Q1 2010
Volume 3, Issue 1

THE PRETIREMENT PRESS

Perpetual Wealth Advisors, L.L.C. 933 Garrett St. #201 Atlanta, GA 30316
www.perpetualwealthadvisors.com newsletter@perpetualwealthadvisors.com 404-380-1977

In This Issue

In the Q1 issue of The Pretirement Press, we'll take a look at the provisions that are included in the new Patient Protection And Affordable Care Act (now law), and the Health Care And Education Reconciliation Act (soon to be law). They include some major changes in the way health insurance will work in this country as well as some new taxes that will attempt to pay for the additional coverage. We'll also attempt to link the debt problems in Greece with the recent volatility of the U.S. stock market in the recurring *Conversations With Joe* column. We'll update readings and recent trends for several key indicators of the economy in the *By The Numbers* column. Some *Quick Hits* featuring information on taxes, employee benefits, and insurance are also included. Finally, we take a look back at the last decade of investing, called by some "The Lost Decade" and argue that the only people who truly lost in the 2000's were those who didn't diversify, or who gave up on investing at exactly the wrong time. ■

What's in the New Healthcare Reform Laws

Whether you support the current *Patient Protection and Affordable Care Act* or not, it became law last week as President Obama signed the bill that had been previously approved by the House and the Senate. There are still some pieces that must be added and signed through the *Health Care and Education Reconciliation Act*, but that too has been passed by the House and the Senate and is on the fast track to become law. Some love it, some hate it, but very few know what's really in the bills/laws. Here we'll take a look through the provisions in the new law and in the reconciliation bill. Keep in mind that as with all new laws, the implementation methods are still to be determined. Some states have also already threatened to challenge the law on the basis of unconstitutionality, so some things may change, but for now, here are the key provisions we've gathered:

- Insurers will be required to offer coverage for children under their parents' policy up to the age of 26 and cannot exclude children on the basis of pre-existing conditions.
- National high-risk pools will be set up to insure adults with pre-existing conditions from 2010 through 2014.
- Beginning 2014, state-based insurance exchanges will be created where small businesses and individuals can band together into groups to purchase health insurance. Limits will be placed on the factors that can vary premiums from one group to another and pre-existing conditions will not be allowed as a factor or a reason to exclude an individual from coverage.
- Lifetime benefit limits will no longer be allowed and after 2014, annual benefit limits will also be abolished.
- An insurer will only be allowed to drop coverage for an insured person in the case of application fraud.

"...pre-existing conditions will not be allowed as a [pricing] factor or a reason to exclude an individual from coverage."

Continued on page 2

- A tax credit will be provided to small businesses with fewer than 25 employees that provide health insurance to their employees. This credit amounts to 35% of the cost of the plan.
- A new process will be established by which the government will review health insurance premium increases, and if deemed to be without just cause, can exclude the insurer from the insurance exchanges.
- Healthcare flexible spending account limits will be reduced to $2500 per year starting in 2013.
- Non-prescription drugs will no longer be qualified expenses for healthcare FSAs or HSAs starting in 2011
- The penalty for using Health Savings Account funds for non-qualified expenses will increase to 20%.
- There will be a mandate that preventative care (annual physicals, well-baby exams, etc.) must be provided under all new plans without deductible or co-pay. Additionally, coverage under Medicare for certain preventative care procedures will increase to 100% of cost.
- A new 10% tax on indoor tanning will be imposed.
- A new, public, long-term care insurance plan will be adopted beginning in 2011 (CLASS Act).
- Chain restaurants and vending machines will be required to post nutritional content of each item sold.
- New annual fees will be imposed on the manufacturers of pharmaceuticals.
- A new tax of 2.9% will be imposed on the sale of any medical device.
- Starting 2013, the Medicare (part of FICA) tax on earned income for individuals making more than $200k/ yr or couples making more than $250k / yr will increase from 1.45% to 2.35%. Additionally, on that same group, a new Medicare tax of 3.8% will be imposed on all unearned income (interest, dividends, rents, capital gains).

