

Volume 4, Issue 5

# The (not so) Almighty Dollar

May 15, 2010

Monthly Newsletter and Update

Dear Friends, Clients and Others,

The European financial crisis and the United Kingdom political changes are much on my mind.

The Greek debt crisis forced Germany to bail out another country to prop up the Euro. This is something the Germans specifically said they would not to when the Euro was created. It also validates the British decision not to convert to the Euro.

Had the Greeks not been using the Euro as their currency they could have devalued their currency as part of their attempt to address the crushing debt. The future of the Euro is something I am not going to predict. Nevertheless, new money that had been put into Europe is now going to go to Australia and Canada.

The fundamental question facing the countries using the Euro is one that will have to be addressed in the U.S. within the next few years. The more I read about the nature of our political system at the present time the harder it is to be optimistic that we will be able to do so effectively and intelligently.

The change of government in the U.K. with the agreement of former rivals that they will work together to address the debt question may give us some useful lessons on how to or how not to approach it.

The present poisonous political atmosphere at the national level and the manipulation of public opinion in the interests of one political philosophy at the expense of the public good and the future of the republic is distressing me on a daily basis.

Sincerely,

Jeff Sprowles, CFP®



## Mid Quarter Update

- S&P 500 — domestic large cap
  - 3/31 to 5/14 (3.67%)
  - Trailing 1 year 29.95%
- BarCap Intermediate Gov Bonds
  - 3/31 to 5/14 1.29%
  - Trailing 1 year 2.71%
- 90 Day U.S. Treasury Bills
  - 3/31 to 5/14 0.02%
  - Trailing 1 year 0.12%
- MSCI Emerging Markets
  - 3/31 to 5/14 (5.65%)
  - Trailing 1 year 31.82%
- 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.

## WHAT IS CHEAP?

**EWA — iShares MSCI Australia**  
The melt down of the Euro may be temporary or it may be a long term problem. Until that is more clear, I am beginning to move some of our developed international stock allocation into Australia.

### 2009 est. national debt to GDP

USA	52%
Greece	113%
Germany	77%
Canada	72%
China	18%
Australia	19%



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## Market comments

Our outlook remains at 75% of stock target. Based on historic valuations, the S&P 500 is not cheap. The current price/earnings ratio is still over 20 in spite of the declines of the last week.

On the other hand, if we use Professor Siegel's estimate of \$81 for 2010 earnings of the S&P 500 the P/E is 14 which is somewhat more attractive and provides a rationale for not selling. Professor Siegel thinks there will be a substantial stock rally BTW.

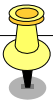
Interest rates are still low. Taking into consideration 2.3% inflation, the "real" yield of stocks is more than 4 times that of 5 year Treasury notes. This is very high from a historic point of view. It is likely that some combination of three elements will happen over the rest of the year:

Interest rates will go up — I think this the most likely of the three.

Stock prices will go up — I think this is more likely than not

Corporate earnings will do down — I don't think this will happen. The Norfolk and Southern freight activity is down from what it was last month but is still heavy.

International stocks, including emerging markets in which my clients are heavily invested have gotten hammered as the Greek crisis has instilled fear. I think this is a temporary trend for emerging markets. I am less sure about European stocks.



## From the desk of Jeff Sprowles

Our friends in Congress have not done anything this year or last about estate and gift taxes. This inactivity creates a situation that gives people a financial reason to die at a particular time. This is fundamentally immoral. Because the Tax Reform Act of 2001 sunsets in 2011, federal estate tax is affected dramatically by when somebody dies.

- Those dying in 2009 were taxed at a maximum of 45% for assets they owned greater than \$3,500,000.
- Those dying in 2010 are not subject to any federal estate tax.
- Those dying in 2011 will be taxed at a maximum of 55% for assets greater than \$1,000,000 unless the law is changed.

Until a change is made, many lawyers are recommending that clients retain their "wait and see" disclaimer trusts.

In 2002 I wrote an outline for a movie illustrating the possible dilemma in which we now find ourselves. The Coen brothers did not respond to my treatment. Perhaps they thought it unlikely that Congress would not act by the end of 2009.



### TRUST ME

A movie that combines a legal twist as in *Body Heat* and the black comedy elements of *Throw Momma From the Train*.

**SYNOPSIS.** Rose Stendhal lives in South Philadelphia. She is the widow of Harry Stendhal who turned an obsession with local organized crime into a series of novels some of which were made into movies. Harry died of a heart attack leaving Rose (played by Olympia Dukakis) with an estate of more than \$10,000,000.

Rose and Harry have two children. Harry Jr. (Steve Buscemi) sells shoes at PayLess. Mary (Sandra Bernhardt) has two children and is married to Michael Rossi (John Turturro) who is a toll taker on the Walt Whitman Bridge.

In 2009 Rose took ill. Daughter Mary was approached by a sleazy lawyer (John Goodman) who explained that if Ross could hang on until 2010 Mary and Harry Jr. would save a huge amount of money in estate taxes.

With the aid of a shady doctor (Steve Martin) Mary helps her mother survive 2009. Unfortunately, her health returns and she begins to thrive.

Mary's lawyer notes that if Rose dies in 2011 the estate taxes will be even higher than they would have been had she died in 2009.

Mary, the lawyer, the doctor and Harry Jr. make multiple attempts to kill Rose during 2010, all of which fail. They give up but on New Year's Eve at a dinner at the family house on Shunk Street, Rose slips on a spilled shrimp cocktail and dies on the way to the hospital at 11:55 PM on December 31, 2010.

The final scene of the movie is set in the office of another lawyer (John Travolta) for the reading of Rose's will.

All concerned are somewhat disappointed to find that Rose has left \$150,000 to each grand child and everything else to her church.

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