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"Real People provide Real Service"

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Reminders……….

That the year is almost over. Fourth quarter is upon us. The markets have rebounded nicely, but will not hold their levels without the support of the floor, jobs. Housing is rebounding, big business is coming back slowly, but the sector that drives the economy, small to mid-size businesses are still being suppressed by credit markets. Until the jobs numbers turn green, we are riding an economy held up by investment activity only.

Two weeks ago, I visited a Firemen's Pension Board and was reminded of the basic problems that caused the past year to occur. The "independent advisor" to the board who was responsible for the pension plan assets gave the board the investment policy by which the advisor was being scored by. Considering that this advisor was responsible for 20+ pension plans in his portfolio, here was the student handing the teacher the report card criteria by which to grade the student by. And we wonder how Bernie Madoff could have been doing his folly for ten years.

So there is still a lot of policing to be done on these hedge fund and investment advisors. Until someone is watching over their shoulders and keeping them responsible on a fiduciary level, Ponzi schemes and the risk issues will continue to prevail.

This past quarter was a good performance period. By keeping funds in short term bonds or bond funds, seeking certificate of deposits below $250,000 in size, the fixed income portions of the portfolios enjoyed positive results. On the equity side, by maintaining a core of ETF's or high quality stocks, and playing the dividend markets, the returns came in positive. September proved the analysts right. The returns were less than spectacular. October will prove to be as challenging. Remember 1987? The Volatility Index (VIX) for October could prove to provide opportunities for short term traders and concern for the long term holders of equities.

The Monthly Index Report for August 2009

It's been a year since the fall of Lehman Brothers, the storied investment bank that was forced to declare bankruptcy following an unsuccessful bid for a government bailout. Its failure caused a massive selloff on Wall Street that eventually pushed the S&P 500 index to the 666 level in early March 2009. Stocks have since rallied about 60%.

Though these types of market events are rare, they do occur, and it's both surprising and awe-inspiring to witness global wealth destruction on such a grand scale. What can savvy advisors and investors learn from such scenarios?

First, market swoons and the explosive rallies that often follow are excellent examples of how difficult it is to buy bottoms and sell tops. Adding to a losing portfolio seems insane when everyone around you is panicking. Hedge fund managers were slow to re-enter the markets until just a few months ago. What looks easy on a price chart is often much more difficult in the real world.

The importance of diversification was certainly well illustrated last year. As all risky assets crumbled in price, 30-year Treasuries (TLT) gained over 30%. Having all of one's eggs in one basket can be devastating when that basket eventually succumbs to the laws of financial gravity.

A final important lesson is to properly gauge investor risk tolerance. All suffered in 2008, but that merely set the stage for this year's recovery. Over-allocated investors who bailed out of the markets in the fourth quarter aren't likely to get their principal back for a long time.

The Monthly Index Report for September 2009

Index	Sep-09	QTD	YTD	Description
S&P 500 Index*	3.6%	15.0%	17.0%	Large-cap stocks
DJIA*	2.3%	14.9%	10.7%	Large-cap stocks
Nasdaq Comp.*	5.6%	15.6%	34.6%	Large-cap tech stocks
Russell 1000 Growth	4.3%	14.0%	27.1%	Large-cap growth stocks
Russell 1000 Value	3.9%	18.2%	14.9%	Large-cap value stocks
Russell 2000 Growth	6.6%	16.0%	29.1%	Small-cap growth stocks
Russell 2000 Value	5.0%	22.7%	16.4%	Small-cap value stocks
EAFE	3.9%	19.5%	29.6%	Europe, Australasia & Far East Index
Lehman Aggregate	1.1%	3.7%	5.7%	U.S. Government Bonds
Lehman High Yield	5.7%	14.2%	49.0%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	2.0%	1.4%	-2.2%	Managed Futures
3-mo. Treasury Bill***	0.0%	0.0%	0.3%	
All returns are estimates as of September 30, 2009. *Return numbers do not include dividends. ** Returns are estimates as of September 29, 2009.				

AS IF THEY REALLY KNEW, leading economists predict that recovery from our Great Recession will be plodding, gray and jobless. But they don't know, and can't. The future is unfathomable.

