



Fullerton Tax & Planning

www.fullertontax.com

30 East Avenue, Riverside, IL 60546 Ph: 708-447-5667 / Fax: 708-447-5733

E-Mail: Tfullerton@fullertontax.com Ahartinvestments@yahoo.com

e.duga@fullertontax.com

"Real People provide Real Service"

September, 2009



Remembering.....

September brings up two major events for our remembrance. September 11th and September 14th. We lost two major towers and a few thousand lives in the 11th event. We lost two major wire houses on the 14th in Lehman Bros and Bear Stearns. So it is only fitting to note that September on record is the worst month in market records. It factored big in the 1987 losses and last year in the closing and consolidation of the financial markets. We are still reeling from last year's markets.

So the following was lifted from the likes of Kiplinger's magazine.

September is the cruelest month for stock investors. Since 1929, the Standard & Poor's 500 stock-index has delivered its worst performance of the year in September, losing 1.3% on average. Typically stocks average a monthly advance of about 0.5%, according to S&P research.

Many investors believe this month will be no different. Concern is growing that a double-dip recession is in store for the U.S. and that deflation, not inflation, will dampen prices -- and corporate revenue. Shareholders are taking profits in stocks and shifting defensively into bonds and alternative assets, such as gold -- an ounce of which now approaches \$1,000.

Given the powerful surge that stocks have enjoyed over the past six months, perhaps it's not a bad idea to pare back the equity portion of your portfolio to a neutral level. Semi-annual rebalancing is a good way to keep your portfolio allocation in line with your objectives and risk tolerance, so instead of the end of September, maybe you make those changes now.

But if you wait, don't worry. For most of us, 30 days won't shake the world.

Small 401(k) Plans Often Pay Big Fees

Proposed legislation aims to give business owner and their employees a clearer view of retirement-plan expenses

Employees of small and big businesses have seen their 401(k) plans battered over the past two years: Stock market losses have decimated retirement-account balances. Many companies have cut or ended programs in which they match employee contributions.

But small-business 401(k) savers also labor under an additional burden: They pay substantially higher retirement-plan fees on average, which reduces their investment returns. Moreover, many small-business workers and employers are unaware of the magnitude of those charges.

Many large providers of 401(k)s for small businesses don't give their customers a detailed breakdown of the estimated annual costs and where the fees go, making it difficult for employers to comparison shop. In some cases, the plan providers give a total dollar amount or the expense ratios of various investments in the plan, but not a complete breakdown of the various fees, such as the commissions brokers receive.

Not All ETFs Are in Sync With Markets

Exchange-traded funds, all about exposure, are looking exposed.

ETFs give regular investors easy and cheap access to a range of asset classes and strategies. It is the push into more esoteric areas, such as commodities, that has run into problems. U.S. Natural Gas Fund and U. S. Oil Fund, for example have been blamed by some for artificially inflating energy prices. There is little data supporting this view. Even so, the UNG is considering moving to offshore energy exchanges to avoid a regulatory crackdown.

Politics was one type of exposure investors didn't bargain for when buying into such funds. Those expecting them to closely track underlying commodity prices also may found themselves disappointed.

Funds such as UNG buy futures, rather than physical commodities. They must roll their positions every month, as contracts expire. This generates a negative return when prices further forward trade at a premium, effectively meaning the fund sell low and buys high. This is why UNG has fallen 75%, while the Nymex front-month natural-gas price is down 52%

Conversely, when supply and demand eventually tightens, the gas forward curve should shift providing positive "roll yields." And these risks are explained in the funds' documentation.

As ETFs push into ever more exotic strategies and asset classes, the risk of a backlash increases, particularly if performance is different from the underlying asset being invested in.

But it is possible to overstate this. It is UNG's bad luck to be operating during an energy crisis. Provided it can escape the lash of Washington, its ability to weather today's volatile markets will provide an important test for the model's sustainability.

Retirement

Q: I'm over 50, and I've taken a beating in the market. I'm maxing out my 401(k) and IRA. How can I get the 10% annual return I need to achieve a secure retirement without too much risk?

