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"Real People provide Real Service"

April, 2010

Sunset from English castle….

Question, what is missing in England?

Mother Nature is only one of the factors influencing stocks and bonds. This situation, a volcano in Iceland that no one can pronounce, has clouded up the horizon for airlines and would be passenger alike.

We have health care in motion, Tea Parties to attend, summer on the horizon, and a market that proves that free markets can survive governmental intervention.

So what is next? Lobbyists want no oversight of banks when they dabble in derivatives. Isn't that like endorsing drunk driving? What happened to banking products and investments like mortgages, certificate of deposits Low rates, no refi's, and high credit card rates. Good business strategy? I almost forgot the best part of the formula, bonuses. We don't need regulators. We need new banks with old fashion strategies.

Meanwhile, this was a very, very busy tax time. While returns were being efiled and paper filed, I noticed that we expanded our states covered. From New York, Pennsylvania, Arizona, and Illinois, we added Wisconsin, Kentucky, California, and Minnesota. Efiling is making it easier to cover more territory.

The markets are doing okay and we have settled into a buy and hold for the most part on all fronts. Once the gains are back, it will be time to trim and take some profits. For now, the ETFs and core stock holdings are generating profits, the dividend stocks are raising cash flows and the bonds are providing interest payments.

The scorecard for March is

Index	Mar-10	QTD	YTD	Description
S&P 500 Index*	5.9%	4.9%	4.9%	Large-cap stocks
DJIA*	5.2%	4.1%	4.1%	Large-cap stocks
Nasdaq Comp.*	7.1%	5.7%	5.7%	Large-cap tech stocks
Russell 1000 Growth	5.8%	4.7%	4.7%	Large-cap growth stocks
Russell 1000 Value	6.5%	6.8%	6.8%	Large-cap value stocks
Russell 2000 Growth	7.9%	7.6%	7.6%	Small-cap growth stocks
Russell 2000 Value	8.3%	10.0%	10.0%	Small-cap value stocks
EAFE	6.3%	0.9%	0.9%	Europe, Australasia & Far East Index
Lehman Aggregate	-0.1%	1.8%	1.8%	U.S. Government Bonds
Lehman High Yield	3.1%	4.6%	4.6%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	2.2%	1.7%	1.7%	Managed Futures
3-mo. Treasury Bill	0.1%	0.2%	0.2%	

All returns are estimates as of March 31, 2010. *Return numbers do not include dividends.
** Returns are estimates as of March 30, 2010.

Borrowers: Take Back Your Power!

Late on your mortgage? Did you know you might be able to negotiate a 20 percent reduction in what you owe? Josh Rosner, a financial analyst specializing in mortgage-backed securities, says that lenders know that if a home goes into foreclosure, the lender will lose 60 percent or more. So what's stopping them? The banks that hold the second mortgages. Those banks routinely block such requests because debt reduction for a borrower would spell instant loss for them. And Treasury is letting them get away with it.

It's enough to make most people furious, and a recent New York summit that brought together the rock stars of power-to-the-financial reform-everyone from TARP watchdog Elizabeth Warren, Nobel Prizewinning economist Joseph Siglitz, and investor George Soros to Rosner, ex-New York governor Eliot Spitzer, and MSNBC's Dylan Ratigan-one message came through loud and clear: The American people are mad as hell about a financial system that puts them last, and aren't going to take it anymore.

"Americans understand the game and don't like the game," said a steely Warren. "This is a dispute of families versus banks." Instead of creating the strong and independent Consumer Financial Protection Agency Warren has called for, Senate leader now want to set it up inside the Federal Reserve. That's like putting the chicken coop inside the fox hole. Though the Fed has been making up for it recently with new consumer-friendly regulations, it spent years enabling the booming subprime lending industry.

That's just how their lobbyists want it, said Warren: "Banks are fighting to kill the consumer agency so they can keep the fine print, write all the rules, and deep the contracts unreadable."