Analysts not famously a glass half-full kind of forecasters, they proposal that the recovery will be a bit of a barn burner. Not that they can really know, either, the future being what it is. However, though they can't predict, they can guess. No, not "guess." Let us call it inference.

The very best investors don't even try to forecast the future. Rather, they seize such opportunities as the present affords them. Henry Singleton, chief executive officer of Teledyne Inc. from the 1960s through the 1980s, was one of those enlightened opportunists. The best plan, he believed, was no plan. Better to approach an uncertain world with an open mind. "I know a lot of people have very strong and definite plans that they've worked out on all kinds of things." Singleton once remarked at a Teledyne annual meeting, "but we're subject to a tremendous number of outside

influences and the vast majority of them cannot be predicted. So my idea is to stay flexible." Then how man influences, outside and inside, must bear on the U.S. economy?

Though we can't see into the future, we can observe how people are preparing to meet it. Depleted inventories, bloated jobless rolls and rock bottom interest rates suggest that people are preparing for to meet it from the inside of a bomb shelter.

Fiduciary Duty Hits the Street-Sort of

Wall Street finally has agreed to put its brokers under the tougher fiduciary standard for their dealings with customers. Now a fight looms over how tough that standard will be.

As part of its regulatory overhaul, the Obama administration proposed holding brokers who give investment advice to the higher fiduciary duty a legal standard that would compel them to act in their clients' best interests. Currently, brokers are held to more lenient "suitability" standard, which means they can't put clients in inappropriate investments. Many investment advisers, by contrast, have operated under the fiduciary standard for nearly 70 years.

The changes could transform the brokerage industry by changing the way products are sold and marketed and even how brokers are paid. Requiring brokers to operate under the existing fiduciary standard could force them to recommend more investments that are less costly and more tax-efficient.

They would have to tell clients about any potential conflicts of interest, such as when they stand to gain personally by favoring one product over another. For example, a broker who recommends a mutual fund with a higher fee and one he gets a bigger commission for selling would have to disclose that potential conflict upfront.

Congress isn't likely to tackle the fiduciary-standard issue until later this fall, but lobbying already is under way to shape it and how it is applied. In July, the Securities Industry and Financial Markets Association, Wall Street's main lobbying group, provided testimony about what it would want in such a standard.

SIFMA asked that the fiduciary standard be defined by federal law and that it "supersedes and improves upon the existing fiduciary standards, which have been unevenly developed and applied over the years, and which are susceptible to multiple and differing definitions and interpretations under existing federal and state law."

"What we're calling for is a high-standard of care that is clear and uniform across the board where it doesn't matter what certificate is hanging on your office wall," Ira Hammerman, SIFMA's general counsel, said in an interview this past week.

To many people, Sifma's approach, might seem reasonable. But not to investment advisers, state regulators, and others who favor the existing standard.

For years, most investment advisers have been deemed fiduciaries under the Investment Advisers Act of 1940. Brokers were excluded from that definition of advisers as long as they didn't get paid special compensation for that advice, and gave it as "sole incidental" to their brokerage services.

Investor groups say the existing fiduciary standard has been defined and upheld by over four decades of legal precedence, including a 1963 U.S. Supreme Court case, Securities and Exchange Commission v Capital Gains Research Bureau.

"If you have a precise definition of fiduciary duty, what that does is exclude a number of features of fiduciary," said Rex Staples, general counsel at the North American Securities Administrators Association Inc., which represents state securities regulators.

Trying to define what constitutes a fiduciary duty is like trying to define the duty not to commit fraud-any application of it depends on the client's particular facts and circumstances, say adviser groups. Proponents say a fiduciary standard can't be defined give the complexity and changing nature of the business.

Also, advisers and consumers advocates say that SIFMA's request for a federal fiduciary standard could pre-empt stronger state common-law standards.

“For years, they’ve opposed the fiduciary duty,” said Barbara Roper, director of investor protection at the Consumer Federation of America, a consumer-advocacy group. “Now they’ve embraced it in order to gut it.”

Still, Wall Street’s support of a fiduciary standard boosts the odds that it will eventually apply to brokers. Now, the fight is over the standard itself.

