

Financial Stuff

A Publication of JFR Financial Services, Inc.

November 2009

“There is nothing more deceptive than an obvious fact.”

– Sherlock Holmes



Now What?

It's been a year since the beginning of the global financial crisis? Something like that. It certainly intensified with the collapse of Lehman, AIG was taken over by the government and virtually everyone was clinging to their cash. As we saw at the client dinner, the velocity of money just fell off a cliff. Thankfully, there are signs that the worst is behind us for now. The market has enjoyed a six month rebound despite the never ending gloom and doom and 'The Economist' recently ran a

cover story discussing the extent to which the economic recovery is being led by Asia. Through it all, what have we learned?

1. *Stocks are more volatile than we want them to be!*
2. *Diversification on any given day is not as scientific as we would like.*
3. *We can't handle risk and volatility as well as we thought.*
4. *We have been reminded how important it is to focus on what we can control; i.e. spend less than you earn!*
5. *Rich and poor alike are revisiting the definitions of needs, wants and desires.*
6. *Life isn't as smooth or predictable as we would like it to be.*
7. *There are no true guarantees. Everything in life has a cost and benefit.*

Two years ago the market was full of optimism. Six months ago life as we know it was over. Today there is both. What about tomorrow? The human condition needs hope and it is there. Technology continues to improve. There are signs of a bottom in the housing market nationally, which is critical to any rebound in the American economy. The global economy is growing and with it the demand for American products and services; thanks primarily to the energy from the developing world's educated youth and emerging middle class.

Looking back, the primary lesson from the past 30 years is that the mostly smooth ride virtually every American enjoyed is something we may not see for awhile. A significant part of that ride was fueled by debt that must now be repaid. The economic cycle will continue to repeat itself. 100 years ago, the richest man at the time, JP Morgan, was asked for his thoughts on the market. *“The market goes up and the market goes down.”* This will always be the case.

At JFR, we are rebuilding strategies and plans under the assumption that the uncertainty and volatility will continue. While modern portfolio theory has not gone away, the adjustments and changes need to occur more often than annually or quarterly. The consolidation of MSC into LPL will provide additional technology, research, support and resources to better develop and manage investment strategies; the most important feature being tactical allocation models that can be updated weekly with the punch of a button.

What About Me?

The calmer seas at the moment provide the opportunity to prepare for tomorrow. If we haven't seen you this year, then call and make an appointment!

Inside This Issue

- [New 403b/TSA Rules](#)
- [Asset Allocation](#)
- [Multiple Life Long Term Care \(LTC\)](#)
- [Hateful Discipline](#)
- [Finding Caregiving Help](#)
- [Consensus](#)
- [Gurus Anyone?](#)
- [Speaking of Predictions](#)
- [Social Security Decrease](#)
- [How Much is a Trillion?](#)
- [Higher Taxes for Business](#)
- [History Repeating Itself?](#)
- [LPL Advantages](#)
- [JFR Advantages](#)

New 403b/TSA Rules? Very Confusing!

The IRS implemented new rules in 2009 for 403b/TSA plans. The objective was/is to make them more comparable to 401k plans. The current chaos within the school systems is due to a variety of factors; mostly humans! The most complicated part is the need for employers to “approve” withdrawals, transfers and/or rollovers on old accounts. This has become a real inconvenience for retirees. To simplify the process, call your previous employer and ask them to send you the necessary paperwork now. Allow more time for a withdrawal since it will probably take more time. What else? This has increased the incentive to move 403b funds to an IRA after retirement; eliminating the need for the additional paperwork. The only negative with an IRA are withdrawals are subject to a penalty prior to age 59½. 403b withdrawals are penalty-free after age 55.

Asset Allocation

Is Modern Portfolio Theory (MPT) dead? Not just yet! There are three alternatives; timing, absolute return and tactical. On the first, the answer is easy. Name one successful market timer. Remember Joe Granville in the 1980s? He said to “sell everything” in 1981, just before the market began to rebound. He said it again in 1987. He was right on that one, but the drop was very short lived. Since 1987, Mr. Granville, who said he didn’t think he’d ever make a serious mistake again, is at the bottom of the ratings for the past 25 years. Absolute return is another term for hedge funds, which are another form of market timing disguised as “trend followers.” They “hedge” their bets by keeping most of the money in cash or short term bonds while going long or short on currencies, commodities, etc. This brings us to tactical allocation, which makes the most sense as an alternative to buy and hold. Why buy stocks when their P/E ratio is 25? Why not wait until they are more fairly priced? Tactical and MPT can work together and that is the assumption we will be pressing on with. The new allocation models will take advantage of both strategies.

