

ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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THE CRYSTAL BALL

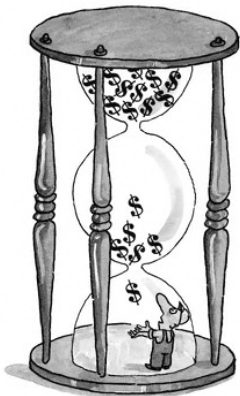
The stock market began the year the same way it ended 2010...unexpectedly strong. In spite of natural disasters, wars, revolutions, debt crises and a wall of worry that would take Spiderman to climb, the stock market has risen. Many have opined that because 2011 is the third year of the Presidential cycle, the market is destined to rise. The Presidential cycle says that the year before an election, the President will do whatever he can do to improve the economy, to lower unemployment, and keep the population generally happy in order to get reelected. We



We think this year will be a year that assets are going to get overvalued and it would be wise to take some money off the table. [The Exxon split curse is one of our proprietary signals as to when to do this.] The biggest problem with that plan of action is that sitting on cash provides an almost zero return. Money easily burns a hole in the pocket of the impatient investor. However, the situation with low interest rates will change, maybe sooner rather than later. In fact, we have been saying for a while that when the Fed starts raising interest rates, this will be the one true sign that the economy is getting better. We still think that.

Needless to say, there are a lot of interesting and fearful things going on now. Some people fear that the dollar will lose its reserve currency status; others worry about hyperinflation; many want the country to go back on the gold standard. Well, maybe this time is different, but we have heard these worries for thirty years and so far they haven't played out. As the old saying goes, "the race doesn't always go to the swiftest but that is the way to bet." And that is a way of saying that if you think the world is coming to an end, you are betting on a big longshot.

imagine that is easier said than done; however if you look at the history, the year before the election, the stock market on average is up double digits. We don't know whether this time will be an exception, but so far so good. Of course, you can't expect the market to go straight up. It will likely be punctuated with sharp, quick and scary drops in the 5%-7% range. Who knows what



might cause them but we know they will happen, because they always do. Bottom line: We are still positive on the market and expect it to go higher. That said, we remind you not to become complacent. Things can change quickly as illustrated by the 17% drop in the Japanese market after the earthquake and tsunami. It took all of three days to fall by that amount.

The best advice we can give [and that we follow in managing money for our clients] is to buy value, because money flows to value, and sell when the price of an asset exceeds value. This also is easier said than done, but it can be done.

A HELPFUL PRAYER

Dear Lord, so far today, I am doing alright. I have not gossiped, lost my temper, been greedy, grumpy, nasty, selfish, or self-indulgent. I have not whined, cursed, or eaten any chocolate. However, I am going to get out of bed in a few minutes, and I will need a lot more help after that. Amen.

John Maxwell,
Author of Today Matters

STOCK CORNER:

INVESTING VS. SPECULATING

Investors purchase an asset for less than their estimate of its fair value and receive a return more or less in line with the financial performance of that asset.

Speculators, by contrast, purchase an asset not because they believe it's actually worth more, but because they think another investor will pay more for it at some point.

The importance of recognizing which camp you are in prior to committing funds to an investment cannot be overstated. Know yourself.

TIME TO INCREASE YOUR DEFERRALS

For tax year 2011, FICA taxes (Social Security employee payroll taxes) were reduced 2%. Thus, for the first \$106,800 of income you make via your employer, you have received a 2% increase in your gross income! Looking at it another way, for each \$10,000 you earn, you are receiving an additional \$200 of take-home pay. If you're a participant in a salary deferral retirement plan like a 401(k) or 403(b), this is a great opportunity to increase your contribution amount. A 2% increase in your deferrals should leave you on par with the net take home pay you received in 2010 if all other factors (income, withholding, etc.) remain equal. Over the course of your retirement savings, 2% can make a nice difference. For example, consider a 35-year-old earning \$50,000/year. If she contributes 3% (\$1,500/yr), and can earn a net 6% compounded, after 30 years, her account would be worth \$125,564. By increasing her contribution to 5% (\$2,500/yr), under the same assumptions, her value after 30 years would rise to \$209,270...an \$83,700 difference. Sometimes a little can mean a lot.

