



The (not so) Almighty Dollar

October 16, 2009

Monthly Newsletter and Update

Greetings,

A long time friend told me he enjoys reading this newsletter despite its far left liberal content. This brought me up short. I hadn't thought of my literary efforts as political.

Upon reflection he is probably right (*sic*). I expect Rush and Glenn would have no trouble attacking my opinions. My views about the social changes of the last forty years can be considered through a political lens, although if I were to label myself it would be more as a traditional conservative than as left wing.

I think the dynamic of our economy is out of whack in a way that isn't tied to a particular political party. Recently, I watched clients pay some lawyers \$670 an hour. Last month I paid a carpenter \$50 an hour. The lawyers took six months to charge three times their estimate while delivering a deeply disappointing result. My carpenter exceeded budget only because I asked him to do projects not in the original estimate. He was done in a few weeks and the result is terrific.

Is it "liberal" to think it preferable for your children to become carpenters than lawyers?

Sincerely,

Jeff Sprowles, CFP®

Early Quarter Update

- S&P 500 – domestic large cap
 - 9/30 to 9/15 3.81%
 - Trailing 1 year 24.02%
- BarCap Intermediate Gov Bonds
 - 9/30 to 9/15 (0.19%)
 - Trailing 1 year 6.62%
- 90 Day U.S. Treasury Bills
 - 9/30 to 9/15 0.01%
 - Trailing 1 year 0.33%
- MSCI Emerging Markets
 - 9/30 to 9/15 6.08%
 - Trailing 1 year 75.53%
- Jeff's Current Stock Outlook
100% of target

Jeff's Pick

Short/Mid-Term CDs

There isn't a particularly good place for cash and fixed income money at the moment. Jeff is using insured bank CDs with maturities of less than six months. The rates aren't great but there is no risk of loss. As these mature Jeff will consider money funds and longer maturities.



Certified Financial Planner

Market comments

The Dow Jones Industrial Average is over 10,000 as I write this. The S&P 500 is up 23.81% year to date. Institutional money market funds are paying 0.01%. A one year CD is paying 1%. Junk bonds and emerging markets have been the star so far in 2009. For those who have been on the sidelines or those adding to their portfolios what is one to do with cash?

Bonds may have been best in the past five and ten years but I see danger in loading up on them now. The huge additions to the national debt are going to make increases in interest rates all but inevitable. Bonds purchased today are likely to lose market value which is a consideration if they are sold before maturity. Longer bonds held to maturity will probably be a source of disappointment if one is looking at a 4% yield to maturity for the next ten years as rates go up. Also, although economists such as Paul Krugman think inflation won't be a factor for a year or so because the fed will soak up all that TARP money before it hits the economy, sooner or later the inflation chickens will come home to roost.

In stocks I think our domestic economy cannot afford to return to the consumer driven excesses of the last 30 years. I think we are in for a necessary restructure that will keep domestic earnings lower than the recent past for some time.

I think the answer is a diversified portfolio with a stock skew towards the emerging markets where genuine growth is much more likely than domestically. The short term outlook for everything is probably more positive than not but we are certainly living in exciting times.

~ FINANCIAL FABLE ~ ESTATE TAX WOES



Hermione Kunkelman is worried about death taxes.

*"In this world nothing is certain but death and taxes."
- Benjamin Franklin*

Hermione is a 75 year old widow of a professor who lives in Princeton, NJ. Last month she received an invitation to dinner from a law firm that offered to discuss estate planning.

The after dinner seminar was upsetting. Hermione left the Hyatt with a knot in her stomach. It was caused by a combination of the duck *comfit* with broccoli rabe and concern that a substantial chunk of the assets her late husband had accumulated over years at the University would be lost to taxes. She was also worried about the money she had inherited from her mother which included some valuable art works from the New Hope school of the 1930s.

Hermione thinks her net worth is about \$4,000,000. Her house including its contents are worth \$1,000,000. She has \$1,000,000 in an IRA and \$2,000,000 in various investment accounts.

At the seminar she was told that the federal government will tax anything over \$3,500,000 if she dies this year. If she dies next year there wouldn't be any tax at all. Unless the law changes, if she dies in 2011 anything over \$1,000,000 is exposed to a tax of as much as 55%. She muses about a trip next November to Amsterdam where assisted suicide is legal.

Further, in New Jersey there is an estate tax against everything she owns over \$675,000 at rates starting at 4.8%. There is no New Jersey inheritance tax if she leaves everything to her children.

What should Hermione do?



Discussion: Hermione should decide what is important.



Is it more important to avoid paying any taxes than it is to leave \$2,000,000 to each of her children and their families?

If her primary goal is to avoid paying taxes there are charitable gifts in her future in one form or another.

If she is interested in leaving a particular amount to her children it is likely that substantial gifts, perhaps involving trusts, are worth consideration.



An essential part of moving forward is to identify a first class trust and estate attorney. A review by a fee-only financial planner, such as Jeff Sprowles and Associates, LLC might be an inexpensive first step.

Editorial comment: The current situation is immoral. There shouldn't be a financial reason for people to die. Congress is currently contemplating an extension of the current \$3,500,000 exemption equivalent and 45% top bracket through 2010. If that or something similar is not enacted before the beginning of the year, there will be financial reason for families to "pull the plug" during 2010.

There is also speculation that to ease the federal fiscal mess Congress may agree to succumb to "political gridlock" next year and let the 2001 Act sunset to bring back the \$1,000,000/55% estate tax without having to take personal responsibility for so doing.



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