You can't. Stocks, as you know, are risky. But there's nothing else that will give you a realistic shot at a 10% return. And while the market has returned 10% over extended periods, there's no way to guarantee that between now and retirement. So what can you do instead? You've already amped up your savings rate, so your best bet is to add a couple of years to your intended retirement date. Ugh, you say? Consider this: If you can delay taking Social Security and tapping your 401(k) and IRA accounts, those extra couple of years should have a dramatic impact on your retirement income. "The only guarantee lies in saving and earning," says Marjorie Fox, a financial adviser in Reston, Va.

Education

Q: I have been considering an advanced degree. Are there any loans or other kinds of financial help for graduate students?

Before you worry about funding, I'd urge you to make sure that you're choosing school for the right reasons. These days many college graduates are opting for more school simply because they know the job market is tight. While extra education is generally a plus for job seekers, you'll want to be confident that you can handle the payments on any debt you take on. Use sites like careeronestop.gov to get an idea of starting salaries for your future profession, and consider going part-time to defray the cost.

Should you decide to go for it, there's plenty of help available. Grad students are eligible to take \$20,500 a year in federal Stafford loans (the interest rate is 6.8%). You can cover the remainder of the cost with federal Grad PLUS loans, which have an interest rate of 7.9% to 8.5%, depending on the school (to research loan options, go to finaid.org). And take advantage of a new tax break: The stimulus package includes a \$2,500 tax credit for students (to qualify, a single person must have an adjusted gross income under \$80,000).

Gauging the Mess

More mutual funds had a negative return in 2008 than did individual stocks. Here's why.

If you owned only bonds and cash, you probably had the last laugh. In fact, cash trumped all the major U.S. equity indexes for the 10-year period that ended on Dec. 31, 2008. Cash is the asset equivalent of Rodney Dangerfield. It doesn't get much respect, which is too bad because cash is a wonderful portfolio component. How much to have is an individual judgment call, but a 10% minimum might be a good idea.

But if your portfolio was full of equities, like most investors', it didn't really matter what asset classes you had. Nearly all were gutted. Let's run through the one-year returns of the major equity asset classes.

The S&P 500 lost 37%, its worst one-year return since 1970. The Russell 2000's 33.8% drop was the worst since its inception in 1979. The 43.4% loss posted by the EAFE Index was the worst since 1970. The Dow Jones Wilshire REIT was down 39.2%, the worst one year return since its inception in 1978, and the 46.5% drop of the S&P Goldman Sachs Commodity Index was the worst since its inception in 1970.

You get the drift. After examining the returns of the major equity asset classes, you can see that there were precious few places to hide in 2008. This wasn't a bear market, it was wholesale slaughter.

And yet, for much of the year, it was only moderately depressing. The real damage occurred during the fourth quarter. That is hardly comforting, because it illustrates how fast things can go from moderately bad to horrible.

In 2008, there were 8,020 U.S. based companies with 12-month returns as of Dec 31, 2008. The average return of all 8,020 stocks in 2008 was -39.6%. The median return was -52.7%, whereas the market-cap weighted 12-month return was -26.6%.

The median return in 2008 for all 2,781 stock funds was -38.1%, which was "less bad" than the median return of -52.7% for stocks. However, 99.8% of all equity funds in this analysis had a negative return in 2008 compared with 89% of all 8,020 that had a negative one-year return.

Simply put, almost all U.S. equity funds (specifically 99.8%) had large negative returns in 2008, while 11% of all U.S. stocks (881 to be exact) found a way to produce a positive return in the midst of an equity ice age. It may seem odd that a higher percentage of mutual funds had a negative return in 2008 than individual stocks. Actually it's quite logical.

Nearly half of the 2,781 stock funds in this analysis are categorized as large-cap funds. However, only 218 of the 8,020 stock in this study are classified as large-cap stocks. Therefore, nearly half of the stock funds are shopping from a short list of 218 large-cap companies, most of which performed very badly.

