

# Tremblay Financial

October 1, 2009

*Caleb Overton presents...*

## *A Monthly Money Report*

### **The Market in Review**

Historically, September has been one of the worst months in the year for the stock market. This year not only did we make it through the month without a loss but the market gained 3.6%. A number of companies increased their earnings guidance for the current quarter and full year estimates. Texas Instruments, Proctor & Gamble and FedEx, were some of the companies that reported positive guidance moving forward.

- Gold topped \$1,000 an ounce and peaked this month at \$1,018 as investors piled into that investment based on the devaluation of the dollar.
- U.S. Treasuries increased in price and fell in yield because the government had successful bond auctions. Wall Street fears that at some point in the future foreign and institutional investors will not find these bonds as attractive and stop buying them, which will push yields higher, as well as mortgage rates.
- The transportation sector did well with FedEx increasing their earning forecast and inventory levels at record lows, suggesting a continued “restocking surge.” In addition, a weaker dollar makes U.S. products less expensive in overseas markets, boosting exports.
- During a primetime town hall meeting, Treasury Secretary Timothy Geithner offered a spirited defense of the government’s efforts to forestall another Great Depression but cautioned that the recovery would be slow and painful.
- Research in Motion posted disappointing earnings and lost 17% of its value the next day.
- Merger and acquisition activity has increased immensely in the past 30 days. Financially stronger companies are trying to strengthen their position in the market place and see opportunities to take over a weaker competitor.

Returns through 9/30/09	Month	YTD	1-Year	3- Year	5-Year	10-Year
Dow Jones Industrials	2.2%	10.6%	-10.5%	-3.4%	-0.4%	-0.6%
Nasdaq composite	5.6%	34%	1.4%	-5.6%	2.4%	-2.2%
Standard & Poor's 500	3.6%	17%	-9.3%	-6.9%	-1.0%	-1.7%

Sources: Yahoo! Finance, Barron's. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested directly. Three, Five, and Ten-year returns are annualized. Assumes dividends are not reinvested

Securities and Advisory Services offered through Centaurus Financial, Inc. Member FINRA and SIPC Register Investment Advisor

## What shape of recovery are we going to have? (U, V, W)

Many economists, analysts and money managers are talking about the type of recovery that we are going to have and are using “letters” to describe their opinions. Some analysts feel the recovery will be long and slow, suggesting a “U” shaped recovery before we see a steady rise. Others feel we are experiencing a “V” shaped recovery, where the March low in the stock market was a generational low and the stock market is heading substantially higher without any major setbacks. Some of the more pessimistic views are coming from people in the “double dip” or “W” camp. This group believes that fundamentally America has many economic and political hurdles to jump over and one of these hurdles is going to trip up the economy.

## Secular Bull Market vs. Secular Bear Market

A bull market is when the stock market moves up 20% from its previous lows and a bear market is a 20% drop from the previous highs. Bull and bear markets can last anywhere from a couple of months to several years (a short-term trend in the market). The term “bull market” and “bear market” originated from the way the animals attack their prey. A bull trusts its horns in an upward fashion. Conversely, a bear swipes its paws downward. These actions are metaphors for the movement in the stock market (upward or downward trend).

A “secular bull market” is viewed as a long-term move upward in the market (10-20 years). For example, from 1982 to 2000 the S&P 500 index went from roughly 100 to 1500 in that time frame. There were some pull backs in the market along the way, like the 1987 stock market crash, and the early 90’s saving and loan fiasco, but the overall trend in the market was upward.

A “secular bear market” is viewed as a long-term flat or downward trend in the market. From 1966-1982, the stock market basically stayed in a narrow range and didn’t make any huge movements higher. There were a number of small “bull market rallies” inside this 16 year “secular bear market.” This is very typical, markets tend to consolidate for 12-16 years (secular bear market) and then move into a secular bull market where there is a slow and steady rise higher for many years or even many decades. (Secular bull market)

It is difficult to predict when a “secular bull or bear market” starts and ends. As a result you may want to stay invested but allocate your investments into sectors that will benefit from the current economic environment. The strategy behind your investment allocation changes depending on whether we are in a “secular bear or a bull market.” A helpful analogy is the concept of “sailing vs. rowing.” When you are inside a “secular bear market,” the market tends to be very volatile. The market tends to go up for a couple years and then falls back down the next couple of years, with the market moving sideways like a series of lower case “w’s” (wwwww). In the short-term, the stock market is in a bull stage (the market has risen more than 20% since the March lows). However, with a longer-term view we are still in a “secular bear market” because the market has not

had a steady increase over the S&P 500 highs of 1500, which happened in 2000 and 2007.

During times of market volatility, investors are inclined to find a “rowing strategy” more beneficial. Investor’s find it much harder to achieve steady gains without hard work, similar to rowing. Investor’s are apt to be more risk adverse and shorten their time horizon. Traders like to keep investments liquid and flexible in case they need to get in or out of the market because of volatility. A common approach may involve having a larger percentage of assets in areas with low beta (bonds/fixed income or consumer staples stocks).

When investors feel the market has shifted to a “secular bull market”, you want to change your investment plan to the “sailing strategy”. By this I mean, allocate more of your money into growth portfolios and add to your portfolio on any dips in the market. The idea here is to let the market move your portfolio higher over time. You do not want to over think or over trade the stock market in the “sailing strategy” but rather enjoy the ride higher.