"…a new Medicare tax of 3.8% will be imposed on all unearned income (interest, dividends, rents, capital gains)."

- By 7/1/2013, the Consumer Operated and Oriented Plan (CO-OP) will be created to foster non-profit health plans in each state through $6B in federal loans and grants.
- Starting 2013, the eligibility level of itemized tax deductions for medical expenses will be raised to 10% of adjusted gross income from 7.5%.
- Beginning 2014, all citizens and residents will be required to buy health insurance or pay an annual fine. By 2016, this fine amounts to $695 per person or 2.5% income per year, whichever is greater. Graduated subsidies will be provided for individuals and families within 400% of the federal poverty level.

"Beginning 2014, all citizens and residents will be required to buy health insurance or pay an annual fine."

- Beginning 2014, employers with more than 50 employees will face fines for not offering health insurance.
- Beginning 2014, annual out of pocket maximums will be limited in all health plans on families within 400% of the federal poverty level.
- Beginning 2014, deductibles will be limited to $2k individual or $4k family for insurance purchased on the new insurance exchanges.
- Beginning 2014, Medicaid (not to be confused with Medicare) will be expanded to cover everyone under age 65 making less than 133% of the federal poverty level.
- Additional annual fees will be imposed on health insurers.
- Beginning 2018, a new tax will be imposed on insurers of employer health plans with aggregate values over certain levels ("Cadillac Plan Tax"). ■

By The Numbers

Below is a conglomeration of recent economic statistics along with recent trend and commentary on its economic impact. This is the stuff you see on the front page of the paper or that you hear on the nightly news, but usually without a good explanation as to what it means. Updated information can be found on the economic indicator page of the PWA website. As always, if you have any questions, please contact your advisor. ■

