



Volume 2, Issue 6

The (not so) Almighty Dollar

September 16, 2008

Monthly Newsletter and Update

Dear Valued Clients, Friends and Professionals,

Yesterday the market got clobbered. Today I got a panic driven e-mail from a client. I have made several calls to other clients to discuss what to do. In the best of all worlds we would have sold everything in the stock market last October and purchased short term CDs. I am beginning to hear lots of anecdotes about relatives, managers and at least one newsletter author about how "I (or they) have been in cash since last year."

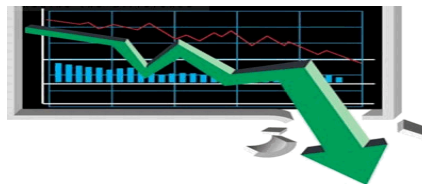
This reminds me of a sales call I made in early 1988. The big October drop of 1987 was still fresh in everyone's mind at the time. I was at a new bank (again — my employers kept getting bought by bigger banks.) I had installed the investment system from my previous trust division in the new place and told the prospect that "Bucks County Bank didn't see the drop coming but my customers at Commonwealth National were at their lowest stock level in August, before the drop."

The prospective client looked at me and said that everybody he had talked to recently had correctly foreseen the drop and he had yet to meet anybody who had lost any money in October other than himself.

This reminds me that those who rode out the 1987 panic were made whole within 18 months and went on to enjoy an excellent bull market through 2000. This doesn't resonate with people who lost so much between 2000 and 2002 that they didn't get back to even until recently. Nevertheless, I am optimistic and secure that any client funds in stocks are there for the long term. By the time they need it we will be in good shape.

Best regards,

Jeff Sprowles, CFP®



Intra-Quarter Update

- S&P 500 — domestic large cap
 - 6/30 to 9/15 (6.4%)
 - YTD (17.5%)
- Lehman Intermediate Gov Bonds
 - 6/30 to 9/15 3.4%
 - YTD 5.9%
- 90 Day U.S. Treasury Bills
 - 6/30 to 9/15 0.5%
 - YTD 2.2%
- Emerging Markets ETF (EEM)
 - 6/30 to 9/15 (25.6%)
 - YTD (31.0%)
- Jeff's Current Stock Outlook
75% of target

JEFF'S PICK:

Two ETFs Jeff follows are sporting single digit price/earnings ratios and show strong "buy" signals in their charts although both are down over 25% year to date through yesterday.

EWZ owns 71 stocks traded in Brazil. EZU owns 284 companies traded on European exchanges.



Certified Financial Planner

Market comments

The stock target closed yesterday with the Dow Jones Industrial Average at a little over 10,900. This isn't too far from the 10,750 that one of my analysts thinks is the threshold that signals the end of the world more or less. I expect we are at a point where we should either sell everything and head for the mountain redoubt or use whatever cash is sitting around to buy some stocks while they are cheap.

I doubt very much if this is the opening shot of a rerun of the Great Depression. The markets are concerned now about liquidity as they were then, but there are major differences between then and now. One of them is that there remains a huge amount of cash on the sidelines awaiting investment now and there wasn't then. Another is that despite public hand wringing about the need for more regulation, institutions such as FDIC and SEC are going to provide a much stronger safety net than was available in 1929.

Some of my heaviest investments are in emerging market ETFs that have been especially hard hit this quarter with a stronger dollar and concern about a global recession. The numbers that are going out in a few weeks aren't going to be good by either a relative or absolute standard.

Nevertheless, I am comfortable in riding this down turn out. The international stocks especially are attractively priced at the moment. There isn't any reason to think that China, India and Brazil aren't strong enough to generate reasonable growth even if the United States economy doesn't recover quickly. Finally, there has been a marked uptick in freight traffic on the Norfolk and Southern. It is better than TV.

FINANCIAL FABLES AND SOLUTIONS

Financial Planning For Newly Single Parents

Hester Prynne found herself single with a young child. She wasn't destitute. She was receiving some life insurance proceeds, owned a house and was beneficiary of a 401(k) plan and had decisions to make about stock options of a large company.

After a divorce or the sudden death of a spouse, single parents have the twin challenges of adjusting to a new life and getting their child adjusted to it as well. The third challenge – getting money issues in order – can be a threat to both.

For a newly divorced or newly widowed parent, the right tax, estate and financial planning advice can be important. Here are some general steps the newly single should take:

Revise or make an estate plan: Single parents have to revisit the estate plans they made when they were married or set an estate plan for the first time. A will is essential, but it's also important to make immediate plans for who will raise the children if something happens to the parent. In case of divorce, plans might have been set for the ex-spouse to take full-time custody in case of the other's death, but if a parent has never been married, it's particularly important to select the right custodian for the child and perhaps a

separate person who can become custodian of the child's finances to invest properly for their support and their future.

