

Money Plans
8701 Georgia Ave., Ste. 710
Silver Spring, MD 20910
Telephone 301-589-4250 Fax. 301-589-0276
Email: deniseleish@moneyplans.com
Website: www.moneyplans.com

**MONEY PLANS
ECONOMIC
REPORT
(Year End 2009)**

ECONOMIC OVERVIEW

U.S. Economy

We want to wish each of you a very happy, healthy and peaceful New Year. May your dreams come true and may your goals be attained throughout 2010 and the years ahead.

As we leave 2009 we find ourselves a bit richer financially and a bit more optimistic than at the same time last year.

For the 12 months of 2009, the DJIA gained 18.8%, the NASDAQ gained 43.9%, the S&P500 gained 23.5%, gold gained 24.0%, and international markets measured by MSCI EAFE gained 23.2%. CD's averaged around 1.5%, money market yields dropped to less than 1% and bonds measured by the Barclays Capital Aggregate Bond Index lost (.97%). A diversified portfolio's return is a blend of these numbers, depending on how conservative (risk adverse) or how aggressive the portfolio is and how value or income oriented it is. These numbers are gross returns (before expenses) and assume that all monies remained invested for the full twelve months of the year.

While 2009 was a year for the record books, so were the last ten years. We entered 2000 with a tech bust and wondered if the world would collapse because programmers saved costly

memory space by using two digits to represent a four digit year. In 2001, terrorists tried to bring down the world by its devastating attempt to destroy our financial system. The human and economic impact was severe. In the following years we entered two wars, and faced some of the worst natural disasters, while suffering even more terrorist attacks. And finally, beginning in 2008, we had a real estate collapse and an economic meltdown that nearly rivaled that of the Great Depression.

Thus, while 2009 ended with robust returns, the entire decade ended in negative territory. The S&P500 was down more than 20%, the DJIA lost more than 10%, and NASDAQ lost more than 40%. But while the traditional markets were down, other markets were up. Commodities, especially gold and silver and oil had begun a boom that sent stock prices to new highs. As interest rates fell, bonds rose, especially US Treasuries. And as the Japanese economy continued to stagnate, the economies of China, India and Brazil soared to new highs.

The fabric of our economy has changed in many ways. We entered 2000 with Yahoo as our innovative tech leader and ended 2009 with Google. We entered 2000 with Bear Stearns and Lehman Brothers as two of the most solid brokerage firms and ended 2009 without them. Ten years from now, we will have new names at the top and old names will be left behind. Innovation will continue to be the driving force that will bring economies and markets to higher levels. And bubbles will be the force that will clean the system.

As we enter 2010, we see a market that will head higher and make up for some of the last ten years. Remember--The market works in cycles. And this cycle is looking up. So this is the time to be in the market, to be diversified and to stay out of the next bubble but to be in investments that will benefit from that next bubble.

We have learned a lot from market bubbles. They can develop from just about any reason and can pop for nearly any reason. Often time's monetary policy is responsible since it is monetary policy that influences the availability and cost of money and credit. When the cost is cheap (low interest rates) the willingness to borrow is high and when credit is tight (interest rates are high) borrowing becomes nearly impossible. Many economists believe that the housing bubble was due to the cheap cost of money.

The outcome of having the federal funds rate at nearly zero for such a long time is another bubble in the making. *We believe that long-term Treasuries are overpriced and have no where to go but down.* Buyers of government debt are complaining that they are not willing to finance more government spending at such low rates. As the government continues to print and spend money interest rates will need to rise to attract future buyers. This will cause bond speculators of current bond holdings to run for the exit doors causing prices to plummet.

Whenever a bubble pops, we learn just how interrelated are the global economies. So when this bubble pops, we expect to see a global correction in the fixed income markets. To prevent being in the middle of this bubble, we have moved

our clients out of long term bonds and moved them into short term bonds and money market instruments. We recommend that you consider this strategy too. Money markets and short term bonds are an inflation hedge. Money market yields adjust with changes in interest rates without principal erosion. Short term bonds rollover into higher interest rates within a short period of time thus taking advantage of higher rates. Long term bonds take a long time to mature so the principal will erode in correlation to interest rate increases.

The government will go as long as it can to keep interest rates down. Since they refinance their debt with borrowed money it is to their benefit to keep the rate down as low as possible. These low interest rates have had consequences in that it has hurt our currency – the U.S. dollar. While a weak dollar helps trade (as it makes US goods cheaper overseas), it makes most everything more expensive for US consumers. This leads to inflation and as the dollar remains weakened by prolonging the low federal funds rate, hyper inflation becomes an almost certain fate.

Hyper inflation will be the beast that spurs a major bond market correction.

What We Are Doing

Diversify (portfolio allocation) was the buzz word as we entered 2000 and it remains a critical strategy today. But diversity in 2000 was different then diversity is today. The purpose of portfolio diversity is to reduce company risk, sector risk and market risk. But the way diversity or portfolio allocation is used today, does not mitigate these risks.

