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ABEL Strategy — Second Quarter 2008 — July 7, 2008
Retirement Planning & Wealth Management

What **Do** You Care About?

Bill Gross is a Managing Director of the PIMCO management firm in Newport Beach. PIMCO is owned by Allianz, a global investment firm. Mr. Gross writes a thought provoking article monthly in Investment Outlook. He challenges us to ask “What is it that I really care about?” Here is an excerpt from the June issue.

Hmmmmmmmm?

*You can fool some of the people all the time,
and all the people some of the time,
but you cannot fool all of the people all of the time.
-Abraham Lincoln*

“What this country needs is either a good 5 cent cigar or the reincarnation of an Illinois “rail splitter” willing to tell the American people “what’s up” - “what’s really up.” We have for so long now been willing to be entertained rather than informed, that we more or less accept majority opinion, perpetually shaped by ratings obsessed media, at face value. After 12 months of an endless primary campaign barrage, for instance, most of us believe that a candidate’s preacher—Democrat or Republican—should be a significant factor in how we vote. We care more about who’s going to be eliminated from this week’s American Idol than the deteriorating quality of our healthcare system. Alternative energy discussion takes a bleacher’s seat to the latest foibles of Lindsay Lohan or Britney Spears and then we wonder why gas is four bucks a gallon. We care as much as we always have — we just care about the wrong things: entertainment, as opposed to informed choices; trivia vs. hardcore ideological debate.”

“It’s Sunday afternoon at the Coliseum folks, and all good fun, but the hordes are crossing the Alps and headed for modern day Rome—better educated, harder working, and willing to sacrifice today for a better tomorrow. Can it be any wonder that an estimated 1% of America’s wealth migrates into foreign hands every year? We, as a people, are overweight, poorly educated, overindulged, and imbued with such a sense of self importance on a geopolitical scale, that our allies are dropping like flies. “Yes we can?” Well, if so, then the “we” is the critical element, not the leader that will be chosen in November. Let’s get off the couch and shape up—physically, intellectually, and institutionally—and begin to make some informed choices about our future. Lincoln didn’t say it, but might have agreed, that the worst part about being fooled is fooling yourself, and as a nation, we’ve been doing a pretty good job of that for a long time now.”

Jim Ellman

The more you have the more you want more than you have.

Are We Near The Bottom?

- Lahcen Abidar, Portfolio Manager

Even with the recent turbulence, the S&P 500 has not yet declined 20%. Valuations remain fairly rich, and the prospect of a recession is still being debated.

The consensus regarding recession is beginning to shift. If investors eventually accept the idea of a U.S. recession, we are likely to see prices at lower levels, because much of the “rebound around the corner” optimism for earnings will abate. On a positive note, capitulations have often provided a base for sustained bear market rallies, even if they eventually fail with the market dropping to lower lows later.

My impression is that we will eventually observe that capitulation, along with broad recognition that the economy is in a recession. That may provide a good opportunity to take some profits from the short ETFs. But don't assume that the next capitulation will be the last. Bear markets typically involve a series of them, each for a different reason: fears about interest rates or inflation, earnings disappointments, evidence of economic slowdown, consensus about recession, concern about a deepening recession, **and eventually— complete loss of hope and a panic to cut deepening losses and “just get me out”**

The Dow has recently reached a new low, and one might ask how much lower it can go. My estimate is for the next move to be a decline to 10,200 to 10,500 (the 2nd qtr earnings will be disappointing). Then a rally, and another decline. I estimate that “the bottom” will find the Dow between 7,000 and 8,000. It won't go straight down. It will drop, then rally, another deeper drop and a rally, till the point where everybody ‘throws in the towel’. Only then could we experience a sustained bull market rally.