IT'S THE "REAL" INTEREST RATE

Earning a paltry 0-1% return on your savings account may give you the blues, but in reality, it is not as bad as it appears. The "real" interest rate is the rate you earn minus inflation. So, if you are earning 1% in the bank and inflation is 2%, your real rate of return is -1%. This is no different than a savings account that pays 5% with a 6% inflation rate. Your real rate of return is still going to be -1%. This is the present cost of having money "safe" in the bank. The goal of investment is to keep up with taxes and inflation. Right now, money in the bank is not an investment. Even if that might change in the future, investors know that the future is now.

ESTATE TAX IS BACK

The estate tax is back in 2011 and 2012. The federal estate tax exemption is currently set at \$5 million per individual, with an estate valued over this amount taxed at 35%. Married couples can add any unused portion of the estate tax exemption of the first spouse to die to the surviving spouse's exemption. This provision will effectively allow married couples to pass \$10 million to their heirs free from estate tax. That's pretty good; however these figures are subject to change in 2013. We figure they will.

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JAPAN & NUCLEAR POWER

Albitz/Miloe & Associates expresses our deepest sympathies to the people of Japan as they deal with the aftermath of the recent earthquake, tsunami and nuclear power plant calamity. As bad as the situation is, it is reassuring to see the country band together and the outpouring of humanitarian aid from countries and individuals around the world.

One of the likely outcomes from this disaster will be increased regulation of nuclear power plants and the increased cost of regulation. However, despite the near-term market declines in this sector, nuclear power will remain an important source of energy generation across the globe. With 440 commercial nuclear power reactors operating in 30 countries, providing about 14% of the world's electricity, this is one sector that should certainly be monitored closely as the Japanese economy recovers from this tragedy.

QUOTE . . .

"Government spending is taxation, pure and simple. That taxation reduces output, employment and production. It's basic Econ 101. If, instead of using government spending for productive purposes, Congress uses it on bailouts for failing banks and unprofitable businesses, cash for clunkers, housing subsidies and unemployment, it's a double-whammy for the economy. You can't raise taxes on people who work, increase what you pay people not to work, and then expect more people to work."

Arthur Laffer

MUNI MARKET UPDATE

Since 2008, volatility has persisted in the municipal bond market. Late in 2010, muni bond prices were hurt during a perfect storm where an excess of new issues, a decision by the Fed to discontinue the Build America Bond program, and a general shift from bonds to equities coincided. During this period muni prices dropped as much as 8%. The market recovered a bit in January 2011, but this was followed by major headlines about unfunded public pension liabilities and articles by respected financial writers of tough times ahead, including predictions of a rise in defaults for some municipalities. While the fundamentals of the muni markets have remained sound, it is the headline risk that we feel could continue to drive prices in municipal bonds.

There currently is no provision for any state to declare bankruptcy. However, with state budgets slashed and pension demands exhausting what little states have, some have pushed to create a new Chapter 8 within the U.S. Bankruptcy code to allow states to default on their debts. Currently, the state in which this may be put to the test is Alabama, but as bad as things are with their fiscal situation, enacting Chapter 8 bankruptcy has not moved forward within the U.S. Congress. The advantage of Chapter 8 to states is that this would allow them to renegotiate pension agreements while obtaining the consent of bond holders to lengthen maturities and adjust the terms of the bond payments. To put the situation in context, the last state default was in 1933 by Arkansas in the height of the Great Depression.

Several clients have been concerned over their muni bond positions, and CA bonds are at the forefront. For those holding individual positions, short of defaults, it is the pricing, not the cash flow that is primarily raising fears. Many investors in this market have been afforded relatively stable pricing while receiving steady income. Since 2008, this has changed, and there have been periods of substantial principal fluctuation as bond pricing has dropped. During these panic periods, institutional investors and mutual funds have stepped in to make large purchases for the increased yields that the price dips have created. To mitigate risk, many clients have moved to national muni funds vs. CA bonds, but this is at the expense of lower yields. For CA, it is important to know that total debt amounts to less than 5% of the state's annual gross domestic product.

