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ABEL Strategy — Second Quarter 2010 — July 6, 2010
Retirement Planning & Wealth Management

Is the Golden State still golden?

California's high cost of living can be justified by the remarkable quality of life we enjoy here – especially in Northern California – the natural beauty, cultural diversity, and weather is second none (not to mention the friends and family).

The State's current fiscal crisis certainly makes us wonder what direction this quality of life is headed. The reasons for California's financial problems are numerous and complex, but boils down to poor financial projections and policy that has led to a budgetary shortfall. Specifically, tax receipts have fallen more than expenditures have been cut, leaving a \$20 billion state deficit that must be financed – further cutting into government benefits such as education.

Despite the current state of our state, we remain optimistic about the future. Alarms are going off and leaders (politicians and citizens) are responding to the challenge of returning California to its former glory. Government incentives have the potential to spark several industries, including green technology of which California should be at the forefront. Likewise, many California companies continue to be global leaders: Apple's iPad is revolutionizing computing, Google's Droid operating system has quickly become the leader in smart-phones, Bloom Energy is a leading developer of fuel cell technology, and Tesla Motors will be building electric cars at the old NUMMI plant. The concentration of smart, entrepreneurial, and driven people makes California a hot bed for business. That combined with our proximity to our two largest global trading partners, China & South America, positions us to be the conduit for global trade.

Previously we wrote to you explaining why volatility in the financial markets was good. As we move into the latter part of the election season, we expect the political and financial climate to continue to be bumpy. This is not necessarily bad. We are hopeful that such a dose of reality will encourage fiscal discipline and pro-business measures in California, both of which are central to putting the shine back on the state. As we look ahead, we remain upbeat about the future prospects of this amazing place we live.

Barry Mendelson

Only the Look Has Changed

Last year the company that developed and maintains our database software was bought by Morningstar. The purchase immediately resulted in a significantly larger budget allocated to improving the software. The new ownership has provided us a number of new reports we can use to illustrate your portfolios. It also has given us the ability to provide those reports on a secure website.

You have always been able to access your Schwab or TD Ameritrade account via our website at www.JustPlans-Etc.com. That gave you access to the custodian's monthly statement, confirmation of trades and current prices but did not give you a picture of the performance or the composition of your portfolios. This quarterly package includes some of the new reports. By year-end we hope to have them online for you.

Jim Ellman

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

New Bull Market? Not Likely

Neither the economy nor the stock markets are at a place where new long-term secular bull markets begin. I am a big believer in the 16-18 year cycles of secular bull and bear markets and believe that this bear market, like those before it, will end when PE ratios decline below 10 (currently at approximately 18, though down from nearly 22 in April).

There are two ways to look at the E (earnings) in PE (Price to Earnings Ratio). I believe it is important to look at actual reported earnings and not future estimates. Wall Street analysts' guesses tend to miss by a wide margin. Today they are forecasting 12% earnings growth for 2010. Historically, actual earnings growth has been closer to 6%, not 12%. Given the difficult issues both domestically and globally, just hitting 6% earnings growth is likely to be most difficult and most unlikely. In short, I prefer to compare actual achievements -the actual PE ratio- to historical levels to determine valuation. Based on those numbers the market is roughly 15% overvalued today.

Bull markets normally start with low PE ratios and interest rates that are moving from higher to lower levels. Today we have elevated PE ratios and low interest rates that are likely to move up over the next two to five years. I believe the markets will bump along sideways until late in this decade as the macro fundamentals repair.

The environment in which we will be attempting to generate profits will quite likely favor tactical trading strategies and be a difficult one for buy-and-hold strategies.

Jim

	Performance			
	2nd Qtr	12 Mos	3 yrs	5 yrs
Dow	- 9.4%	18.9%	-7.4%/y	1.7%/y
S&P500	-11.4	14.4	-9.8%/y	0.7%/y
Nasdaq	-11.8	16.0	-5.9%/y	1.4%/y
ABEL *	- 0.4	1.1	-2.6%/y	2.5%/y

* includes mix of security types listed below
 ⇒ Indexes from Managers Funds

	2nd Qtr	12 Mos
Cash & CDs	+ 0.14%	+ 0.49%
Fixed Income	+ 2.64%	+ 9.36%
US Stock Funds	- 3.34%	+11.13%
International Funds	- 3.66%	+18.62%
Abidar Cap Mgmt	+ 1.30%	- 25.19%
Miller-Howard Sep Acct	+ 1.99%	+25.36%

**Postponing retirement? Tuition due?
Income down? Laid off?**

Call for a free consultation

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What information consumes is rather obvious: it consumes the attention of its recipients. Hence, a wealth of information creates a poverty of attention.

-Herbert Simon

Did You Know ...

59... Percentage of Americans who believe the economy still has not hit rock bottom. (Citi/Hart Research)

25... Percentage of Americans ages 65-75 expected to be employed in 2010, up from 17% in 1990. (Rand Cp)

61... Percentage of Americans ages 18-34 who believe the best stock investment opportunities over the next 10 years will lie outside the US compared to 38% of those ages 65 and older. (Franklin Templeton Funds)

78... Percentage of investors who believe their standard of living will be the same or better in retirement. (Harris Interactive)

45... Percentage of financial advisors who believe their clients have a realistic vision of retirement. (Harris Interactive)

53... Percentage of retired Americans who financially support their children. (Charles Schwab & Co)

10,000... Cost in dollars per employee for medical benefit expenditures in 2010, 78 percent of which will be paid by the employer. (Towers Perrin Co)

39... Collective percent decline of separately managed accounts in 2008, making them the hardest hit type of brokerage account. (Tiburon Strategic Advisers)

Getting the Most From Social Security

Thanks to the recent stock market declines, 44% of Americans say they are not confident they have enough money for retirement. This is an all time high according to Employee Benefit Research Institute.