Indicator	Description	Last Reading	Trend	vs. Last Month	vs. 3 Months ago	vs. Last year	What it means	Summary Effect on Economy
Gross Domestic Product (GDP)	Aggregate dollar value of all good and services produced by the country.	14.4538 Trillion	Improving	N/A	1.36%	0.06%	This recession is likely over. The economy is growing again, slowly (0.06% over the last year in total), and probably will continue to do so, slowly. For last quarter, GDP growth was tremendous, but it was mostly due to an inventory correction and is not expected to continue for much longer.	Good
Productivity	Measure of the productivity of workers and the cost necessary for businesses to produce a unit of output.	152.317	Improving	N/A	1.68%	5.78%	As usually happens during an economic downturn, layoffs, and cost-cutting, output per unit of input increases. Continued increases are necessary as the economy recovers to sustain growth.	Good
Consumer Price Index (CPI)	Aggregate measure of the costs felt by consumers in purchasing a basket of goods.	216.741	Increasing slowly	0.02%	0.37%	0.24%	Key measure of overall inflation. Prices remain relatively stable, especially if excluding volatile food and energy prices	Good
ISM Index	Institute of Supply Management's reading on the manufacturing sector of the economy. A reading above 50 indicates expansion.	56	Improving	-4.11%	4.48%	56.42%	Indicates the manufacturing sector has resumed growth from depressed levels caused by the recession. At least partially due to inventory restocking which does not truly indicate demand has returned. Significantly better than this time last year.	Good
ISM Services	Institute of Supply Management's reading of the non-manufacturing sector of the economy. A reading above 50 indicates expansion.	53	Improving	4.95%	8.83%	27.40%	Indicates the services sector is stabilizing, but lagging a bit behind the manufactering sector in resuming growth (no inventory restocking in services). Slill, significantly better than this time last year.	Fair
New Jobless Claims (4 wk average)	Seasonally adjusted number of people nationwide who filed new claims for unemployment in the previous week. This essentially represents new layoffs each week.	454,250	Improving	-4.22%	-2.47%	-30.14%	Number of new people filing for unemployment each week is much better than last year at this time and after a 3-month stagnation, has begun to fall again. It is still exceptionally high.	Bad
Continuing Jobless Claims (4 wk average)	Seasonally adjusted number of people nationwide who continued to file for unemployment in the previous week.	4.64125 Million	Improving	0.79%	-11.14%	-12.97%	Number of people continuing to file for unemployment each week is decreasing steadily (on a seasonally adjusted basis), partly due to benefits running out and partly do to some people finding work. This number is still exceptionally high.	Bad
Non-farm Payrolls (3 month avg)	Number of non-farming jobs available nationwide in the previous month.	129.526 Million	Improving	(36,000)	(171,000)	(3,297,000)	Decline in available jobs is slowing, but is still very high. Unemployment won't turn around for good until we're gaining at least 100-200k jobs per month to keep up with population growth and re-entries into the workforce.	Bad
Unemployment Rate	The percentage of people who are looking for work that are currently unemployed.	9.7%	Steady	0.00%	-0.30%	1.60%	Unemployment is very high, but the most recent quarter of data have shown a reduction in the unemployment rate. If that proves to be a reversal of trend, the peak unemployment rate was 10.2%	Very Bad
Retail Sales	Seasonally adjusted total monthly receipts at retail stores.	355.546 Billion	Improving Slowly	0.34%	0.30%	3.53%	Retails sales are increasing as the economy recovers, but are still down ~4.7% from the same time two years ago.	Fair
Consumer Confidence	An index created through a survey of consumers that gauges their feeling on the current economy and their expectations of the future.	46	Erratic	-18.58%	-9.09%	81.82%	Consumer confidence has bounced back significantly from it's lows in Februrary 2008, but still nowhere near it's highs in 2007. Can be a contrary indicator for the economy, with really good numbers showing indicating a peak and really bad indicating a trough. Latest report (Feb '09) was a big disappointment	Poor
Consumer Credit	Measure of aggregate dollar amount of outstanding loans to individuals.	$2.456 Trillion	Short-Term Deteriorating Sharply, Long-Term Improving	-0.02%	-0.97%	-4.21%	Outstanding credit continues to pull back at very a very sharp rate as people pay down debt and save more. This is very good for the economy long-term, but terrible for the economy short-term as it indicates less spending and therefore less economic production.	Very Bad
30-year fixed averge mortgage rate	Average rate on new mortgages in the previous week. Published by Freddie Mac	4.99%	Steady	-0.06%	0.06%	-0.01%	Mortgage rates are still near historical lows and are being helped by the Fed's 0% Fed Funds target and purchases of mortgage backed securities which are wrapping up.	Excellent
Median Home Prices	Median price of homes sold in the previous month.	$165,100	Erratic, still falling slowly	0.12%	-2.88%	-1.84%	Median price of homes sold have fallen back to where they were a year ago after a slight recovery.	Poor
Existing Home Sales	Seasonally adjusted, annualized rate of existing home sales for the previous month.	5,020,000	Erratic, but expected to rise again into early Spring	-0.59%	-22.65%	6.58%	Sales of existing homes fell the most in 40 years in December and continued down in January and February after the expected expiration of the first time homebuyer credit likely pulled sales forward into October and November (as seen by the spike in those months). With the extension of the credit, we expect another peak in April before tailing off and finalizing stabilizing in late summer / fall.	Poor
Existing Home Inventory	Number of homes currently on-the-market	3,589,000	Erratic	9.52%	1.93%	-5.50%	The number of homes currently for sale has jumped back to where it was before the year end spike in sales caused by the expiration of the First TIme Homebuyer Credit. Based on January's annualized pace of sales, there are 8.5 months of supply on the market. It will be hard for prices to stabilize with more than 6 months of inventory available.	Bad

Conversations With Joe: How Can Greece's Money Problems Impact U.S. Stocks?

Over the last couple of months, U.S. stock markets have reacted negatively to the prospect that Greece, a country 5,000 miles from Wall St., may default on its public debt. Conversely, when default looked less imminent, the U.S. markets recovered. In this quarter's installment of our recurring fictional conversation with Common Joe Taxpayer, we attempt to tie Greece's debt to the U.S. market's short-term fluctuations.