Technically since 2000, we have been in a “secular bear market.” We will probably be in this type of market until we fix our nations economic problems. This does not mean you cannot make money during a “secular bear market” but you really need to do your homework and know when to start taking profits. For example, the market had a wonderful rally from 2002-2007 but if you just bought and held your investments, you would have probably lost some or most of your gains in the recent downturn. Depending on the type of secular market we are in, will help determine if we should take a shorter or longer-term investment approach.

## **Essential Estate Planning**

Many investor’s who are in the baby boom generation, have started to do some estate planning for yourselves or your parents. Starting this month I am adding this new section to the monthly newsletter, with help from Jerry Howard, an attorney and a financial advisor at Tremblay Financial. Jerry will be discussing one “Estate Planning idea” a month to help either spark an interest or educate on a certain area. If you would like to discuss your personal estate planning needs more in-depth, please give Jerry a call at our office.

While we cannot precisely predict the direction of the financial markets or the exact time for the expected recovery, we can control the inevitable losses that come from the transfer of our wealth to future generations. By taking simple steps now, you and your family can protect wealth from losses to probate fees and estate taxes. Without proper planning, it is likely that your estate will suffer a loss of between 15% to 50% or more. This year the federal estate tax exemption has increased to \$3.5 million. A properly executed married couple’s living trust can save as much as \$1.575 million in estate taxes when the second spouse dies. Wouldn’t you rather see your assets in the hands of family and heirs, rather than going to the IRS?

## **Carrying Out Your Wishes**

If you want to make sure your wishes are carried out, it is imperative that you put them in writing in a document that courts and financial institutions will recognize. The law states that property transfers at death must be contained in either a will or a trust. Otherwise, there is no reliable way to carry out your wishes. Sometimes, people mistakenly believe that leaving their property to someone with instructions on how to distribute it will accomplish their wishes. If those instructions are not in a will or a trust, you should assume that the distributions will never happen as you intend. Moreover, your beneficiaries will not be able to do anything about it. By creating a will or trust, you can be assured that your desires will be fulfilled.

## **Administrative Costs**

There are two types of costs associated with the administration of an estate. The first has to do with the fees incurred in court proceedings. The second has to do with taxes, including estate, gift, and income taxes. Each of these costs is independent of the other. Since most people want to leave the maximum amount of their estate to their loved ones, the question is how to reduce these costs.

“Probate” is the court-supervised administration of a decedent’s estate. Probate is generally required where the decedent’s estate has a gross fair market value of \$100,000 or more, not including joint tenancy property, property being transferred to a spouse, property subject to trusts, or contractual benefits such as life insurance or retirement accounts for which there are designated beneficiaries. It does not matter whether the decedent did nor did not create a will, as probate is still required.

Under the best of circumstances, probate can take a minimum of six (6) months. Both the start and completion require notices to interested parties and court hearings, and after the representative is appointed, at least four (4) months must be allowed for creditors to present their claims against the estate. For the most part, your beneficiaries do not receive anything until the estate is closed. Your estate must pay fees to both an executor or administrator, and their attorney. Those fees are based upon the size of the estate and start at \$8,000 for a \$100,000 estate. Recently, California increased the filing fees, and now imposes that same fee on virtually every petition that gets filed in probate. One recommended way to avoid the costs associated with probate proceedings is to create a trust. Unless there is a dispute, trusts are not subject to review by the courts. They are private, quick to administer, and the trustee’s fees are typically less than half of the costs of probate.

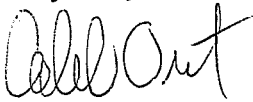
The second kind of administrative expense is the tax owed to the federal government. In 2009, estate taxes are imposed on any estate in excess of \$3.5 million (exemption amount) and the taxes are 45% of the excess. In 2011, the exemption amount is scheduled to be reduced to \$1 million dollars with a 55% tax rate on the excess. With that said, there is some “chatter” from Washington regarding possible changes to the estate tax and exemption amount. During his campaign, President Obama stated he was

in favor of retaining the current 2009, \$3.5 million exemption amount, and 45% tax on the excess. What we hear from those close to Washington is that they do not expect new legislation to be in place by January 1, 2010, but it will probably be adopted later that year and made retroactive to January 1<sup>st</sup>. However, already in January of this year, Congressman Earl Pomeroy from North Dakota proposed the "*H.R. 4346, The Certain Estate Tax Relief Act of 2009*" that did provide assurance that at least the exemption now in place will remain in place in 2010 and into the future. Again, it is only a proposal and there is no law or clear indication of what changes, if any, will be made to estate taxes.

Nevertheless, through the use of trusts and other estate planning devices, it is possible to avoid the burden of estate taxes so that your beneficiaries can receive as much of your estate as possible. With a little advance planning, all of your goals can be met and your wishes will be carried out as you intended. Administrative costs and taxes will be eliminated or minimized. Your beneficiaries will receive the assets you wish for them. You will have peace of mind. There is no substitute for preparation, planning, and follow through.

Feel free to give me a call at (805) 569-1982 or email at [caleb@tremblayfinancial.com](mailto:caleb@tremblayfinancial.com) with any question.

All my best,

A handwritten signature in black ink that reads "Caleb Overton". The signature is written in a cursive, flowing style.

Caleb Overton