But the consumers may have a lot more power than they realize. Rosner calculates that banks have $900 billion in second mortgages on their books-home equity loans, down payment helpers and such that are at best worth 40 cents now for every dollar the banks lent out. Just four big banks-Wells Fargo, Chase, Bank of America, and Citigroup are on the hook for half of those loans. And right now, Rosner told the crowd, it's payday time for the Big Four, which have been blocking debt reductions for borrowers who badly need them.

So why has Treasury been letting the bank get away with blocking real debt reduction for consumers? “Banks are massively under-capitalized on second lien exposure,” Rosner warned the crowd. If homeowners actually got the debt reductions they should be getting, “regulator would have egg on their face, the banks would be right back in TARP, it would seriously reveal the weaknesses of [Treasury’s TARP], stress tests, and we’d be right back where we started”- with big banks on the brink, in need of massive bailouts. Rosner estimates that the banks have at most $225 million in reserves to cover such losses. By allowing those same banks to pay executives huge bonuses, “The government, I would argue, is tacitly or explicitly a partner in securities fraud.”

Rosner says the borrowers have power to fight back, especially in “non-recourse” states where lenders can’t go after assets following a foreclosure. That’s right he’s joining the chorus telling borrowers to take a stand and walk away from their mortgages. If enough do it, he says, banks will have to respond.

“Once people start making inbound calls and overwhelming servicers,” suggests Rosner, “they’ll be forced to decide who should get a writedown, who should do a short sale, who should just keep making payments.”

Just 15,000 calls demanding mortgage debt reductions, Rosner expects, could make all the difference.

Any volunteers?

ETFs For College Savings

Some 529 plans are adding exchange-traded funds to their menus

Exchange-traded funds, know in part for their rock-bottom expenses, have started to appear on the menus of a few 529 college-savings plans. That may mean lower costs for investors in some cases but not all.

So far, most 529 plans that offer ETFs are sold by financial advisers; those typically are expensive than plans offered directly to investors, because costs are built in or charged separately to compensate the advisers.

Fans of ETFs which resemble mutual funds but trade like stocks also need to consider that the trading flexibility and tax efficiency of ETFs are lost or less valuable within the 529 vehicle, where trading is restricted and income is sheltered from federal tax as long as it is used for qualifying education expenses.

Still, some financial professionals are predicting that more college-savings plans will open their doors to ETFs in the near future despite what some consider to be a less-than-perfect fit.

Over time, “I’d expect to see more and more 529s add ETFs to their offerings. They’re getting a lot of publicity,” says Marilyn Plum, a financial planner with Ballou Plum Wealth Advisors in Lafayette, Calif. While she prefers a 529 that uses actively managed mutual funds like the American Funds CollegeAmerica plan out of Virginia she says cheaper ETFs do start to look more attractive when actively managed funds turn in low performance relative to the indexes they aim to beat.

About 32% of parents saving for children’s college expenses are putting money into 529 plans this year, up from about 30% in 2008, according to a survey released in September by Fidelity Investments. Every state but Wyoming offers at least one plan, and many states offer more than one plan, according to Joseph Hurley, founder of Saving-forCollege.com, a Bankrate Inc. owned site that tracks and offers advice on 529s.

Blazing the Trail

Over the past year and a half, at least four plans have begun offering ETFs on their menus.

In August 2008, Barclays PLC’s Barclays Global Investors unit and Upromise Invesments Inc. debuted an all-ETF 529 sponsored by Arkansas and sold via fee-based advisers. The plan, which comprises ETFs from Barclays’ iShares line, is offered by 200 advisers and has attracted more than $600 million in investments to date, according to Barclays. Known as the iShares 529 plan, it includes year-of-enrollment and asset allocation portfolios, as well as nine asset-specific choices that can be mixed and matched.

In May, the Iowa Advisor 529 Plan announced it had added three Vanguard Group ETFs to its mix: **Vanguard Total**

Stock Market ETF, **Vanguard Total Bond Market ETF**, and, for international stock exposure, **FTSE All-World ex-US ETF.** The ETFs replaced three actively managed mutual funds. Iowa's plan offers a total of 13 asset-class investments, including the three ETFs, that can be mixed and matched, as well as three-risk-based portfolios.