Investment advisers want to extend the current standard under the Investment Advisers Act to all financial professionals who give investment advice, while the brokerage industry wants a new, federal standard to apply to any broker-dealer or investment adviser that provides personalized investment advice to clients.

Under the Treasury’s proposed Investor Protection Act of 2009, the SEC would have the authority to “promulgate rules” establishing a fiduciary duty. SEC Chairman Mary Schapiro said she favors a fiduciary standard that would be applied uniformly to all financial professionals.

Some advisers and consumer advocates are concerned that the SEC might favor the brokerage industry. Over the years, brokers have switched their focus from brokerage to investment advice, but rather than regulate them as advisers, the SEC has generally exempted brokers from fiduciary and other obligations under the Investment Advisers Act, said Mercer Bullard, president of Fund Democracy.

Lenders stun cardholders

Institutions receiving aid get tough on credit

As a Discover Card customer for 18 years with a track record of paying her bills on time, the retired principal got a notice on April 15 that her card’s 10.99 percentage rate will jump to 15.24 percent.

“It made me angry, and that’s unusual for me,” Erwin, 64, said. “It’s against everything that America was built on, saying to the valued customer that you get the slap with everyone else who’s not paying their bills.”

The Garrison, Ky., resident said she plans to pay off the $2,079.98 balance and, unless Discover honors her current rate, will cancel the card and seek a better deal, or just use an existing Chase card as her family’s main card.

Riverwoods-based Discover Financial Services is among 540 institutions that received money from the Treasury Department’s Troubled Asset Relief Program. The program’s goal was boosting capital levels of financial institutions, thereby easing lending. Discover received $1.2 billion March 13.

Other recipients include Bank of America Corp., which has collected about $45 billion in TARP and other government aid. It also has hiked interest rates and cut credit lines on some cards.

The higher rates and tighter lines of credit have surprised some consumers. Thomas Charles Kenniff of Naperville said he has never missed a payment on his two BofA credit cards and pays them off monthly. But he recently was told that one card’s credit line was being slashed to $14,500 from $28,900, and another to $17,000 from $33,500.

The retired lawyer, 71, said a BofA customer service representative told him the bank reduced his available credit so he wouldn’t run up any high balances. “I’m kind of cynical, but I just didn’t believe that,” Kenniff said. “Bank of America has had its chubby posterior stuck, and when the government started taking my tax dollars and throwing them out the window, Bank of America was a big recipient.”

So Kenniff said he asked the BofA representative, tongue in cheek, to recommend someone from the government he could talk to about his situation. “She wasn’t very helpful about that,” he said.

Kenniff is considering canceling his cards, but realized he would have to get another one. Plus, “I’m going to a wedding in late May and made a reservation with one of them,” he said.

Also, applying for new credit can hurt your FICO score. For the past year, Jim Bilello, 49, has enjoyed a 1.9 percent promotional rate from Discover, but recently learned his rate was changing to a variable rate equal to the prime rate plus 16.74 percent, or 19.99 percent. Lucky for Bilello, a Mundeleinresident who said he has an 800-plus FICO score, he pays off his credit card balance monthly. But the increase still upsets the owner of US Marketing Inc., which

specializes in young adult and multicultural markets.

“You’d think that Discover would lower rates for good customers to get them to use their card more consistently,” he said. Discover said only a small percentage of its customers are being hit with the rate hike.

“The re-pricing is being undertaken in response to economic conditions, not because of customer payment behaviors,” the company said. “It’s one the factors that enables us to continue to lend to consumers who need access to credit right now.” Card members can choose to not accept the changes to their card by notifying Discover in writing of their desire to close their accounts and repay balances under existing terms.

Discover also said it will work with card members to develop payment programs if they’re experiencing financial difficulty.

BofA said it closely monitors accounts for risk and might adjust customers’credit lines based on their risk profile. “We are taking a more aggressive look at accounts to control risk, given the current environment,” a BofA spokeswoman said.

Translation, the banks need to pay back all that interest and debt to the Government and need to raise the capital to accommodate the payback. So credit card clients are the easiest to drum up more income on. Drop the criteria of credit scores and you open a new window to establish fee revenue. Greed never rests.

