20 years = \$153,800; and over 40 years = \$663,000.

Do your children, or grand children a favor. Open a 529 Account for them now.

The amateur practices until he can get it right; the professional practices until he can't get it wrong.

I Didn't Know That ...

The median bull-bear market cycle is 4 years in duration. The average is closer to 5 years: about 3.75 years of advance, averaging 28% a year, and about 1.25 years of decline averaging -28% a year.

An average bull market return is 152%, followed by a decline of about 34%, for a total return of about 67% (~10.7% annualized).

An average bear market ultimately turns a 152% bull market return into a 67% return for the full cycle. Less than half of a bull market's bottom-to-top gains are typically preserved when you measure from bottom-to-top-to-bottom.

December 1994 through September 2000 saw the S&P500 return 277%. The two year bear market lost about 46% by October 2002. From 1990 to 2000 the market was up 536%; two years later it was up 245%.

Bear markets typically nullify over half the gains of the preceding bull market.

Reading Tea Leaves

Fed Chairman Ben Bernanke may be frustrating some who expected him to be more plain-spoken than former chairman Alan Greenspan. Economist Tim Rogers notes, it was hard even for trained economists to read between the lines in Bernanke's rookie year—he even reversed course in his public remarks more than once.

Although Rogers says it drives him up the wall when he hears people talk about “economic indicators” such as the lipstick sales index, the rest of us probably feel like we've run up against a wall when we try to make sense of *any* Fed chairman's statements. With apologies to Rogers, here are a few more...well, interesting indicators.

- ◆ **Presidential approval ratings.** When they go down, stocks go up. According to Ned Davis Research Inc, in weeks when the presidential approval rating was below 50% since 1959, stocks rose at an annualized rate of 9.2%. In weeks when the approval ratings were above 65%, the Dow rose at a 2.6% annual rate.
- ◆ **Boxes.** The Fiber Box Association says that demand for corrugated boxes is a good leading indicator for U.S. manufacturing and notes that almost all items that go into manufacturing—from raw material to finished goods—have to be put into a box.
- ◆ **Vegas visitors.** Las Vegas is a major destination for both leisure travelers and conventioners—when times are good. When times are bad? People still go to Vegas to drown their sorrows at the tables, but the conventions don't necessarily follow.
- ◆ **Fast food.** That burgers-and-fries combo is a low cost, completely discretionary decision. When fast food sales tick upward, the economy is usually also trending up.

And then there are the really more obscure economic indicators: immigration applications, the price of copper, the Colliers parking survey, Harvard B-School Graduates on Wall Street, Mexican home mortgages, Central Appalachian coal futures, and the Baltic Dry Index. You can find them all in the archives of the “Moneybox” column, written by Daniel Gross, at Slate magazine: www.slate.com.