How Do I Put Together a Portfolio?

Diversify your securities. Not only should your portfolio include bonds from 10 issuers-including companies and municipalities-but it should also have exposure to multiple sectors. If you stick with highly rated debt, you'll naturally gain exposure to some companies that tend to do well in a tough economy like health-care firms, consumer staples companies and utilities.

Diversify your maturities. If you're looking to create a steady stream of income, you'll want to "ladder" your portfolio. Laddering simply means buying bonds that mature in routine intervals, like once every year. By diversifying when each bond comes due, you won't have to reinvest your entire portfolio at the same time-for instance, when rates are low.

How does a ladder work? Look at the sample portfolio above. By buying 10 bonds that mature annually between 2010 and 2019, you can create a portfolio with an average five-year maturity. Five years allows you to earn a solid yield without tying up your money for too long. When your shortest bond matures in 2010, you can reinvest the proceeds in a new 10-year bond to maintain you portfolio's average maturity.

How Do I Manage My Portfolio?

Hire a pro. You don't have to manage (or even assemble) your portfolio on your own. Several retail brokerages, like Schwab and E*Trade, have programs that will help you run you bond portfolio. Advice on picking bonds is typically free, but if you want them to manage your portfolio, it will cost around 0.5% of you bond assets annually. Many registered investment advisers also specialize in managing bonds for individual investors.

If you DIY, pay close attention. "The biggest mistake I see investors make is that they set up the portfolio, then leave it alone," says Marilyn Cohen, president of the fixed-income investment firm regularly monitor their portfolios to make sure the financial health of their issuers hasn't changed. Plus, once you buy your bonds, you'll start getting regular interest payments, and every year or so some of your bonds will come due. It's up to you to reinvest those funds.

Sure, managing you own bond portfolio takes work-even more so than buy-and-hold stock investing. But in exchange you get what your bond funds could never promise: a money-back guarantee.

Buy municipal bonds, but only high-quality issues. Muni bonds-issued by cities and states to raise money for roads, stadiums, and public works-normally yield around 80% of what equivalent Treasuries pay. That's because muni income is exempt from federal and, in some cases, state income taxes.

But because of concerns that municipal budget shortfalls will lead to rising defaults, the highest-quality munis are yielding about the same as Treasuries-even before taxes. For example, 10-year AAA-rated munis are paying 3.3%. That's like earning 4.6% on a Treasury if you're in the 28% tax bracket.

My Card Was Canceled!

Q: Because I haven't used my oldest credit card for a year, HSBC says it's closing the account. I'm afraid this will hurt my credit score. Help!

A: Credit-card companies lose money on dormant accounts, and as they feel the economic pinch, they're more apt to close them. Unfortunately, as you suspected, closing your oldest card can lower your credit score. The length of time on your accounts have been open is the third most heavily weighed factor in your FICO score (after timeliness of your payments and the amount you owe). Plus, eliminating a card reduces your available credit, which could also lower your score.

I contacted HSBC, and after checking your credit history, the bank agreed to reopen your card. Spokeswoman Cindy Savio says HSBC will consider reopening inactive accounts, especially if the account was recently closed and the customer had been with the bank for a long time.

If you have a lot of other cards and a credit score of 720 or higher, one closure won't have much effect on your score. But if you have a slim credit history and a few cards, it's wise to make sure your oldest accounts stay active. So use your card a least once every three or four months. Then be sure to pay it off every month so you're not racking up big interest charges.

The Case for Filing Your Taxes Late

Should you skip filing your tax return on April 15?

Eleven million taxpayers do, and it can be a smart move, especially for people with complex returns.

Those who are in the process of converting taxable Individual Retirement Accounts to tax-free Roth IRAs can use an extension to make money-saving moves. Home buyers who haven't completed their purchases but plan to take either of two generous federal tax credits can benefit by waiting.

