

Market Update – June 5, 2009

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It's hard to believe we're already in the month of June! Thankfully, May did bring us some positive Spring news with the S&P 500 Index being positive 5.31% for the month. This increase was fueled by a rally in consumer confidence - the final May Reuters/University of Michigan consumer sentiment index hit 68.7, the highest mark since September (forbes.com 5/29/09). According to Bloomberg, the Conference Board's Consumer Confidence Index came in at 54.9 this month, blowing away the 42.6 estimate of polled economists and saw the biggest one-month gain in the CCI since 2003.

Other good news included new home sales up 0.3% for April and existing home sales increased 2.9% for April (Bloomberg.com 5/28/09). April also brought an increase in durable goods orders and the first increase in orders for metals and metals products since last July 9. (wsj.com 5/29/09).

You may remember that in our last email we discussed some extra pain at the gas pump. Unfortunately, it's only getting worse. Oil prices rose 29.71% in May, ending the month at \$66.31 per barrel on the NYMEX and crude prices gained 7.52% last week (money.cnn.com). That does signal that demand is picking up -- which would be a good thing overall!

So what's next in the world of investing? According to an update we received from PIMCO last week, we are now in a "*New Normal*". Here is an excerpt of that email. (It's a bit wordy but you'll get the idea.) ---

"Markets will revert to a mean, but it will not look anything like that of recent years. Relative to where it is coming from, the financial system will be de-levered, de-globalized, and re-regulated. Global growth will be lower and unemployment higher, notwithstanding the continued rotation of dynamism away from industrial countries and toward emerging economies. Price formation in many markets will be influenced by the legacy and, in some cases, continuation of direct government involvement. Burden sharing will feature more prominently, being one feature of the heavier hand of government in economic life. For a financial industry known for its famously short memory (and related infrastructures and behavior), this will feel like a new normal. Adaptations will be needed as the configuration of risks and returns shift, government debt balloons, and capital structures potentially migrate toward a simplified structure consisting just of equity and senior debt instruments. Business models will need to be retooled, and investment management vehicles made more responsive and robust."

We here at Financial Focus will continue our search for these opportunities that respond to the "*New Normal*."

On a different note, we have had more questions recently about how much FDIC coverage one may have on a living trust account. Here is a partial explanation directly from the FDIC website.

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You may see the full explanation at

<http://www.fdic.gov/deposit/deposits/insured/ownership4.html#revocable>.

Deposit insurance coverage for a revocable living trust account depends upon the answers to the following specific questions:

- Does the account title at the bank indicate that the account is held by a trust? This requirement can easily be met by using the words "living trust," or "family trust," or similar terms in the account title.
- Who are the owners of the trust? The owners are commonly referred to in the formal revocable trust document as trustors, grantors or settlors. For the purpose of calculating deposit insurance coverage only, the trustees, co-trustees, and successor trustees are not relevant. They are administrators and have no impact on deposit insurance coverage unless they are also the owners of the trust.
- Who are the beneficiaries of the trust? The beneficiaries are the people or entities entitled to an interest in the trust when the last owner dies. Contingent or alternative trust beneficiaries are not considered to have an interest in the trust deposits and other assets as long as the primary or initial beneficiaries are still living, with the exception of revocable living trusts with a life estate interest.
- Do the beneficiaries meet the eligibility requirement? To qualify for revocable trust coverage, a trust beneficiary must be an individual, a charity or another nonprofit organization.
- What is the dollar amount or percentage interest each owner has allocated to each primary beneficiary? This question does not apply to formal revocable trust deposits with five or less eligible beneficiaries. Coverage is calculated at \$250,000 times the number of eligible beneficiaries up to \$1.25 million. If the depositor has six or more beneficiaries and wants to insure more than \$1.25 million, then the insurance coverage will be the greater of either \$1.25 million or the aggregate amount of all eligible beneficiaries' proportional interests in the revocable trust(s), limited to \$250,000 per beneficiary.
- Are all the owners and beneficiaries living? The amount of deposit insurance coverage can change if there is a death of an owner or a beneficiary. Upon the death of an owner, the FDIC provides a grace period up to six months during which the account is insured as if the owner were still living. However, the six month grace period does not apply to the death of a beneficiary named in a living trust account.

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So the short answer is that your coverage is \$250,000 per beneficiary. Though the FDIC insurance of \$250,000 per beneficiary was scheduled to revert to the previous coverage of \$100,000 per depositor on December 31, 2009, this coverage on deposits at FDIC-insured institutions has recently been extended through December 31, 2013 - four years longer than initially extended (bill S.896). With this latest regulatory revision, the \$250,000 coverage includes those held by individuals, corporations, partnerships, limited liability companies, and municipalities - until January 1, 2014, when the standard insurance amount will return to \$100,000 per depositor for all accounts except for IRAs and other certain retirement accounts, which will remain at \$250,000 per depositor.

On one last subject, it appears that the markets have recalibrated in the last couple of months. Many believe that after slowing for two years, it is likely that U.S. economic growth will pick up in 2010. As the U.S. stabilizes, other emerging economies should soon follow. A wave of money has flooded the market and world economies. While some experts expect this liquidity to have an immediate inflationary effect, others expect the money will be absorbed - thereby holding inflation at bay, at least for the present. It will be interesting to see how it all plays out. As always, feel free to call us with any questions or concerns you may have.

Thought for the day: "It is better to have a permanent income than to be fascinating." Oscar Wilde - 1854-1900, Poet

As always, feel free to call us with any questions.

Gloria and Barbara

And now a word from our compliance department...

Certain statements contained within are forward-looking statements including, but not limited to, statements that are predictions of or indicate future events, trends, plans or objectives. Undue reliance should not be placed on such statements, because by their nature, they are subject to known and unknown risks and uncertainties.

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