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Managed Investments • Retirement Planning

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ABEL Strategy — Third Quarter 2009 — October 6, 2009
Retirement Planning & Wealth Management

The "New Normal"

The phrase, first coined by the CEO at PIMCO, is being used by just about everyone in the investment community. The broad acceptance suggests, and possibly supports, that it IS 'different this time'. Personal savings are up dramatically at the expense of reduced consumption. Retail sales are down as a result. Unemployment's at 9.8% and headed higher. The majority of the sub-prime mortgage problems may be behind us, but now interest rate resets are starting to be applied to "Alt-A" mortgages and a new round of mortgage delinquencies & foreclosures is expected to hit in early 2010. Banks are not interested in lending. Lines of credit have been reduced or terminated. Federal government spending coupled with reduced tax revenues has resulted in increased deficits. By any standard it's not like it used to be and some believe it will be like this for longer than we imagine.

In response, we have modified our four investment models to better reflect today's market climate. The choices range from 20% equities/80% bonds & mortgages to 80% equities/20% bonds and mortgages. Each model includes both domestic and international exposure. Larger accounts can include one or more of three individual stock strategies, and/or Separate Account Managers.

In addition to revising our four models, we will use the Schwab Rebalancing tool to maintain the allocation between investments. Once an account has been 'typed' and the investment strategy implemented, we will rebalance the positions up to three times a year.

A copy of the 'Investment Models' is included with this newsletter. Please review it and select the one model you want your account geared toward. We recognize that spouses may differ so have printed that page back-to-back to accommodate differences. Complete the bottom of the form and return it (faxes okay: 925-988-0329). We have also emailed the form to you so you can complete and return it electronically.

Jim Ellman

...from a newsletter from Australia called *The Privateer* (www.the-privateer.com).

"In 1909, the US federal government had an annual budget of $US 0.8 Billion. With this it governed a population of just over 90 million people. The cost of government was about $9 per capita. In 2009, the US federal government has an annual budget of $US 3,550 Billion. With this it governs a population of just over 300 million people. That's a cost of about $11,675 per capita."

The question is "Are we 1200 times better off?"

The More You Have The More You Want More Than You Have

Now It's Over

So says Mr. Bernanke. He also says it will be a very slow recovery.

I agree with the slow recovery, but am not sure it is over. A second downturn in the economy is very possible sometime next Spring.

Late in the third quarter we adjusted portfolios to reflect the continued optimism of investors. We increased allocation to both domestic and international equities by reducing cash. With money markets yielding a fraction of 1% we also added to our bond (government & quality corporate) and GNMA mortgage fund positions.

Going forward we are more confident in other countries assuming the leadership in economic growth, specifically China, India and Brazil.

As we age we shift our investment focus to income. For larger accounts ($500,000 up) we are adding separately managed 'Income Equity' and 'MLP Pipeline' portfolios. They are designed to yield between 5%-8% and offer some upside.

We made a mistake in believing the inverse ETF strategy would repeat its grand performance of 2008 in 2009. Last year it earned between 11% and 18% and helped clients realize a positive return while the market declined over 35%.

This year started with broad market declines into early March. The S&P500 was down over 24% by March 8; the inverse ETF strategy was up 23%. We were in the midst of a recession and indications suggested it was going to be bad.

Investors were anxious for good news. When it came on March 9, the market started to rally. But the news wasn't that good and the rally would not last...so we thought. It lasted for two months and it was strong. By June 30 the ETF strategy was down 26%.

We have reduced, or eliminated, the allocation to this strategy. It's use will bear fruit when the market next tumbles, but that may be a ways off.

ABEL Performance

	3rd Qtr	YTD	12 Mos	3 yrs	5 yrs
Dow	15.8%	13.5%	-7.4%	-3.3%/y	1.8%/y
S&P500	15.6	19.3	-6.9	-5.4/y	1.0/y
Nasdaq	15.9	35.6	2.5	-1.2/y	3.1/y
ABEL *	1.0	- 5.6	-3.1	1.0/y	4.4/y

* includes mix of Stocks, Funds, CDs and Cash

⇒ Indexes from Managers Funds

	3rd Qtr	YTD	12 Mos
Cash & CDs	+ 1.2%	+ 2.8%	+ 3.8%
Fixed Income	+ 4.0%	+ 8.2%	+ 9.2%
US Stock Funds	+16.2%	+29.9%	+12.7%
Internat'l Funds	+14.0%	+20.8%	- 4.9%
ETFs	-22.3%	-56.6%	-21.9%
Separate Accts	-21.6%	-26.3%	n/a

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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 ...