In fact, of those 218 large-cap stocks (i.e., the ingredients in a large-cap mutual fund), only 16 had a positive return in

2008. Bottom line: When most large-cap stocks do poorly, nearly all large-cap funds will do poorly. And because a large percentage of all mutual funds are large-cap funds, when the largest and most popular stocks perform badly, mutual funds in general get creamed.

The Monthly Index Report for August 2009

Index	Aug-09	QTD	YTD	Description
S&P 500 Index*	3.4%	11.1%	13.0%	Large-cap stocks
DJIA*	3.5%	12.4%	8.2%	Large-cap stocks
Nasdaq Comp.*	1.5%	9.4%	27.4%	Large-cap tech stocks
Russell 1000 Growth	2.1%	9.3%	21.9%	Large-cap growth stocks
Russell 1000 Value	5.2%	13.8%	10.6%	Large-cap value stocks
Russell 2000 Growth	1.0%	8.8%	21.2%	Small-cap growth stocks
Russell 2000 Value	4.7%	16.8%	10.8%	Small-cap value stocks
EAFE	5.5%	15.1%	24.8%	Europe, Australasia & Far East Index
Lehman Aggregate	1.0%	2.7%	4.6%	U.S. Government Bonds
Lehman High Yield	1.9%	8.1%	41.0%	High Yield Corporate Bonds
Calyon Financial Barclay Index**	0.7%	-0.5%	-4.2%	Managed Futures
3-mo. Treasury Bill***	0.0%	0.0%	0.2%	

All returns are estimates as of August 31, 2009. *Return numbers do not include dividends.
 ** Returns are estimates as of August 28, 2009.

Taking a Preferred Route

This adviser says preferred securities are attractive for income investors, although their issuers-hard-hit-banks-may give some investors pause

Preferred shares have guaranteed priority over common shares when it comes to dividend payments and a higher claim on the assets of a company in the event of bankruptcy (though not as high as the claim held by bondholders).

These securities have lost a significant amount of value since late last year because they are largely issued by banks, which investors feared would collapse amid the financial crisis. Preferred-share yields shot up to 20% to 30% in late February and March before falling back in recent months as investors became more optimistic.

Even at current yields, preferred shares look attractive, says Mr. Carroll, whose typical client with a moderate risk appetite now has a 5% position in preferreds, often through an exchange-traded fund such as **PowerShares Financial Preferred Portfolio**.

Leuthold Asset Allocation, which can buy stocks, bonds and alternative investments, gets an 8% allocation, and 6% goes to **MainStay MAP Fund**, which primarily buys value stocks –shares the managers believe to be cheap based on their earnings potential. The final 8% of the common-stock allocation goes to **Hussman Strategic Growth**, whose manager partly aims to protect the fund from losing value by using derivatives like futures.

It can be costly and difficult to buy individual preferred shares, because they are traded infrequently. Also, they can be hard to research because a company may issue several different types of preferreds with different dividend payments streams and other characteristics. An ETF, however, provides “diversification, and it’s easier to buy and sell than the individual preferreds,” says Larry Carroll.

The advisers invest 5% of the portfolio in high-quality corporate bonds through **iShares iBoxx \$ Investment Grade Corporate Bond**.

They also use two flexible bond funds, whose managers have the ability to buy different types of bonds, including both high and low-quality corporate bonds, as well as foreign bonds. These are **Delaware Diversified Income**, at a 12% allocation, and **Pimco Unconstrained Bond**, at 10%, which the advisers have been buying since January.

The advisers allocate 6% to **Calamos Convertible Fund**, which invests primarily in convertible bonds of both high and low quality, as well as common stocks. The fund has gained around 19.5% since they bought it in October. "The easy money has been made there from an appreciation perspective," says Larry Carroll. "This is probably a place we'd take profits now."

