

Market Update - February 2009

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Moving forward, it's no longer "President-elect" Obama and we are beginning to get a glimpse or two of the new administration and the 111th Congress. So far, the big things still feel the same.

We had the opportunity to spend the beginning of this week at a conference with a group of long-term financial planners with whom we meet twice a year to review, among other things, what's happening in the investment and financial services industry. We are sharing with you some of topics that were discussed at great length.

One of our speakers - an expert on Washington affairs, (no, not the smutty kind) provided an update on the possible direction of things to come. It looks like it's all about taxing and spending. (No new news there.) You've all likely heard of the famous "bridge to nowhere." Well, it looks a lot like it's soon going to be the "bridge to everywhere."

The focus: *Get the money moving in the economy.* The first order of business will be passing the next bailout - or stimulus package, depending on your point of view. This bill, along with TARP and the carmakers bailout, is expected to be at a total cost of approximately \$2 trillion. To put this in perspective, our national debt has been \$10 trillion. We are looking at increasing it by 20%. (Source: Lincoln Financial 1/09). This modernizes the old saying to "A trillion dollars here and a trillion dollars there and pretty soon, you're talking about real money."

Other topics on the hot list include health care, energy issues, financial services reform (watch out, more forms to sign), alternative minimum tax and Social Security. One item sure to be addressed before next year is the estate/inheritance tax. The current exclusion for 2009 is \$3.5 million but will be unlimited next year - meaning NO estate tax if you die in 2010 - but the step-up in basis would be eliminated - which would affect far more folks than the inheritance tax. The consensus seems to be, however, that this exclusion will be soon modified to somewhere in the range of \$2-\$3.5 million and taxed at the 45% tax rate - with, hopefully, the step-up in basis restored.

There also seems to be a consensus between the "experts" and our peers that we can expect nothing but higher taxes in the fairly near future. These may appear in the form of higher marginal rates, higher Social Security and Medicare (FICA) taxes at higher income levels and other brand new ways to tax you. One tax that was recently attempted (though unsuccessfully) in the state of Michigan was a tax on service industries. As we understand it, that meant if you saw your attorney or your financial planner and he or she charged you \$100, you would also have to pay a tax on that service, much like you pay state sales tax today. Really. Arnold is now mentioning this option.

Another conclusion among our group was that investors' perception of risk is forever changed and understandably so. Nevertheless, it's important to remember that the markets don't go down forever - that it will always be important to invest for growth to combat inflation. We are not saying that investors' long-term focus has not had short-term costs.

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But history has shown that as sure as night follows day, patience rewards the long-term investor.

On the positive side, we see the financial industry reacting to create investments that meet these challenging and changing times. These include non-traditional investments that are less correlated to the stock and bond markets, more future guarantee options and investments designed to provide lifetime income - irrespective of stock market performance.

A final thought – Stock market cycles often cause investors to do the wrong thing at the wrong time. Historically, during periods when equity returns have been relatively high, investors have flocked to the market. When equity returns have been low or even erased, many investors have left – precisely the time when stock values are attractive. Getting out of the market is easy compared to the decision to get back in. We think you will find interesting the attachment *The Cost of Throwing in the Towel*.

We believe many of the excesses of the last bull market have been corrected. The “safer” investments such as money market funds and certificates of deposits offer little or no return after inflation – though they do offer stability of principal. We are suggesting it may be the time to dollar-cost-average a portion of the dollars earmarked for equities. No one can accurately predict how long a bear market will last or when the economy will stabilize but we think you’ll appreciate these words by Franklin D. Roosevelt....

“The only limit to our realization of tomorrow will be our doubts of today.”

Please call us with any questions you may have and feel free to schedule an appointment for a review of your investments and strategy.

Best, Barbara and Gloria

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