

ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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Autumn 2011

THE CRYSTAL BALL

The year 2011 has not shaped up like most had expected it to thus far. Historically, the year before a Presidential election provides excellent stock market returns. Maybe this year with all its craziness will prove to be an exception. Time will tell. Anyway, the stock market started off nicely for three months, paused for the next three months and then got crushed in the 3rd quarter. Worries abound...Greece default, Eurozone bank capitalization problems, unemployment, global recession fears, and political inaction are all causing investors to be quite fearful. What else could be expected when we are all hammered constantly on these subjects by the financial press, by the bloggers, and the ubiquitous talking heads on TV? Fearfulness is not a surprise under these conditions.

So what's the market going to do through the end of the year? As you already know, no one knows for sure; but here's what we think...it's going to be better. A lot of negative outcomes have been anticipated and probably have already been priced into the markets. If things work out just a bit better than projected, it wouldn't be a surprise to see prices reflect a positive outlook.

Many focus on the stock market as a "tell" for how the economy is doing. While that might be right, it is the bond market that generally calls the shots. The global bond market value is at least 5 times bigger than the global stock market value, maybe more. And right now the bond market is priced like investors are expecting continued deflation, not inflation. It has been said that the bond market is a better forecaster of recessions than the average economist. [We always look for an inverted yield curve to signal a recession, but with the Fed keeping short-term rates at zero, that is a signal we won't get this time.] In any case, money is flowing into the Treasury market because it is the only market big enough to handle the size



of the demand. When money is "scared" (as it has been recently), it goes to Treasuries. Ten-year Treasuries were recently yielding below 2%...wow! One day though, and we don't know when, there is going to be a whiff of inflation and money will go the other way. At that point, the seemingly safe and calm harbor of Treasury bonds will turn into an ocean of rough waters that will make even the most seasoned sailor quite nauseous.

Gold has been an incredibly interesting market to watch. It had moved to over \$1900/oz in a mini-parabolic rise and has since corrected, losing 15% of its value in a quick, sharp down move. Lately, gold has been bantered about more as a currency instead of a commodity. It's probably a little bit of both. There has been talk about reviving a "gold standard" but there just isn't enough of the stuff to make that work in the world economy. How high gold goes will be dependent upon how dire circumstances get in the world and how much the marginal buyer is willing to pay for the precious metal. Just remember that things can always go a lot higher than you might think. And they can go a lot lower than you think, too.

If we are right about the markets ending the year in a positive manner, we look for 2012 to be one of those years in which events will drive the market's movement, not words. We can hardly wait to watch and see what happens. Expect volatility.

Overheard from Arlene:

We once had Bob Hope, Johnny Cash and Steve Jobs... now there is no hope, no cash and no jobs.

STOCK CORNER:

GOLD AND SCAMS

The recent record highs in the price of gold, combined with the fear of an economic and market downturn, have attracted more than just newspaper headlines. Scam artists looking to take advantage of the unsuspecting have proliferated, and you as the investor, need to protect yourself from falling victim to any variety of gold-related scams.

Problems have ranged from telemarketers providing misleading information about the prospects of the metal, to outright lies, Ponzi schemes and fraud. As a result, investors have been cheated out of millions and the Financial Industry Regulatory Authority (FINRA) has issued a stern warning to investors to be careful before investing in gold.

Our advice: The price of gold, like any other asset, will go both up and down. If you hear otherwise, we suggest you do business elsewhere. Keep in mind the old rule of thumb; if something "sounds too good to be true...it probably is too good to be true." Remember that the name of the organization alone does not prove legitimacy, and be sure to thoroughly investigate any investment that you are considering. Of all the worthless stock certificates we have seen over the years, a high percentage are gold mining companies from the late '70s and early '80s. Keep that in mind.

PHIL'S TOP TEN LIST FOR INVESTING

- 10) Don't buy hot tips (today's hot tips are tomorrow's tax writeoffs).
- 9) Don't buy just because something has a high yield (it has a high yield for a reason).
- 8) Patience is a virtue ("don't let money burn a hole in your pocket" as my Dad used to say).
- 7) Understand what the Dow Industrial Average is and how it affects your investment emotions (a one point move in a Dow component can move the average close to 10 points).
- 6) When selling or buying, don't haggle over a ¼ point (remember "penny wise and pound foolish?").
- 5) Always set upside and downside target prices and reassess if and when those targets are reached.
- 4) Watch volume. Bottoms in bull markets are made on scary, big volume down days.
- 3) Don't buy stocks only because they are recommended in the newspaper, on the business channels or in magazines (who knows what the motivation is of those who prognosticate?).
- 2) If you are a do-it-yourselfer, avoid giving investment advice to your friends (there is no upside, only downside).
- 1) Don't forget the wise old market adage: "Everyone is a genius in a bull market."

