



ELHOFF FINANCIAL COUNSELING

A compilation of random thoughts, reflections and observations from symposiums, webinars, conference calls and publications follow for your perusal. The contents of which may be forward looking and may or may not come true and while much of the information is believed to be from reliable sources, we make no representation as to its completeness or accuracy.

Interesting Facts:

IT MAY TAKE SOME TIME—

The current bear market (defined as a drop of at least 20% of the S & P 500 stock index from a previous closing high) is the 9th bear market in the last 50 years and the 3rd where the loss has been at least 40%. The current bear's "peak to trough" drop is 56.4%, the low close occurring just last Thursday (on 3/05/09). (Source: BTN Research)

NOT A GREAT START—

During the first 21 months of Ronald Reagan's 8-years in office as President of the United States (1981-88) the S & P 500 closed below the level where the index had closed the day before Reagan took office (on 1/20/81) 95% of the time (Source: BTN Research).

ANOTHER SLOW START—

During the first 7 weeks of Barack Obama's term in office as President of the United States (i.e. through last Friday) the S & P 500 has closed below the level where the index had closed the day before Obama took office (on 1/20/09) 91% of the time (Source: BTN Research).

WILL WAIT—68% of Americans anticipate they will need to postpone their age of retirement by at least 2 years as a result of the bear market that hit US stocks beginning in October 2007 (Source: Money).

NOT ENOUGH—Of the more than 10,000 Americans that were surveyed early last summer, only 27% were confident that they had or were saving sufficient money for their retirement. Another 23% were not sure. (Source: Retirement Made Simpler).

MENTAL STRESS- is largely born of a fear that is more perceived than real. A common acronym for the word fear is "false evidence appearing real." If your electricity is out, it's easy to be convinced it will stay out indefinitely. Sitting in a traffic jam, it's easy to believe you'll be in it for an insufferably long time. However, we have all experienced the lights coming on unexpectedly, and before we know it, we're clear of the traffic jam.

In recent Wall Street Journal Articles Steve Forbes and Warren Buffet proposed a fix for the banking industry, ... removal of the **mark-to market** accounting (resurrected by the Financial Accounting Standards Board in the fall of 2007) and enforcing "naked" short selling (before an investor can short a stock, he is supposed to borrow the shares and pay a broker or stockholder a fee. Seller alleged the SEC was turning a blind eye to naked short selling).

I heard **Dr. Quincy Krosby** state 18 months ago, "the financials got us into this, they will have to get us out". Let's hope a light bulb comes on in Congress one of these days soon. So far they have been flipping switches but I see no light.

Money fund assets are approaching \$4 trillion dollars. How long do we think these owners will be happy earning 0 to 2% interest?

Unemployment was reported to be near 8%. All my economics professors (4) told me full employment is when we have 5% unemployment, meaning there is always 5% of the population that is unable to work for various reasons. So, that tells me today 97% of those able to work are working. I also heard we could eventually see 9—10% unemployment, meaning the nation is employing 95% of those able to work. I understand losing one's job is 100% unemployment, but for our economy as a whole, we're hanging in there. Comparisons to the Great Depression seem inappropriate when unemployment reached 35%.

The consumer is undergoing a metamorphosis, with the **savings rate** rising to 5% this January from 0.1% a year ago, while consumer debt fell in 2008 for the first time on record.

Question/Answer—What percent of mortgages entered **foreclosure** at the end of last year? 1.08% of mortgages entered foreclosure both in 3rd quarter and 4th quarter of 2008. Wow, the news media had me convinced almost everyone's mortgage was near foreclosure. (source: Mortgage Bankers Association, JPMorgan Asset Management).

In these turbulent times when consumers are often confused and frustrated in their search for ethical, objective, client-centered advice in the market-place, the **Financial Planning Association's (FPA) Standard of Care** offers a clear and succinct guidepost to the public as to what it should expect from a financial planning professional:

- Put the client's best interests first;

Interesting Facts:

\$100 GRAND—4 out of every 7 American families (57%) have experienced stock losses (i.e., realized or unrealized) of at least \$100,000 during the current bear market. From its all-time closing high set in early October 2007, the S & P 500 is down 56.3% through last Friday's close (Source: Kiplinger's, BTN Research).

