

Volume 4, Issue 1



The (not so) Almighty Dollar

January 16, 2010

Monthly Newsletter and Update

Dear Friends and Clients:

Several clients send me information from other investment managers. I do performance measurement and review holdings to make sure we aren't working at cross purposes with their assets managed at Jeff Sprowles and Associates.

Readers are familiar with my periodic bouts of pessimism about the U.S. in general and its economy. Last week I read a client newsletter from a trust company. The outlook for 2010 in this communication addressed "negative" viewpoints such as mine with a stirring affirmation of confidence in the strength of the U.S. economy, the resilience of our people and the effectiveness of the American way of life.

I found this reassuring. Our economy is still much, much, much larger than that of Japan and China. We are still larger than the combined European economies. As distressed as I am about what we have done and permitted in corporate America over the last 30 years and my lack of confidence in the ability of politicians and large companies to change their destructive short sighted habits, the optimism of intelligent investment managers is encouraging. Stock portfolios in my shop are still more than 50% in foreign stocks. We may be increasing that allocation soon. Nevertheless, I still enjoy a feeling of optimism even if I am not acting upon it.

Sincerely,

Jeff Sprowles, CFP®



Early Quarter Update

- S&P 500 – domestic large cap
 - 12/31 to 1/15 2.81%
 - Trailing 1 year 39.04%
- BarCap Intermediate Gov Bonds
 - 12/31 to 1/15 0.60%
 - Trailing 1 year (0.02)%
- 90 Day U.S. Treasury Bills
 - 12/31 to 1/15 0.01%
 - Trailing 1 year 0.15%
- MSCI Emerging Markets
 - 12/31 to 1/15 2.38%
 - Trailing 1 year 85.33%
- Jeff's Current Stock Outlook
75% of target



Market comments

Some believe that the market direction in January is a harbinger of the entire year. If this is the case, 2010 will be a good year for stocks.

At least one of the pundits I follow believes that the market is still undervalued based on estimated earnings for 2010 and 2011. There is a feeling that the recent strength of the dollar against the Euro is caused by Europe's recovery lagging ours and the difficulty the European Monetary Union has in devaluing their currency even if they want to do so. Consequently, oil and other commodities have gone down a little in price recently.

My timing matrix which draws on historic market behavior is lukewarm to stocks still. Until there is a change in corporate earnings or in U.S. interest rates there is still room for growth. As I mentioned in my last newsletter, I am not as comfortable with this tool as heretofore. I have a hard time relying on statistics which reflect rational thought and prudent management on the part of large domestic companies in light of what the large banks, stock brokers and insurance companies did over the last decade.

Last March investing in stocks took some intestinal fortitude but the fundamentals cried out for buying.

Now it is less difficult to invest from an emotional point of view but any investments in stocks, especially large cap domestic stocks, should be made only for long term reasons in my view.

Housekeeping Corner

Along with this issue you will find a survey. Jeff and Johnelle would like to know your thoughts about this newsletter. Please complete the survey and return it via e-mail, fax or snail mail at your earliest.



Those who receive the newsletter via snail mail will also receive an e-mail with the survey.



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2010: YEAR OF DECISION FOR ESTATE TAXES

Zella Sparkle has been reading about estate taxes. Her net worth is in excess of \$7,000,000. It consists of real estate and other investments she acquired using a combination of money inherited from various relatives and the royalties of her books that are popular with people who propagate and collect peonies.

Zella feels healthy but after she celebrated her 80th birthday she started to pay attention to newspaper and magazine articles about how much her estate would be taxed after her death.

She asked Jeff for his suggestions on what she should do. Should she give everything to her grown children now? Should she move to Bermuda or Monaco?

The problem of death taxes has been evolving for as long as I have been in the financial services industry. Periodically, Congress changes the rules for estate and gift taxes. The change in 2001 created a situation that I consider to be immoral. The tax act “sunset” next year. Therefore, unless Congress enacts legislation soon, those dying in 2010 will not be subject to federal estate tax. Those dying in 2011 will be subject to tax using the 2000 rules. In my view, giving people a financial reason to die in 2010 is immoral.

2001



2010

Had congress not gotten jammed up by health insurance there would have been a law passed last year concerning estate taxes. Most commentators are of the opinion that early in 2010 a law will be passed that fixes federal estate taxes at 45% on taxable estates over \$3,500,000.

I would advise Zella to wait to do anything radical until the final rules are understood.

One of the more pernicious effects of the 2001 Act was elimination of the credit in federal estate taxes for state death taxes. As a result, there are presently 17 states and the District of Columbia that impose estate taxes. There are 8 states with inheritance taxes, one of which is Pennsylvania. Maryland and New Jersey have both estate and inheritance taxes.

The Pennsylvania inheritance tax is 4.5% of assets inherited by children or direct descendants. This isn't pleasant but not enough, in my opinion, to justify radical moves to avoid it, especially if taking the steps is expensive.

The New Jersey estate tax is another matter. It may be a factor on taxable estates over \$675,000. The tax rate is as high as 16%. If Zella is really concerned about this she might seriously consider moving to Pennsylvania or a state where there are no death taxes.

After the federal estate and gift tax mess is clarified I intend to discuss estate plans with all my clients.

To our Readers,

Happy
New
Year

2010

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