FOOTBALL AND INVESTING

Here's an analogy we thought was appropriate for today's investment markets. Football season is underway...and to start every game, every half, overtimes and



following every score, there is the kickoff. Eleven players from each team, possessing a unique combination of strength and speed, run directly at each other in one of professional sports most dangerous plays.

Sometimes the ball sails off the kicker's foot deep into the end zone where the kick returner must make the decision to run the ball out of the end zone or to down it by "taking a knee." Just like in investing, you as the kick returner/investor must assess the situation and make the decision that is most appropriate under the present circumstances.

If you "take a knee" you get the ball on the 20-yard line. A decent return, nothing exciting, but with no downside risk. [In the investing world, "taking a knee" would be the equivalent of buying a Treasury bond.] Instead of downing it, you can choose to run it out of the end zone, taking the chance that you might be tackled prior to reaching the 20-yard line. Even worse, you might fumble. However, you recognize that this is the only way you can get a better return; potentially getting past the 20-yard line, and maybe even running it back all the way for a touchdown.

Here's a question: Would your decision to run the ball out of the end zone differ if the rules of the game changed so that instead of getting the ball on the 20-yard line after taking a knee, you got the ball on the 5-yard line?

Well, this is similar to what has happened to investors in Treasury bonds. Just over five years ago, a 1-year Treasury was yielding about 5%. As of this writing, the 1-year Treasury bond is yielding about 0.1%. This is the difference between \$500/year and \$10/year in interest income for each \$10,000 invested. Despite the lower returns presently available, a prudent kick returner's/investor's decision should always be predicated upon the current circumstances. Part of our job is to assist our clients with the decision whether to down the ball in the end zone or run it out. Everybody's game is a little different.

IRA CUSTODIAN CHANGE AT PERSHING

All clients with IRAs, Roth IRAs, SEP IRAs, and SIMPLE IRAs at Pershing received notice in September that the custodian on their account will be changing to PrimeVest. This was a decision made by the broker/dealer, Financial Network Investment Corporation. This was done mainly as an operational issue to improve service within Financial Network. It is important to note that there will be no changes to clients; account numbers, documents, online viewing, and statements will all remain the same. One minor change on the account statements from Pershing is that the title will now read "PrimeVest Custodian." All accounts will remain at Pershing and there will not be any changes to the fees. The change finalized on October 21, 2011. Your contribution checks will continue to be made payable to "Pershing, LLC". As the custodian, PrimeVest will be responsible and accountable to the IRS for all affected clients in terms of distributions, RMDs, and tax reporting. Pershing will work directly with PrimeVest to ensure that all reporting is done correctly. If you have any questions regarding this change, please give us a call.

PERSONAL NOTES

*Larry and Carrol R.-- Happy 50th Anniversary!
Great to see you recently.*

Jim and Colette P. -- Welcome aboard!

*Vance A. -- Congratulations on getting picked
up by the St. Louis Cardinals. Now the
work really begins.*

MORE SOCIAL SECURITY?

While it may not keep the system solvent, the Social Security Administration (SSA) announced earlier this year that it will stop mailing annual benefit statements for the remainder of 2011, thus saving about \$30M. In 2012, SSA will only send statements to those ages 60 or older. This will save the agency upwards of \$60M each year. SSA plans to have an option for everyone else to download their statements directly from their website (www.ssa.gov) by next year.



529 COLLEGE PLANNING TIPS

For college savings, 529 Plans remain one of the dominant ways to save. Many states currently offer tax credits or deductions for funding these plans. Even without these state incentives, the ability to invest the funds on a tax-free basis remains a primary reason to utilize these plans; but start early to take maximum advantage of the tax savings. Several grandparents have established 529 Plans for their grandchildren. If there are any plans to also apply for financial aid, some consideration should be made prior to using assets from the grandparent owned 529. When funds are withdrawn from a grandparent owned 529 plan to pay for college, the beneficiary's parents are to report the distribution as untaxed income on their Free Application for Federal Student Aid (FAFSA). This income can decrease the aid award by 50% of the funds withdrawn. Thus, the timing of these withdrawals is important. One solution is for grandparents to wait until the end of the student's junior year to tap their 529 funds once the final FAFSA application has been submitted. The other is for the grandparents to transfer their 529 assets to a 529 owned by the parents. When parents withdraw funds from the 529 for college expenses, the income is more favorably assessed at a 5.64% rate under FAFSA.