How to Make Money in ETFs-and How Not To

Exchange-traded funds are simple and cheap. Beware of advisers who would wipe out that advantage.

At a financial-planner conference earlier this year, a session being offered was called “ETFs: Are Your Clients Investing Without You?” As a group, advisers are not big fans of ETFs. They are regarded as a threat. With ETFs you can create a simple, low-cost portfolio that beats the pants off professionally designed and fee based plans. Why pay 1.5% to 2% a year to do something that you could manage yourself?

So, advisors are taking a threat and turning it into an opportunity. At the session, the discussion was about ETFs so over-engineered that few amateur investors would touch- them nor should they. Where is it written that ETFs must be simple and tax efficient? Use the ETFs that Wall Street has dreamed up to confuse investors, and advisors will probably keep them for life. Thus you might hear ETF pitches like these:

“We are bearish, and ETFs that short the market are just the ticket.”

“It’s important than your money work hard. We buy ETFs that use leverage so your gains will be twice as high.” (It was likely that the advisor won’t mention that your losses will be similarly magnified.)

“You need to avoid the sectors and countries that lag the market, so we will choose the right ETFs for this economy.”

While this may sound better than harnessing the return of the entire stock market, it’s just the same old, same old of paying one expert to outsmart another expert. It doesn’t work.

The prevailing advice is to choose the only indexing path that guarantees that you will beat most stock investors: Own the whole market at the lowest cost and greatest tax efficiency using ETFs like Vanguard Total Stock Market (ticker: VTI), Vanguard FTSE All-World Ex-U.S. (VEU) and Vanguard Total Bond (BND).

Advisers have been claiming to beat the market for decades. Then index funds proved them wrong. Now, with new ETFs, the advisors figured out how to claim to use indexing to beat the market. Don’t believe it.

How the Stimulus Helps You

New Car Write Off Sales Tax Deduction

The stimulus lets you write off state and local sales taxes and excise taxes on vehicles, including new cars, light trucks, motor homes and motorcycles bought from February 17 through the end of 2009. You can claim the deduction on your 2009 tax return (which you file next year), regardless of whether you itemize your deductions or claim the standard deduction, which is what most taxpayers choose to do.

If you itemize deductions and normally deduct your state income taxes, you can also claim the new sales-tax deduction for a new car. But if you itemize and choose the option of deducting your state sales taxes (perhaps because you live in a state that doesn't have an income tax), you cannot claim the new above-the line sales-tax break.

Can I have a Roth 401(k) and a SEP?

Q. I am self-employed and fund a SEP-IRA each year. Can I open an individual Roth 401(k) as well?

A. Technically, you can. But given that you'd have to split the maximum 46,000 contribution between accounts, it may be more trouble than it's worth. So is a 401(k) or a SEP a better choice? The 401(k) lets you save faster, since you can put in $15,500 of pretax or post-tax dollars plus 20% of your net income. With a SEP-IRA your contributions are limited to 20% of what you earn, so you need to make about $230,000 to reach the max. In addition, the Roth 401(k) lets you make tax-free withdrawals in retirement.

To open an individual 401(k), however, you have to file a lot more paperwork or spend $500 to $1,000 a year on a plan administrator. That's why the 401(k) is best for high earners and big savers, says plan administrator Barry Milberg. Hate to give up the Roth tax-free income? Get the IRA version: As long as your adjusted gross income is less than $169,000 (or if you're single, $116,000), you can fund both a SEP and Roth IRA this year.

Q: Given today's serious economic problems, can we really afford to reform our health care system?

A: We can't afford not to. It's critical that we do everything we can to move forward on reforming our health care system. The cost of inaction is much greater than trying to do something. Today's out-of-control health care costs are a major cause of many dire economic problems our country is now experiencing. What deserves even more attention is the serious threat this dysfunctional system poses to the financial security of most American families including many who have health insurance.

A lot of happenings in October, Columbus Day, Jobless reports, Housing starts, World Series, the end of the fiscal year for the U S Government and Halloween. Have a good month.

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