Make sure all beneficiaries are correct: If you've separated assets in a divorce or you've just had or adopted a child, it's particularly important to go over all your holdings to make sure your beneficiary designations are correct to make sure your child or a trust or other investment structure set up in the child's name receives those assets. Don't forget all your insurance policies, your work and individual retirement accounts and any investments you might have recently acquired.

Make sure ex-spouses are removed from any joint accounts you've been awarded: You also need to notify each of the three credit bureaus of your divorce so future reports will be based only on your credit reports.

Adjust your investment focus if necessary: Becoming a single parent changes your investment picture.

For retirement as well as investing you

will do for your child's future, get specific advice on what they'll need for college and what you'll need for retirement as a single person.

Revisit your career plan: Unless you are wealthy to begin with, you are probably going to have to either return to the workforce or possibly change jobs to increase your earnings or improve your benefits if you're not receiving any other source of income. If additional career training is necessary to improve your prospects, you may consider going back to school – always tough with a kid at home – and you'll need to strategize how to pay for it. You might also choose to work for an employer with great educational benefits.

Make sure you get the pension assets you're entitled to: A Qualified Domestic Relations Order (QDRO) is a settlement statement where a spouse receives pension assets from another in case of a divorce. You need to present a QDRO approved by the court at the time a divorce is finalized to your ex-spouse's plan administrator to make sure agreed-

upon assets get transferred to the account you've designated. Get some advice on how to best invest those assets.

Make sure health insurance is in place: If you're divorced, it's likely you won't be able to stay on your spouse's plan, so you'll have to locate your own insurance option. But if your ex-spouse's plan is a good one, try and make sure that he or she can keep your child covered until a better option comes along.

Again, the need for health insurance may also drive your career decision, so consider it. Make sure your life and other insurance is in place: As a single parent, you'll need to adjust the amount of your life insurance relative to any insurance coverage your ex-spouse has with your children as the beneficiaries. You'll also need to make sure on a regular basis that your ex-spouse has not cancelled that coverage. Check in with Social Security: See if your ex-spouse's work record may entitle you to receive certain benefits.

An emergency fund becomes even more important: If you have the option of acquiring six months' of income in a divorce settlement or if you can set aside that amount somehow, it's particularly necessary because you won't have another partner's income to fall back on anymore.



Jeff Sprowles and Associates, LLC
Fee Only Financial Planner and Investment Advisor

945 Langhorne-Yardley Road • Phone: 215-310-9693 • Fax: 215-693-6233
Langhorne, PA 19047 • Cell: 215-630-2621 • E-mail: jsproyles@sproyles.com



Whose Fault Is It?

The news Sunday that Lehman Brothers was bankrupt and Merrill Lynch was acquired by Bank of America was incredible. As recently as a year ago the idea that two giants of Wall Street would be in such dire straits that one would go belly up and the other would be acquired by a commercial bank would have been inconceivable.

I certainly didn't see this coming then and my clients have watched their holdings in a large cap value index exchange traded fund (IWD) go south as I didn't sell it. Large cap value is where banks and brokerage houses live. It didn't take a genius to know that real estate was overpriced and stupid mortgage deals were being made. It took someone smarter than me to connect the dots to relate these things to banks and the Bear Stearns, Lehman Brothers and Merrill Lynch's of the world.

It wasn't so long ago that one needed a 20% down payment to buy a house. Sometime in the last two decades that very prudent percentage started to go down as various market forces cared more about moving real estate, mortgages and securities than they did about financial sense. In some areas it was common to get a 100% mortgage. It is unlikely if anybody can get a mortgage anymore without verification of income and assets but that was certainly not the case only a year or so ago.

As with any excess in the market, at some point the chickens come home to roost. In this case it is hard to feel sympathy for the people at the investment banks who enriched themselves with these products but most of the rest of us are going to pay the piper as well.

A good friend showed me an article that averred that the whole mess should be pinned on "Bill Clinton and the Democrats" for forcing banks to make sub prime mortgages through the Community Reinvestment Act (CRA). This, of course, is patent nonsense. My best take on the whole thing is that it was triggered by investment bankers who found they could sell securitized mortgages to foreign entities awash with American dollars in amounts that far exceeded the available supply of sound mortgages. Rather than prudently restricting themselves to selling product that was available, they increased the supply by lowering underwriting standards. Apparently nobody stopped them — those buying the mortgages, credit rating agencies, senior management or government regulators. Lots of blame, lots of pain and a relatively complicated mess that defies simple finger pointing or a single culprit to vilify.