But for those with less dough than they'd like experts say there is one strategy that is commonly overlooked: timing Social Security.

Americans can draw Social Security payments starting at age 62, or they can postpone the government check until age 70. For each year of waiting past normal retirement age your benefit is increased by between 7 to 8 percent.

If a 55 year old earning \$100,000 annual income chose to wait and draw benefits at age 70, instead of age 62, his monthly benefit would nearly double.

Waiting does not come naturally to most people. Half of all men claim benefits by age 63. But even those who draw benefits early can reclaim a higher benefit later.

If you would like an explanation on how this can be done, call Barry [x22] or Jim [x28] at 925-988-0330.

Are 5 Star Funds Good Buys?

Many investors only select mutual funds that have four- or five-star ratings from Morningstar Inc. They forget that star ratings are backward-looking, based on past performance. And studies show that ratings have no predictive value.

Tim Courtney of Burns Advisory Group went back to December 31, 1999 and studied the subsequent ten year performance of five-star rated funds.

- ◆ Of the 248 five-star stock funds at the start of the period just 4 were still so ranked at the end.
- ◆ 218 of the funds lagged their benchmark and their category average return.

Five-star funds, on average, did worse than their peers in subsequent years.

Don't misunderstand. There are some extremely good four- and five-star funds. But beside star ratings when we select a fund for a client's portfolio we also consider the fund's management fees, its turnover [lower is better] and the manager's application of a consistent investment strategy.

Five-star funds that have slipped a notch or two, other things being equal, are often good future performers.

Reduce Your Cost 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 \$8.95. That's a 55% discount. If your 'householded' accounts total more than \$999,999 the \$8.95 fee is applicable regardless of whether you have signed up for eDelivery.

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

Put Your Money Where You Put Mine

Investors who seek funds in which managers are willing to invest their own money seem to significantly tilt the odds in their favor. The correlation is absolute and significant. Among equity funds, the correlation of better returns is stronger with manager ownership than it is with low costs.

Don Phillips, Morningstar Advisor, Feb 2010

Opinions

Bottom Line: Like the equity markets, we expect the performance of the bond market to remain volatile in the second half. Continue to focus on cash flow and total return as better alternatives to cash.

Ned Davis Research, Market Digest July 2010

Stock prices always have and still do move higher or lower based primarily on the outlook for individual company prospects and general economic conditions.

Mark Huard, Market Edge July 2nd

"The only reason for time is so everything doesn't happen at once" -Albert Einstein

One Manager's Warning

John Hussman of the Hussman Funds says that “if we fail to recognize that the ‘good news’ reported over the past year is due not to a recovery in intrinsic economic activity, but instead to massive government intervention, we risk being blindsided as those synthetic effects gradually erode”.

On that point, it is notable that the Economic Cycle Research Institute (ECRI) reported on 6/11 that its Weekly Leading Index has slumped to the lowest level in 44 weeks, and has now gone to a -1.5% reading. [-7.7% on 7/2]



http://www.favstocks.com/wp-content/uploads/cache/31931_ECRI+WLI+2010-06-11.png

Interest Rates Up; Bond Prices Down Do What?

To jump-start the economy the Fed reduced short-term rates to a 0%-0.25% range. This effectively eliminated any income from parking money in a safe place during the recession. We over-weighted our allocation to two PIMCO funds (GNMA & Total Return) and the Hussman Total Return Fund in 2008 & 2009. The funds did their job, providing positive returns, while equities suffered through the recession.

The recession is thought to have ended a year ago, although some believe we are headed into a ‘double dip’ repeat of what 2008 gave us. I don’t believe it will be as bad, but do believe a recovery in the economy is dependent on a recovery in housing, and that a housing recovery is 12-18 months away.

As we move in that direction the Federal Reserve will start increasing short-term rates to head off inflation. Rising interest rates are not good for bond investments. Remember the teeter-totter: if rates go up, prices go down. A heavy allocation to bonds in a rising interest rate climate is a recipe for loss of principal.

Enter the Pipeline Master Limited Partnership (“MLP”). Pipelines are like bus routes, taking you from point A to point B. Their passengers are natural gas, petroleum, and most anything that is a liquid or can be transported in a liquid. Their fare is a fee charged to the user. Most contracts are for 7-10 years, and have cost-of-living clauses that allow the fees to increase during inflationary times. Pipeline companies also provide storage facilities.

The partnerships are bought like a stock: they trade daily. They are required to distribute 90% of their earnings to the owners (currently 6%-8%). As an investor, you are an owner. As an owner you also get to offset income received by depreciation. An inconvenience of investing in MLPs is the issuance of K-1’s reflecting your share of the tax gains and losses for each calendar year. Owning them outright will increase the cost of having your tax returns prepared. Owning them in an IRA has other consequences, but Schwab as custodian of your IRA, takes care of them (presently at no cost). A mutual fund is now available that provides the investment benefits without the inconvenience of the K-1’s.

Historically, the Miller-Howard MLP program has provided an average 6.5% payout plus a 6% average annual appreciation. A double digit return with little concern about inflation makes these a very attractive alternative to holding bonds. Going forward we intend to reduce the allocation to bonds, replacing them with the outright purchase of MLPs, a position in the Miller-Howard managed account (\$100,000 minimum), or a position in the SteelPath mutual fund.

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