History Repeating Itself?

“Every now and then the world is visited by one of these delusive seasons, when the ‘credit system...’ expands to full luxuriance: everybody trusts everybody; a bad debt is unheard of; the broad way to certain and sudden wealth lies plain and open... great purchases and sales of real property, and immense sums made at every transfer. Now is the time for speculation and dreaming... No ‘operation’ is thoughtworthy attention, that does not double or triple the investment... Could this delusion always last, the life of a merchant would indeed be a golden dream; but it is as short as brilliant.”

Washington Irving, referring to the Mississippi Company debt fiasco in 1719!!!

Multiple Life Long Term Care (LTC)? – It’s Here!

The plans are available for families as well as employers with less than 500 employees. Like individual LTC, the first question to ask yourself is how do you plan to pay for a long term care event? The answer to this question is a part of any financial plan. The average cost for nursing care nationwide is now \$200 per day.

Hateful Discipline

Nick Murray is a long time financial advisor and well known writer. He was recently asked, “After ten years of no return, climaxing in a 57% market decline, many advisors are re-examining their commitment to equities, modern portfolio theory... and buy and hold... Aren’t they justified...?” Nick responded, “...*I still don’t see any way to fight off 30 years of rising living costs in retirement... As for buy-and-hold, it is surely an onerous and at times hateful discipline... I will cheerfully give it up just as soon as someone demonstrates a reliable way to gain a consistent timing advantage over the market. I’m not holding my breath.*”

Finding Caregiving Help

It’s not easy being a caregiver and, as time passes, the needs increase. Experience has taught the earlier you get extra help, the better off you are. Keep in mind that it takes time to find the right combination of service and support for your loved one. The following is from the www.meandmycaregivers.com website.

1. *Family. The best place to start! This is no time to be territorial, political, resentful, etc. Lay down the swords and focus on the most logical/efficient ways each can help.*
2. *Friends. If friends, neighbors, etc. offer to help, then say yes. Assign them a specific task. Ask them to be available to step in when you or another family member needs a break.*
3. *Area Agency on Aging. Almost every state has one or more AAAs. You can find them in the phone book or on the Internet.*
4. *Local Senior Center. Most offer services and/or a good resource for who to contact.*
5. *Church. Many offer help to people of all faiths.*
6. *Local Organizations. Contact them for help and/or ideas.*
7. *National Organizations. For almost every ailment or illness there is an organization that can provide referrals/services.*
8. *Government. Contact the local health department and/or social services.*
9. *Adult Day Care. Check your local phone book or Internet and call to see what programs/services they provide.*
10. *Home Health Care Agencies. Most offer both skilled and custodial care. Medicare may pay for some of this expense.*

Consensus

Financial Planning magazine reported the results of the question posed to subscribers. "Is the worst of the economic downturn behind us?" 50% voted No; 50% voted Yes. Some help the professionals are!

Gurus Anyone?

Twenty-twenty hindsight is a classic behavioral error. The trillions of dollars in losses suffered around the world is a reminder that predicting the future is never easy. Life is far too complex to predict. Just two years ago, who could have predicted our next president? Or that Citigroup stock would drop below \$1? Bear Stearns and Lehman Brothers would disappear? Graduating law students would be unable to get jobs? Oil would triple in price, drop by 70% and then double? What we have learned is we can't trust anyone. The human condition is unpredictable on any given day, but does swing back and forth between fear and greed and/or hope and despair.

Speaking of Predictions – Looking Back Helps!

The following are statistics from 1909. Given these realities, it is safe to assume that the human condition will experience similar changes going forward.

- *The average life expectancy was 47.*
- *Only 14% of homes had a bathtub and only 8% had a phone.*
- *There were only 8,000 cars and 144 miles of paved roads.*
- *The tallest structure in the world was the Eiffel Tower.*
- *90% of all doctors had no college degree.*
- *The population of Las Vegas was 30.*
- *Crossword puzzles, canned beer and ice tea didn't exist.*
- *Two out of every ten adults couldn't read and write and only 6% had graduated from college.*
- *There were only 230 reported murders in the entire country.*

Social Security Decrease?