SAME PROMISE—On 7/19/03, then President George Bush urged Congress in his weekly radio address to "make spending discipline a priority, so that we can cut the deficit in half over the next 5 years." On 2/23/09 at the beginning of his 1-day "fiscal responsibility summit" held with Democratic and Republican leaders along with outside experts, President Barack Obama pledged to "cut the deficit we inherited in half by the end of my first term in office" (Source: White House)

OUT vs. IN—In spite of the fact that the USA had a \$677 billion trade deficit in 2008 (imports in excess of exports), we were able to offset much (but not all) of that outflow of dollars by attracting \$515 billion of foreign capital into our stocks and bonds. Thus, for every \$4 that left the USA because of excessive buying of foreign imports, \$3 came into the USA as foreigners bought American financial assets (Source: Commerce and Treasury Departments).

AT THE HIGHEST LEVEL—President Obama proposed on 2/26/09 in his fiscal year 2010 budget plan to increase the top individual marginal tax bracket to 39.6% as of calendar year 2011. The current top marginal tax bracket is 35% (Source: White House)

THE TARGET GROUP—The top 1% of wage earners took home 22.1% of all national income in 2006, up from 8.5% in 1980. This same group paid 39.9% of all federal income tax in 2006, up from 19.1% in 1980 (Source: Tax Foundation).

MORE THAN MOST—To rank in the top 1% of all US taxpayers, an individual would have to earn \$338,806 of adjusted gross income (Source: IRS, Tax Foundation).

- Act with due care and in utmost good faith;
- Do not mislead clients;
- Provide full and fair disclosure of all material facts; and
- Disclose and fairly manage all material conflicts of interest.

The Standard of Care reflects FPA's belief that those of us delivering financial planning services are fiduciaries, regardless of our business model, method of compensation, or professional designations.

This past week I received official notification that I have been named a **Five Star: Best in Client Satisfaction Wealth Manager sm for 2009**. Crescendo Business Services, administered a rigorous "Best in Client Satisfaction" research process. More than 95,000 high net worth consumers and 7,250 financial service professionals were asked to evaluate wealth managers in the Dallas area. The final list was reviewed by a blue ribbon panel of local financial services industry experts. Fewer than seven percent of the wealth managers in the Dallas/Fort Worth area were selected.

Let's look at a verse from the Bible, 1 Timothy 6: 17, which reads "Command those who are rich in their present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. " You may chose to read on as 18 and 19 are good too.

So, lesson learned," **wealth is so uncertain**" Hello, virtually everyone has suffered losses of 20 to 50% regardless of their net worth. Reaction?... Many folks feel stupid; they should have gone to cash months ago (isn't hindsight always 20-20); get out now; we are going to lose it all; this time is different.

As many of you have heard me say, it is your money and I will do whatever you want. That said, I believe the **best financial advice** I can give you is to minimize your current expenditures during the downturn and stay the course with your portfolio with the long term disciplined strategy.

Two concerns when one speculates and tries to time the markets, we may be going to cash at the bottom of the market (no one, no one knows the bottom). And secondly the, when to get back into the market so one can recover their losses (similarly no one knows when that should happen). I empathize that it is very difficult to "hold on", but history tells us the bottom does come, recovery does come and values are restored

That said, we have identified several **investment alternatives**, other than fixed annuities, managed futures, Reits and participating whole life, that faired very well during 2008 ("**Past performance is not an indicator of future results.**") and our research and due diligence has substantiated they are real and not a Madoff, Stanford scheme. We are now ready to discuss these with you and will be calling you or as always feel free to call us.

OUT AND ABOUT and UPDATES— Chuck & Linda returned from a recent tour of the Holy land. I am more than happy to share the experience with anyone. Colby and Lisa welcomed their second child, a beautiful daughter, Bailey.

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