After Cobra's Life Ends, HIPAA Can Help Insure

My wife and I are likely to retire next year. We can extend our health coverage via Cobra 18 months after retirement. After that, we don't mind getting our own insurance to cover the gap between the end of Cobra and the start of Medicare, which will be about one year. While in good health now, what if one of us develops some expensive medical condition during the Cobra coverage? Our fear is that we will become uninsurable. (We live in California and may be eligible for what is called Cal-Cobra, but the plan administrator doesn't have details, won't administer it, and the rules seem very complex.) Is there anything we can do to assure at least high-deductible coverage for the gap?

Many retirees struggle to bridge the health-insurance gap until they turn 65 years old and can enroll in Medicare, the federal health-insurance program for older Americans.

When you quit your job, you generally have the right to continue buying group health insurance for 18 months, thanks to the Consolidated Omnibus Budget Reconciliation Act of 1985, commonly known as Cobra. But that access doesn't come cheap: You have to pay your share of the premium along with your former employer's, plus a 2% fee. Cobra typically doesn't apply to health insurance plans sponsored by employers with fewer than 20 workers. But many states, including California, require smaller employers to offer the same access as larger employers.

If you develop a medical problem while on Cobra coverage that could be considered a pre-existing condition, you are generally protected under another federal law, the Health Insurance Portability and Accountability Act of 1996. Known as Hipaa, it guarantees access to individual coverage for people who have used up their Cobra coverage, according to Gloria Della, a spokeswoman for the Labor Department in Washington. Note: There are specified time periods in which you have to enroll to be covered by these protections. There is a good explanation of them at dol.gov. Type "FAQs about portability" into the search box and then click on the first link for frequently asked questions and answers.

Or you can call 866-444-3272 to discuss your individual situation with the Labor Department.

ETF List (Emerging Market Sector)

Symbol	Name	Total Market Return (Year to Date)
GUR	SPDR S&P Emerging Europe	29.16%
GMM	SPDR S&P Emerging Markets	33.45%
VWO	Vanguard Emerging Markets	35.00%
GMF	SPDR S&P Emerging Asia Pacific	37.02%
EEB	Claymore/BNY BRIC	39.06%
EWG	iShares MSCI Germany	-3.66%
ILF	iShares S&P Latin America 40	37.57%

S & P Top Ten Portfolio

Company Ticker	Quality	Risk	P/E	Current Price	Target Price	Fundamental Snapshot
American Tower / AMT	B	High	45.6	31	47	Market Leader in wireless tower industry
Coca-Cola / KO	A	Low	16.3	50	56	Growth potential from Energy Brands acquisition
Family Dollar Stores / FDO	A+	Medium	15.2	31	40	Expected to benefit from consumers trading down
Genzyme / GENZ	B-	Medium	27.9	55	65	Solid product growth and pipeline
General Mills / GIS	A-	Low	13.9	59	67	Expect more at-home eating by consumers
Hudson City Bancorp	A	Low	11.7	12	15	Should continue to enjoy strong earnings and loan growth
Int'l Business Mach / IBM	A	Medium	11.9	116	145	Should benefit from revenue growth in emerging markets
McDonald's / MCD	A-	Medium	16.4	55	70	\$2.00 per share annual cash dividend is an attraction
Teva Pharmaceutical / TEVA	NR	Medium	15.3	51	62	Largest gemeroc drug portfolio among peers
USG/USG	C	Medium		13	19	Positive on cost cuts

On the fixed income level, we have returned to our past in looking at muni bonds less than seven years to maturity and T Notes less than five years. Bank certificate of deposits and money markets are as close to zero as we can get.

Have a good September, remember our fallen from 9/11 and those brokers who lost their jobs but not their bonuses from 9/14. Set tight on your trades for the month and start back on track towards the end of September.



Timothy T. Fullerton, Sr.



Mary Ahart

Note: The securities listed are subject to market change. The above information is compiled with information from Research Departments of Investors Business Daily, Standard & Poor's, Zacks.com, The Motley Fool, Marketwatch and Bankrate.com. It is not reflective of Fullerton Tax & Planning or FTP Services as a solicitation to buy or sell a specific security. The report is for information purposes only. For further details on any specific listed securities, visit the websites of the research companies listed. Securities offered through T D Ameritrade. Member NASD/SIPC.