15... Percentage of US congressional members who have degrees in business, economics or finance. (Center for Economic & Entrepreneurial Literacy)

31... Percentage of people who don't understand that their credit score affects their cost and ability to get credit. (Consumer Federation of America)

75... Percentage of Americans under age 35 who owe as much or more credit card debt than they did last year. (Qvisory)

63... Percentage of investors who never or rarely read their mutual fund prospectus. (SEC)

45... Percentage of small business owners who do not offer any type of retirement plan. (SurePayroll)

6.4... Percentage increase in tuition and fees at 4 year public universities for the 2008-2009 school year. (College Board)

36... Percentage increase in homeowner income during 1996-2006 period while utilities rose 43%, mortgage payments 46%, property taxes 66%, and property insurance 83%. (Center for Housing Policy)

94... Percentage of today's women discussing finances with their daughters versus 54% of the same women whose mothers discussed finances with them. (Women & Co)

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Saving For Retirement

Most employers have changed their retirement plans, reducing or eliminating the traditional defined benefit pension in favor of the 401k. The pension was paid for 100% by the employer. The 401k is funded 100% by the employee, unless there is a matching feature in the plan where the employer matches 50% of the employee deferral up to 6% of compensation.

Has the recession changed the way employees save for retirement? A recent Hewitt Associates study says no.

- Workers lost an average of 28.3% in their 401ks in 2008
- 74% contributed to their plan, same as in 2007
- Contributions averaged 7.4% in 2008 compared with 7.7% in 2007
- 15.4% increased their contributions while 14.9% reduced them
- Only 4.8% stopped making contributions

Fidelity Investments reports that for the first quarter 2009 contributions are being invested 50% to equities, 25% to fixed income (bonds) and 25% to blended options.

Saving for College

In an Oppenheimer study 25% of the respondents said that space travel will be more affordable than going to college by the time their youngest child is ready to attend. Despite the bad economy 60% of the parents indicated they are still putting money away for college costs. The bad news is that 55% of those with kids ages 15-18 have saved less than $10,000 and 13% have saved nothing.

From the College Board we have these numbers: it costs $34,132 a year to attend a private four-year college, and $14,333 for an in-state public college. [UC Berkeley-fees only: 1969 @ $324.75; 2009 @ $8352]

A similar survey by Country Financial indicates that parents, for the first time in 3 years, are putting saving for college ahead of saving for retirement.

Reducing Costs on Investment Trades

The purchase of Exchange Traded Funds “ETFs” and stocks generates a transaction fee. This ‘commission’ is charged by Schwab to effect the trade. The standard fee for up to a 1000 share trade is $19.95. If you have signed up for eDelivery (eConfirms & eStatements), the charge is reduced to $12.95. That’s a 35% discount. If your ’householded’ accounts total more than $999,999 the fee is $8.95 (a 55% discount) regardless of whether you have signed up for eDelivery.

Call Schwab Alliance for help in taking advantage of the first discount.
They can be reached at 800-515-5623 or 800-291-8510

“Consciousness is said to be a field; a plot of land in which every kind of seed has been planted – seeds of suffering, happiness, joy, sorrow, fear, anger, and hope. The quality of our life depends on which of these seeds we water. The practice of mindfulness is to recognize each seed as it sprouts, and to water the most wholesome seeds whenever possible.” Thich Nhat Hanh

“Seriousness is stupidity sent to college” *- P.J. O’Rourke*

Itemized Deductions

The following data comes from the IRS based on 2007 tax returns.

Adjusted Gross Inc	Total Itemized Deductions	Interest	Other Taxes	Charity	Medical
$30K - $50K	$16,013	$9,262	$1,606	$2,127	$6,040
$50K - $100K	$19,938	$10,558	$3,053	$2,612	$6,690
$100K - $200K	$28,380	$13,766	$6,015	$3,790	$9,992
$200K - $250K	$39,542	$18,030	$10,869	$5,733	$22,810
$250K plus	$91,046	$28,110	$39,454	$23,817	$32,813

Total Itemized Deductions reflect the phasing out of write-offs for high income earners. And the Medical expenses represent the expenses over 7.5% of AGI. The IRS does match mortgage interest deductions with the 1098 forms from the lenders.

Who Pays Taxes?	Filers	% of Adjusted Gross Income	% of federal income taxes
	Top 1%	22.8%	40.4%
	Top 5%	37.4%	60.6%
	Top 10%	48%	71.2%

Reducing Health Care Costs

Four years ago I had a pacemaker installed in case my heart skipped a beat. I needed it when I got the bill: $84,000. A few days later Blue Shield sent their Explanation of Benefits. They paid a bit over $4,000 and our share was a bit under that. What about the other $76,000? It was written off!

I was grateful for the contract that my insurance carrier had negotiated with the hospital and doctors, but what if I had a different plan, or had a very high deductible policy? Last year an average insured family spent $3350 on co-pays, premiums and deductibles. Twice what it was a decade earlier.

Negotiate the procedure before it takes place if you can. And certainly do so after you get the invoice. If you are not comfortable negotiating, there are some websites that can help.

These sites publish the prices of procedures in a given zip code:

HEALTHCAREBLUEBOOK.COM
CHANGEHEALTHCARE.COM
OUTOFPOCKET.COM
MYHEALTHSCORE.COM

These companies offer bill-negotiation services:

MYINSNET.COM
MEDICALCOSTADVOCATE.COM
BILLADVOCATES.COM

For the full article go to www.forbes.com and search for “Cut Your Doctor Bill” in the August 3rd issue.

“The market can stay irrational longer than you can stay solvent.” *- John Maynard Keynes*