The current drop in the Consumer Price Index could result in no raises for Social Security recipients until 2013. With the cost of Medicare premiums increasing, this could result in a double whammy for retired Americans.

Higher Taxes for Businesses?

Why would they do that when businesses are going under all over the country? That's a separate debate, but for the few still making money today and interested in sheltering from taxation, the plans that big business are running from, Defined Benefit and Profit Sharing, are worth a closer look for small businesses. These plans are much more flexible than most realize. Competition is so intense today. You can get your business' benefit and retirement packages reviewed by experts for free.

If you are a small business owner, or know anyone who is, then give us a call. As Solomon said, "A wise man has many counselors."

How Much is a Trillion?

1. *What it would cost to give \$3,267 to every person in the United States.*
2. *The total number of bacteria in the mouths of 167 people. (Are you running for Listerine yet?)*
3. *One-third of the number of gallons of water in Lake Superior.*
4. *A stack of one trillion dollar bills would be 67,866 miles high.*

LPL Advantage: Strategic Wealth Management (SWM)

This platform is a comprehensive, open architecture, fee based investment option that allows us to provide highly customized strategies and service. We will now be able to create a more flexible core/satellite strategy and fine tuning a portfolio's risk/return. We will also have access to stocks, bonds, ETFs, UITs, alternative investments, mutual funds, managed futures and a fee based variable annuity. We will now be able to react to market conditions and make the necessary adjustments without concern for costs. Portfolio rebalancing will be able to occur more often thanks to the technology available on the SWM platform. The portfolio strategies will be Capital Preservation, Income, Balanced, Conservative Growth and Aggressive Growth. While statistics reveal asset allocation determines 90%+ of portfolio return over time, the recent storm has revealed we cannot let time heal all wounds. Tactical adjustments are necessary as markets fluctuate between fear and greed. The minimum initial account size for SWM will be \$50,000 until the end of this year. It will increase to \$100,000 beginning in 2010. The primary advantage for these accounts is the ability to reallocate multiple portfolios at the same time with the punch of a button.

LPL Advantage: Protection

LPL Financial's SIPC membership provides protection up to \$500,000 per customer, of which \$100,000 may be in cash. Visit www.sipc.org for more information. In addition, through Lloyd's of London, LPL Financial accounts have additional securities protection to cover the net equity of customer accounts up to a \$575,000,000 firm limit. Through the FDIC multi-bank Insured Cash Account Program, deposits are eligible for up to \$1,000,000 of deposit insurance for individual accounts and \$2,000,000 for joint accounts.

LPL Advantage: Research

LPL has an independent research staff that provide specific recommendations, commentaries and market updates daily via their website and conference calls. This research results in portfolio models we can use and/or compare against our own. Part of their compliance practice is to compare account performance against industry benchmarks and LPL models.

LPL Advantage: Consistency

LPL Financial Services ~13,000 independent advisors like ourselves around the country. They are constantly reviewing their service and support models to help us help you. They have consulting groups that will periodically review our business to ensure we are providing the best services available. The LPL process is consistent with ours.

1. *Discover/Determine Goals and Objectives*
2. *Education – We take pride in the fact that our clients understand what we do and why.*
3. *Develop a Plan/Recommendations*
4. *Implement the Plan/Recommendations*
5. *Regular and Ongoing Review*

JFR Advantage: We Know How To Help!

We prepare, implement and review plans consistent with your unique goals and objectives. We care more about you than anyone other than your family and closest friends! We meet with you annually, or whenever necessary, to ensure your financial plan is up-to-date and consistent with any changes in your life. We educate you on all financial topics that affect your life. We provide comprehensive and competent financial advice. We are constantly reviewing and adjusting our services to remain one of the best financial advisory firms in the country. We simplify your financial life as much as possible, so you can focus on the important things in life. We are here whenever you have a question or concern. While our industry is constantly changing, the fundamentals of financial planning and life do not. We respond quickly to industry changes while making the task as invisible to you as possible. We ask the right, and sometimes difficult, questions to ensure the advice we provide is appropriate.