To help with the college planning process, these sites offer helpful information:

College Navigator –

<http://nces.ed.gov/collegenavigator> – Federal database of colleges and stats.

MeritAid – www.meritaid.com – Database of scholarships offered directly by schools.

College Board – www.collegeboard.org – College snapshots – size, breakdown, acceptance rates.

Unigo – www.unigo.com – Student reviews of colleges.

College Results Online – www.collegeresults.org – Shows actual graduation rates by school and years it took to graduate (4, 5, 6yrs. +). Helps you plan how long you will need to pay tuition.

Disclosure: An investor should consider the investment objectives, risks, and charges and expenses associated with municipal fund securities (529 Plans) before investing. More information about municipal securities is available in the issuer's official statement. The official statement should be read carefully before investing.

QUOTE . . .

*"If they can get you asking the wrong questions,
they don't have to worry about answers."*

Thomas Pynchon

RANT COMING

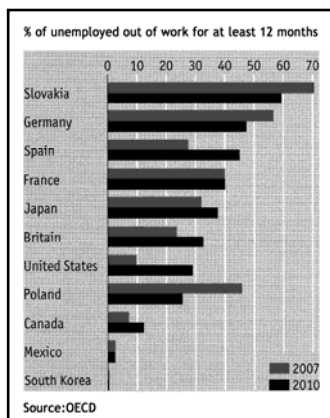
It always seems to take a crisis to get something done. The reason appears to be that most of our so-called "leaders" don't want to make the hard decisions until they have to. They fear alienating their constituencies. So they wait until they are forced to do something and then blame the tough choices on circumstances beyond their control. It is no surprise that government is held in such low esteem. So how can we justify giving the government more power when it seems like they are in over their heads right now? It feels like we are in one of those time periods that "the big picture" is changing. Look at the "Occupy Wall Street" protests. The status quo isn't going to remain. This change, however it turns out, is going to affect us all for many years in the future. Whether the changes will be good or bad depends on each individual's circumstance. In any case, be ready to adapt because that is what we will have to do. Welcome to the new normal.

"THE ECONOMY"

(as quoted in *The Atlantic Magazine*)

"The economy itself is really just a metaphor for the enormously complex stew of daily personal and commercial transactions among some 250 million Americans. The deceptively precise numbers that purport to measure savings or growth or income are crude approximations compounded from a slagheap of samples, surveys, estimates, interpolations, seasonal adjustments and plain guesses. It takes months, even years for economists to sort through the numbers and figure out what really happened, if they ever do. Believe it or not there is still no consensus on what caused the Great Depression."

AN INTERESTING CHART ON UNEMPLOYMENT



Albitz's Opinions and Judgments...



On Taxing the Rich . . .

Here's the problem: There just aren't enough rich people. Here's the government's solution: Let's change the definition of rich.

On Leadership . . .

People want to get behind someone who instills confidence and says, "Follow me." Where's Theodore Roosevelt when we need him?

On Social Security Being Called a Ponzi Scheme . . .

Buttonwood from the *Economist* magazine summed it up this way: Social Security is not a Ponzi Scheme because it isn't "an investment swindle in which early investors are paid off with money put up by later ones in order to encourage more and bigger risks." It is more like a Pyramid Scheme, in which "participants pay to join and profit mainly from payments made by subsequent participants." I suppose that in the grand scheme of things that makes perfect sense.

On the Pro Basketball Lockout . . .

Fans may find they can live without watching the sport. That's not good for owners or players.

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A STORY

A man was driving down the street, in a sweat, because he had an important meeting and couldn't find parking. Looking up toward heaven, he said "Lord, take pity on me. If you find me a parking space, I will go to church every Sunday for the rest of my life and give up drinking." Miraculously, a parking space appeared. The man looked up again and said "Never mind. I found one."

Until next time,

Phil Chris Paul Clete Sylvia

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Investors cannot invest directly in the unmanaged indexes mentioned in this newsletter.