Ten years ago diversity was achieved through owning two asset classes: stocks and bonds. Most mutual funds

have been built on the philosophy that risk is reduced by owning more bonds; hence the development of the *Lifestyle* funds. With the lifestyle funds, you select a portfolio based on your age and retirement goal and the portfolio adjusts the percent of equities and bonds. The older you are the more bonds you will own.

But as owners of these funds learned, they were hit just as hard during the recent market meltdown. Unless your bonds were all in US Treasuries, your mutual fund collapsed just as the portfolio that was heavily weighted in equities. And if the bond market corrects as we expect it to then bonds are not providing the safety one expects from them.

The portfolios that held up well were the portfolios that included precious metals, inverse funds, cash and currencies. Ten years ago these investments were nearly impossible to own as they were cost prohibited and difficult to trade. Now, through ETF's (Exchange Traded Funds) these investments are not only easy to trade they are extremely cost efficient. ETF's provide investment opportunities that weren't there before. For example, we mentioned earlier about moving out of long-term Treasuries to avoid being hurt by the next bubble bursting. But we are also able to take advantage of this potential meltdown by purchasing an inverse ETF that will go up as the long-term Treasury goes down. Since most mutual funds are not able to use these strategies, they remain vulnerable to the bubbles that come and go.

In a recent article by Roger Schreiner, CEO of Schreiner Capital Management, he stated that "the mainstream financial services industry, the media and academia—virtually everyone –

has overestimated the value of diversification in risk management. The recent crisis has shown that investors need more than simple diversification to protect them from both the known and the unknown risk that they will eventually encounter. When it comes to risk management, diversification (between equity and bonds) simply is not enough."

In 2000 we started using some of the first ETF's and wrote about their benefits. As we enter a new decade, we believe we will see many changes to the mutual fund industry. We expect to see many mutual funds gone as investors look towards the ETF industry to meet their investment goals.

Portfolio management is more than just developing a diversified portfolio – it is also maintaining the account. And this is what sets us apart from other advisors. We provide advice and support as cash and income needs change. We keep the accounts current with IRS rules and requirements for retirement account distributions, and we work to keep the accounts tax and cost efficient. And we focus on strategies to limit risk. We believe that true value is accomplished when portfolio management and account maintenance are combined.

Roth IRA Conversions

Beginning in January 2010, individuals who have a modified adjusted gross income (MAGI) of more than \$100,000 will be able to convert a portion of their retirement savings from their traditional IRA or 401(k) into a Roth IRA. The change was signed into law by President Bush in May 2006 as part of a \$70 billion tax cut.

Roth IRA's are an excellent vehicle especially if you can contribute to them without first having to convert. Because of income limits, many people find themselves unable to use them. But if your Adjusted Gross Income does not exceed \$166,000 for Married Filing Jointly or \$105,000 for Single filers, then you should definitely contribute the maximum \$5,000 (\$6,000 if you are 50 and older). But for those who have not been able to contribute to a Roth IRA due to income you now have an opportunity to convert your traditional IRA to a Roth IRA.

For those with incomes above \$100,000 are now able to do a Roth conversion. (Those at \$100,000 or below were already eligible, so the 2010 change is moot.) Taxpayers in the top brackets might find the projections less compelling because of a lower probability they will be in the same or a higher bracket after retirement. Nevertheless, if you're in the highest brackets and expect to stay that way throughout retirement, it could still make sense—especially if you're convinced that tax rates will continue to rise no matter how much you make.

Remember, the primary reason for the rule change was to accelerate the collection of income taxes that might have otherwise been locked up in traditional IRAs for decades to come. Unless your conversion adds little or no tax to your bottom line, the Treasury will be the sure winner.

Each situation needs to be evaluated on a case-by-case basis and the rules are very complex. We are here to help you make this decision.

EMAIL ADDRESSES

We ask that all clients provide an email address so we can get out timely information. Send your email address to deniseleish@moneyplans.com. **Please visit us at www.moneyplans.com.**

Quarterly Statements

If we are managing your investments, you will find a personalized report: The "Position Performance Summary Report" which shows your performance for the period 12/31/08 through 12/31/09 (twelve months of 2009).

The net flow column when positive shows monies used to purchase new investments after 12/31/2008 and a negative means monies flowing from the investment into the money market account either from the sale of an investment after 12/31/2008 or from a dividend payment.

A positive or negative in the net flow column for cash/money market means that money flowed in or out of your money market, i.e., money flowing in from the sale of a security, money flowing out for investment purchases, management fees, etc.

The Actual IRR Column is a percentage change net of fees (after Money Plans fees and all trading costs) and discounts all cash flows.

Our ADV Part II and Code of Ethics are available for inspection; please let us know if you would like a copy.

12/09