JFR Advantage: Flexibility & Simplicity

The transition from MSC to LPL has reinforced the need to adjust to the ever increasing regulations and compliance for the financial industry. While the technology continues to improve, the regulations designed to protect investors are making it time/cost prohibitive for us to provide traditional service to everyone. Hourly billing is available to anyone willing to take responsibility for their own paperwork. The services available through JFR Financial are as follows:

- *Comprehensive Financial Planning*
- *Retirement and Estate Planning*
- *Fee-Only Planning*
- *Tax Planning and Preparation*
- *Asset Management and Analysis*
- *Education Planning*
- *Life, Health and Disability Insurance*

- *Management Consulting*
- *Business Planning & Analysis*
- *Company Benefit Packages & Analysis*
- *Personal Coaching*
- *Public Speaking*

JFR Advantage: Communication

We are constantly answering questions and educating our clients. The most common questions today?

1. *Current Market Conditions. What the heck is going on? Do I need to make changes or just ride it out? Is there anything guaranteed that is making 7%? I don't want any risk! What investments can I control?*
2. *Income Taxes. Are our "leaders" going to raise taxes to try and pay for everything? How will the increases affect me? What can I do to avoid higher taxes?*
3. *Wealth Transfer. What happens when I die? Do I need to change or update my legal documents?*
4. *Insurance. What are the latest strategies for life, health, disability and long term care insurance? Are my policies up-to-date and competitive? Do I need to change any of my coverage?*
5. *Retirement Planning. How can I ensure that I won't be living under a bridge someday? Are their strategies to ensure I never run out of money?*
6. *Business Planning. Do I need a succession plan? Can I shelter more of my income? Is there anything I can do to help my employees that doesn't cost money? Are my benefit plans consistent with IRS Section Code 409A and 101j?*
7. *Life Planning. How can I maintain my lifestyle when there is so much uncertainty all around me?*

MSC > LPL: What About Me?

While your accounts are being automatically transferred, we are working on the paperwork required to complete the transitions from MSC to LPL. The first phase involves all clients who had an account at Pershing. We will be contacting each of you individually to determine how best to serve you in the days and years to come.

"It isn't pollution that's harming the environment. It's the impurities in our air and water that are doing it."

– Al Gore,

Former Vice President & Nobel Prize Winner

How JFR Financial Services Can Help You.

We are in business to serve you! More specifically, we are in business to help you work toward your lifelong financial goals. Services available through JFR Financial Services include:

- Financial Planning & Consulting
- Retirement Planning
- Personal Coaching
- Business Planning & Development
- College Funding Programs
- Management Training Classes & Consulting
- Fee-Only Investment Consulting & Asset Management
- Asset Management
- Annuities, Fixed & Variable*
- Estate Planning
- Public Speaking & Educational Seminars
- Insurance: Life, Health, Disability, Long-Term Care
- Real Estate Investment Trusts*
- Mutual Funds*
- Stocks,* Bonds,* CD's,* Money Markets*
- Employer Sponsored Retirement Savings Plans
- Retirement Plans: IRA, SEP, 401k, Keogh, 403b
- Full Service Brokerage Accounts*

**Securities offered through LPL Financial, member FINRA/SIPC. Investment advice offered through JFR Financial Services, Inc., a Registered Investment Advisor and separate entity from LPL Financial.*

We have the knowledge, tools and experience to help. Call us today at 800/315-2945 or 734/692-1421. It could make a world of difference.

Securities offered through LPL Financial. Member FINRA/SIPC.

Investment advice offered through JFR Financial Services, Inc., a Registered Investment Advisor and separate entity from LPL Financial.

Securities products are not guaranteed, are subject to risk, including the possible loss of principal. All economic and performance information is historical and is not indicative of future results.

Investments in foreign securities involve risks relating to political or economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.



JFR Financial Services, Inc.

3133 Van Horn Road
P.O. Box 130
Trenton, Michigan 48183
734/692-1421

The information provided herein has been obtained from sources believed to be reliable, but JFR Financial Services, Inc. and its Registered Representatives of LPL Financial, member FINRA/SIPC make no representation as to its accuracy or completeness and it should not be relied upon as such. JFR Financial Services, Inc., and LPL Financial accept no liability for any direct or consequential loss arising from any use of this information or its contents.

Information in this newsletter is not to be considered a recommendation or an offer to purchase any product.

November 2009