A few years ago the IRS streamlined this process. All taxpayers now qualify for an automatic six-month extension to Oct. 15. To claim it you simply submit Form 4868, which is one page long, by April 15.

There is a catch, of course. Extension to file doesn't mean extension to pay, so you can't just put off the process for six months. Taxpayers must estimate and send in by April 15 the amount they will ultimately owe. If there turns out to have been an underpayment, Uncle Sam charges interest from April 16 until the date the return is received. (The rate is currently 4%.) If the shortfall is more than 10% taxpayers can expect to get additional penalties beyond interest owed.

Tax preparers say that filing for an extension, even if it means a delayed refund, is almost always preferable to the alternative: filing a return by April 15 and then filing a formal amended return later.

This is particularly true for investors who haven't yet received final 1099 forms for dividends, interest and capital gains. Investors also frequently don't have K-1 forms filed by partnerships until months after April 15. Another advantage: Extended returns are eligible for electronic filing; amended returns must be filed on paper.

For those who are making Roth IRA conversions, filing for an extension can juice returns. The rules allow taxpayers to reverse their conversions until Oct. 15, either with an extension or an amended return.

Savvy investors are setting up multiple Roth conversion accounts in early January, with a separate account for each asset class, and then waiting the maximum 22 month until Oct. 15 of the following year to see which assets have prospered and which haven't. They plan to undo the conversions for accounts that decline in value after conversion.

In other words, if you put a $25,000 asset in a Roth, and 22 months later it is worth $15,000, you don't want to pay taxes on the higher amount. You are better off reversing the conversion and redoing it before the asset rises again.

Target date funds seen as a question of how rather than if

They must be aligned with the expectations of investors, experts say

Target date funds are ripe for regulation a conclusion made abundantly clear at a Joint Department of Labor and Securities and Exchange Commission hearing this month of dissecting these popular retirement funds.

But exactly how regulators will attempt to rein them in is still an open question, according to experts and others who testified.

"At its most basic level, there was a consensus that there needs to be an alignment of a target date fund's characteristics with the expectations of individual investors." said Marilyn Capelli Dimitroff, chairwoman of the

Washington-based Certified Financial Planner Board of Standards Inc., who offered testimony at the June 18 joint hearing.

"There are a number of different ways of getting there through regulations, however," said Ms. Capelli Dimitroff who also is president of Capelli Financial Services Inc. in Bloomfield Hills, Mich. "And some ideas are more aggressive than others."

"In my gut, that's what I think the end result of these investigations and hearings will be," said Rod Bare, director of asset allocation at Chicago-based Morningstar Inc., who was an expert witness at the hearing." Any new regulations imposed on target date funds more than likely will be moderate."

Total Return Portfolio

COMPANY / TICKER	Stars	Quality Ranking	Risk	Style	Current Price	12 Month Target Price
Abbott Labs /ABT	4	A	Medium	Growth	52	62
Altria Group / MO	5	A	Medium	Blend	21	22
AT&T/T	5	B+	Medium	Value	26	31
Chevron/ CVX	5	A-	Low	Blend	81	95
Coca-Cola/KO	5	A+	Low	Growth	55	65
Deere/ DE	4	A-	Medium	Blend	62	72
Exxon-Mobil/ XOM	5	A	Low	Blend	69	90
Heinz H J/HNZ	4	B	Low	Blend	46	49
Home Properties/ HME	5	A	Low	Value	49	55
Honeywell/HON	5	A	Medium	Value	46	50
Intel/INTC	4	B	Medium	Growth	24	25
Kinder Morgan Energy/KMP	5	A	Low	Blend	67	76
Merck/MRK	4	B	Medium	Blend	36	48
Oneok/OKE	5	C	Medium	Value	48	51
PPG/PPG	5	C	Medium	Blend	70	78

Meanwhile, have a great month, clear skies and great spring weather (Midwest). We will see you next month.

Timothy T. Fullerton, Sr.   Mary Ahart

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