I'm amazed that the Fed has used half its asset base and cut interest rates aggressively to help the financial system, yet the market reaches new lows. The situation is worse than most believe, and the longer investors are in denial, the bigger the chance for them to experience losses. *Lahcen*

Benchmarks & ABEL Performance

	2nd Qtr	YTD	12 Mos	3 yrs	5 yrs
Dow	-6.9%	-13.4%	-13.3%	+5.8%/y	+7.2%/y
S&P500	-2.7%	-11.9%	-13.1%	+4.4%/y	+7.6%/y
Nasdaq	-0.8%	-13.2%	-11.2%	+4.5%/y	+7.9%/y
ABEL *	+7.2%	+ 0.3%	-16.5%	+4.2%/y	+6.6%/y

* includes mix of Stocks, Funds and Cash

⇒ Indexes from Morningstar, Mgr Funds & Baseline

CLOSE TO HOME

Information on how an Annual Spending Plan can be a solution to achieving your financial goals in 2008.

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You may be able to roll your 401k into an IRA while still on the job. If your plan permits an “In Service Distribution”, call us.

Statistics ...

2 ... Number of stock or balanced mutual funds that have had consecutive gains for 13 years or longer. (WSJ)

40... Percentage of current retirees who had to retire earlier than planned, mostly due to layoffs or poor health. (McKinsey & Co)

66... Percentage of affluent baby boomers (\$500,000 or more in investible assets) who plan to pay for retirement by selling their home. (Spectrum Group)

35... Percentage of employers of 200 or more workers offering retiree health benefits in 2006, versus 66% in 1988. (Kaiser Family Foundation)

18... Percentage increase in IRS audits in 2006 on taxpayers reporting income of \$100,000 or more. (IRS)

75... Percentage of audits conducted by mail, usually focusing on a particular tax issue. (IRS)

1... Number of dollars out of every five that will be spent on health care by 2016. (Nat'l Health Statistics Group)

77... Percentage of S&P 500 companies paying out dividends in 2007, versus 94% in 1980. (Barron's)

52... Percentage of 60– to 65-year-olds still working in 2006, versus 45% in 1996. (BLS)

Presidents Rarely Deliver

Terrified of what an Obama presidency would do to your portfolio? Don't be. Election outcomes don't affect markets the way you expect them to.

Years in which Democrats capture the white house are usually bullish years for the stock market. Markets expect the worst of a Democratic President and then discover that he's not so bad for investors.

Other than 1932 (depression) and 1940 (WW II), election years with Democrats winning have always been positive for the market.

Only three of ten Republican inaugural years have been positive.

In inaugural years we discover that Democratic presidents never meant most of what they said in their populist, anti-capitalistic campaigns. They could never get reelected if they really delivered on their campaign promises. Inaugural years for Republican presidents remind us that they are phonies, too; they don't do much for the economy or for investors.

Ken Fisher, Forbes May 19, 2008

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Refer them to our web site.
They'll thank you.

www.jp-etc.com

Invest In a Pipeline?

Every day 280,000 miles of pipelines shuttle 63 billion cubic feet of natural gas around the U.S.

A separate 100,000 mile network hauls 20 million barrels of crude oil daily.

Companies running the pipelines are paid by the pound shipped. The price of oil or gas is not a factor.

Roth IRAs

Today if your Modified Adjusted Gross Income "MAGI" is over \$100,000 you CANNOT convert an IRA or a 401k account to a Roth IRA. That restriction disappears completely in 2010.

Why would you want to convert? Because once a Roth is 5 years old you can make withdrawals TAX FREE. And you DO NOT have to take required minimum distributions starting at age 70.5.

There is no free lunch. What is the cost to do this? The amount transferred is taxable. If you transfer \$80,000 to a Roth in 2010, you will have to report \$40,000 of additional income in 2011 (4/15/2012) and again in 2012 (4/15/2013).

If this is something you might want to do, start planning for it now.

Boomers Ready To Retire

"Contrary to what most of us have believed about the baby boomers, the group is in many ways very much like the Silent Generation that preceded them. They're really more like Ward and June Cleaver than we may have thought."