Nationally, based on data from the U.S. Bankruptcy courts and Franklin Templeton Funds, in 2009, there were 200 Chapter 9 bankruptcy filings for the entire muni bond market. By

comparison, 29,000 corporations filed Chapter 11 bankruptcies in 2009. In 2010, total muni bond defaults decreased to 72. Putting this in perspective, the total muni market in 2010 was valued at nearly \$2.8 trillion. The 72 defaults accounted for \$2.5 billion, or 0.1% of the overall market. Thus, while price volatility may remain due to headline driven events, munis remain relatively sound and defaults remain very low. Of course, this could change. Some analysts feel that defaults could pick up substantially in 2011. They might, but no one knows for sure. Our concern is with the headline risk; any defaults would pose to bond pricing. In other words, muni bond prices could fall quickly because of this fear. For long-term investors, these may be times to consider an investment. Knowing that volatility may remain, if price drops have caused you fear and anxiety, then speak with us about ways to diversify your portfolio to mitigate the risk.

REGULATION

We all recognize the need for rules and regulation. Sometime though, regulations get out of whack. Here is a funny example of regulations gone wild.

- Lord's prayer:66 words.
- 10 Commandments:179 words.
- Gettysburg address:286 words.
- Declaration of Independence:1,300 words.
- US Constitution with 27 Amendments:7,818 words.
- Government regulations on sale of cabbage:**
.....**26,911 words.**

PERSONAL NOTES

- Art P. -- Thanks for the lemon meringue pie.
That was nice.*
- Harold K. -- It takes a friend to be a friend...
you are a good friend.*
- Betsyru C. -- Can't wait to call you Mayor!*

NEW WEBSITE

If you haven't had a chance to check out our new website, please do. Vance Albitz, who worked with us for about six months before heading back to Lincoln, NE to play baseball for the Lincoln Saltdogs (www.saltdogs.com), designed and implemented the design for a really nice website. Our pictures have been updated and we recognize that we are looking older but find solace in the fact that so is everyone else! You can link to our Securities and Exchange Commission ADV form, view your Pershing account, and read fresh content. If you have any comments or suggestions to improve the site, we would appreciate your input. Thanks in advance.

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A STORY

Curtis & Roy saw an ad in the Starkville Daily in Starkville, MS. and bought a mule for \$100.

The farmer agreed to deliver the mule the next day. The next morning the farmer drove up and said, "Sorry, fellows, I have some bad news, the mule died last night." Curtis & Roy replied, "Well, then just give us our money back." The farmer said, "Can't do that. I went and spent it already." They said, "OK then, just bring us the dead mule." The farmer asked, "What in the world ya'll gonna do with a dead mule?" Curtis said, "We're going to raffle him off."



The farmer said, "You can't raffle off a dead mule!" Roy said, "We sure can! Heck, we don't have to tell anybody he's dead!"

A couple of weeks later, the farmer ran into Curtis & Roy at the local grocery store and asked, "What'd you fellas ever do with that dead mule?" They said, "We raffled him off like we said we were gonna do." Roy said, "Shucks, we sold 500 tickets for two dollars apiece and made a profit of \$898."

The farmer said, "My Lord, didn't anyone complain?" Curtis said, "Well, the fella who won got upset. So we gave him his two dollars back." Curtis and Roy now work for the government. They're overseeing the Bailout Program.

Albitz's Opinions and Judgments...



On Gold . . .

I'm not saying the price of gold can't go to the moon, because it can, and investors have made a lot of money in gold recently... but I was struck by what Warren Buffet said recently. I'm not a big fan of Buffet for many reasons but I do agree with him regarding his outlook on gold. To paraphrase, he said he would rather own a money generating business than a rock. I think that makes sense.

On Watching the Market . . .

For most investors (not traders) worrying about the price action of the market on a daily basis is like a dieter weighing himself/herself twice a day. It is unnecessary and probably self-defeating. The market will take care of itself, why worry?

On Why People Work with Us . . .

Here's what I've been told: They want to establish a working relationship with a financial company. They want someone to assist them with the management and the details of having money. They want good, sound, objective and conservative advice. They want experience. They want service. They want deeds done in a timely and professional manner. They want to work with people they trust. Trust is earned over time. We build trust with deeds, not words, and are thankful for the opportunity to work with a great clientele. If you are one of our clients and I missed something, let me know!

SOMETHING TO REMEMBER:

"Regret for the things we did can be tempered by time; it is regret for the things we did not do that is inconsolable..."

Sidney Harris

Until next time,


Phil Chris Paul Clete Sylvia

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