

Volume 4, Issue 2



# The (not so) Almighty Dollar

February 16, 2010

Monthly Newsletter and Update

Dear Valued clients, friends and professionals:

Responses to our survey were encouraging and appreciated. Several people think this periodical is more political than I intended it to be but nobody suggested that we should change that aspect of my writings.

I am inspired this month by an article by James Fallows in the January/February 2010 issue of *The Atlantic*. I respect James Fallows. He is the source for some of my information about China. The article is "After The Crash — How American Can Rise Again." Reading it I discovered that some of what I have been writing can be considered a jeremiad and that in forecasting doom I am following a long American tradition. I urge you to read it.

He discusses several of the themes that have been a topic in this space over the last few years. Fallows has recently returned from living three years in China and has interesting things to say about the Chinese economic, cultural and military growth. He agrees with me that our own federal government is broken. He isn't as upset as I am that cornerstones of our democracy including the conduct of elections and safeguards of basic liberties aren't as strong as they should be.

Fallows explores potential resolutions of our problems including extremes such as a military or corporate coup. To avoid any problems for my readers, let me tell you that Fallows concludes that we will muddle through without a revolution or invasion.

Sincerely,

Jeff Sprowles, CFP®



## Mid Quarter Update

- S&P 500 — domestic large cap
  - 12/31 to 2/12 (3.32)%
  - Trailing 1 year 33.09%
- BarCap Intermediate Gov Bonds
  - 12/31 to 2/12 1.41%
  - Trailing 1 year 2.35%
- 90 Day U.S. Treasury Bills
  - 12/31 to 2/12 0.01%
  - Trailing 1 year 0.14%
- MSCI Emerging Markets
  - 12/31 to 2/12 (7.24)%
  - Trailing 1 year 63.18%
- Jeff's Current Stock Outlook:  
75% of Target\*

\* "Target" refers to the percentage of a client's overall portfolio that should be in stocks. If a portfolio has a 60% target, at 75% our goal would be to have 45% in stocks at the moment.

Thank You!

Thank you to everyone who responded to our newsletter survey. We appreciate the feedback and suggestions.

Look for the topics you asked for in this and subsequent issues.



Certified Financial Planner

## Market comments

The stock market is down so far in 2010. There are some who would predict a negative result for 2010 based on the January performance.

From a valuation point of view stocks are still expensive based on trailing price earnings ratios. Some would point to P/E based on projected 2011 earnings and consider the market to be undervalued.

My gross timing model still resides at 75% of equity target in spite of the market declines of the last few weeks. Nevertheless, there are buying opportunities in particular areas.

Alternate energy ETFs I like have done poorly in the last few months and are a disappointment. However, as of February 12, 2010 TAN, FAN, GEX and CGW are all showing "BUY" signals on their charts. We are also looking to increase holdings in China for accounts that are underweight in emerging markets.

# Should You Be a Borrower or Lender?

## The Return of the Personal Loan

As lending requirements stay relatively tight for most consumers, the chance of borrowing outside the banking system from family or friends can be attractive. After all, it's rare to see a parent or sibling demand a credit check or other lengthy documentation. With money market funds, CDs and high quality bonds paying low interest rates it is tempting to consider a "win/win" loan between wealthier family members to cash strapped ones.

On the other hand, it could be one of the most dangerous financial transactions one can make simply because money can drive a wedge between relatives in even the closest of families.

### There are good and bad aspects to private loans. The good news first:

- Terms can be friendlier than a borrower would qualify for in the open market. The rate charged on the loan can be higher than the lender would receive in a deposit account but lower than the borrower would pay a commercial lender.
- They can require little or no collateral.
- It's a way to keep money in the family.
- It's a way for a borrower to be able to buy a home, a car or other critical assets even if they have a poor credit rating.
- There's no loss of tax benefits to the borrower or lender if an agreement in the case of a mortgage loan is structured and reported properly.

### Now the bad news:

- Unclear agreements can lead to missed payments or default.
- If the borrower dies suddenly, the lender's investment may be lost if the agreement isn't structured correctly. A properly executed promissory note is still an obligation of the estate, and may continue to be paid to an heir or other person or entity based on the terms as agreed.
- Jealous relatives could say they weren't treated fairly.
- Disagreements between borrower and lender can affect relationships. Shakespeare was right about this.

Private loans should be formal – written in proper legal language, notarized and recorded in the county where the property resides. A document prepared with the help of an attorney or a certified public accountant can also lay out specific scenarios if either the borrower or the lender has to break or alter their agreement. Such trained experts can talk you through the benefits and pitfalls of a private loan arrangement as it affects your particular situation (either as lender or borrower) and specific laws and requirements in your state you have to follow if both borrower and lender are going to derive tax advantages from the agreement.



You should be aware that the IRS governs these interest rates and provides an annually updated table that you can get at <http://www.irs.gov/app/picklist/list/federalRates.html> - these rates are Applicable Federal Tax Rates (AFR). You can also forgive a portion of the loan each year.

In the case of a loan made for real estate, a mortgage or "deed of trust" statement (depending on the state you live in) or an agreement specific to the type of loan that binds the property as collateral for the promissory note will be necessary. It basically says that if you don't fulfill all the terms in the agreement the lender has the right to foreclose or repossess the property.

Even if a friend or relative makes an offer of help, it's proper for the borrower to take the initiative to structure the arrangement in a way that's responsible and beneficial to both. If a relative is drawing income from the loan, special provisions should be made for prepayment and other contingencies.

It is important to remember that when two people who are close to each other enter into such an arrangement, the most valuable thing really isn't the money. It's the relationship.

**Jeff Sprowles and  
Associates, LLC**

**Fee Only Financial  
Planner and  
Investment Advisor**

**945 Langhorne-Yardley Rd  
Langhorne, PA 19047**

**Phone: 215-310-9693**

**Fax: 215-693-6233**

**Cell: 215-630-2621**

**jsproyles@sprowles.com**

Check us out  
at:  
[www.sprowles.com](http://www.sprowles.com)

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