Sandra Timmermann, Ed.D

Director, Met Life Mature Market Institute

- ◆ Almost half the group has a defined benefit pension from their employer.
- ◆ Fifty percent have a 401k & 50% an IRA.
- ◆ The average household net worth, excluding the home, is \$257,800; the home, on average, is worth \$297,900.
- ◆ They expect to receive some inheritance, typically in the range of \$113,000 to 210,000.
- ◆ They plan to draw Social Security benefits when first eligible to do so.
- ◆ They feel they won't be old until age 78.

"The only time a woman wishes she were a year older is when she's expecting a baby". -Mary Marsh

Soon Eligible for Social Security Benefits? Read on...

When individuals still have employment opportunities and the desire to work, many factors should be considered before making the decision to begin retirement benefits. The decision can have a major impact on your total percentage of income replacement in retirement and directly affect your standard of living, spousal benefits, benefits to other dependents and survivor benefits.

The average monthly retirement benefit in January 2008 was \$1,079; for married couples, \$1,761. For one out of five retired Americans Social Security is the only source of income. For one of three it is 90% and for two out of three it is over 50%.

Of one's total retirement income in America, Social Security provides 42%, personal savings & investments 36%, and employer retirement plans & IRAs 22%. Financial market volatility is increasing the risk that retirees may outlive their assets. Health care inflation was reported to be 6.7% in 2006 and health care costs for retirees generally rise dramatically. Fully 60% of workers begin benefits at age 62, and approximately 70% retire before full retirement age.

Only 7% of U.S. workers contribute to an IRA and just 66% of households are saving for retirement. An AARP study indicates that 41% of workers over age 55 have less than \$50,000 set aside for retirement while 28% have over \$250,000. [$\$250,000 @ 5\% = \$1,041/mo$ income]

When to start benefits is a critical decision. To start before full retirement results in a permanent reduction of benefits, both for the retiree and spouse, the surviving spouse, and any others who may be eligible. The amount of the reduction ranges from 25% to 30% depending on your year of birth. For each year you delay benefits—up to age 70—retirement income is increased by 8%.

For an individual with average annual earnings of \$60,000 electing early retirement in 2008, the benefit would be \$13,212. Delaying to age 66 increases the benefit to \$18,684, and deferring to age 70 yields \$26,076. A couple would receive \$19,378 at 62, \$28,026 at normal retirement, and \$39,114 at age 70.

Delaying benefits increases the monthly amount received, but lessens the number of months you will receive them. To complete the analysis of whether it is better to draw benefits early or late, we need to make a present value calculation, discounting all values to age 62. We assume life expectancies (men age 79.5; women age 83.5) and a discount rate (3.43% - average inflation rate from 1913—2006 per Inflation-Data.com).

The actual numbers will be different for individuals compared to couples, but the conclusion is similar: for men the economic value of the expected Social Security retirement benefits is comparable at different levels of annual earnings regardless of when benefits begin. For higher earnings there is a slight advantage to taking benefits at age 62.

The results are very different for women because of their longer life expectancy. The present value of future benefits increases considerably when benefits are deferred. This is true at all earnings levels.

In the case of couples, if the primary insured dies first, the surviving spouse would switch to the survivor benefit which is the primary insured's benefit amount. If the spouse dies first, the primary insured would continue to receive his or her benefit.

Increasing the discount rate to 6% still favors delaying benefits and if you come from a 'long-lived' family, it is even more to your advantage to defer collecting benefits.

Other factors influencing when to draw benefits include employment opportunities, fringe benefits, family and personal health history, and your access to other funds. Jnl of Financial Service Professionals—May08

Surviving spouses now have longer to claim the \$500,000 gain exclusion on a primary home as if they were still married. Sales within two years of the spouse's death qualify, effective for homes sold after 2007.

Kiplinger Tax Letter