Joe: *Hey, PWA, good to see you again. I really enjoyed our last conversation about the national debt and deficit. Thanks for publishing it in the PWA Q4 2009 Newsletter. I have another question for you if you have time.*

PWA: *Hi Joe. Ask away.*

Joe: *Ok, so a few weeks back, I heard on the news that the stock market fell over 200 points one day. It reminded me of the days like last year around this time. The news guy said it was because of fears over a Greece default on its debt. So we're not the only ones with debt problems, huh?*

PWA: *No, definitely not.*

Joe: *So, is the stock market reaction just because this is a sign of things to come in the U.S. if we don't shape up?*

PWA: *That's definitely a part of it. Any major government even thinking about defaulting on its debt would introduce a risk premium in the interest rate on debt of all major countries.*

Joe: *What do you mean by risk premium?*

PWA: *I mean that there's virtually no default risk priced into U.S. Treasuries, like we discussed last time. If I lend the government $1000 for ten years, I fully expect to get my $1000 back in ten years and my interest all along the way. If suddenly there was a chance I may not get my $1000 back at the end (the definition of default), then I'd demand a lot more interest from the government to loan them the money. That additional interest I demand is the risk premium attributed to the risk of default.*

Joe: *That makes a lot a sense. And then those higher interest rates would defeat the Fed's efforts to keep rates down, stimulate the economy, etc.?*

PWA: *Yes. The easiest example is in mortgage rates, which are tied to treasury rates. If treasury interest rates rise, mortgage rates tend to rise with them. Can you imagine how much more home values would fall if suddenly homebuyers had to make payments using an 8% interest rate?*

Joe: *That sounds awful. But you said there's more to the tie between Greece debt and U.S. stocks right?*

PWA: *Yes. It really comes down to currency-related issues. In Europe, many countries agreed to use a common currency called the Euro. Greece is one of those countries. Remember that in the U.S., if our government gets into trouble with debt they can always print more money to pay off some of that debt. It would cause inflation, but at least it wouldn't be a default.*

Joe: *So, can't Greece just print more Euros?*

PWA: *No. The Euro isn't Greek like the Dollar is American. And that has unveiled a fundamental problem in having a united currency with separate political organizations. Greece has enjoyed many years of GDP growth above the rest of the Euro zone countries because of its robust government spending. Now that spending has gotten them into trouble and they need help from the rest of the countries to get out of that trouble.*

Joe: *Wow, that's like eating all your food the first day of a camping trip and then begging from others for the rest of time so you're not hungry.*

PWA: *Good analogy. So if the Euro is a currency that allows countries to do that, it suggests a lot of Euro instability for the future. Why would the other countries continue to support a currency that penalizes*

Continued on page 5

"...a strengthening dollar makes our exports look more expensive... fewer exports... less manufacturing... and the recovery could be stopped dead in its tracks."

the responsible governments and rewards the irresponsible?

Joe: *I can see that. So unstable currency means fewer people want to hold Euros.*

PWA: *Right. So that makes a Euro worth less compared to other currencies, like the U.S. Dollar.*

Joe: *So that's good right? Everyone's always talking about how we want a strong U.S. dollar.*

PWA: *A strong U.S. dollar is good for long-term price stability, but in the short-term, during an economic recovery, a strengthening dollar makes our exports look more expensive to other countries. Fewer exports means less manufacturing which means more unemployment, and the recovery could be stopped dead in its tracks.*

Joe: *Ahhhh… and so that's what the stock market really worries about.*

PWA: *You got it, Joe. And that's why the U.S. dollar was moving up and the U.S. stock market was moving down on days when it looked like there was an increased chance of a Greek default.*

Joe: *Makes sense. I guess everything really is connected, no matter how far away or how seemingly irrelevant to our daily lives.*

PWA: *That's right. The financial markets really have become a small world. Thanks for the question Joe, and thanks for giving our readers another topic to learn about.*

Joe: *My pleasure. See you next quarter!* ■

Quick Hits

- To qualify for the First Time Homebuyer Tax Credit, you must be under contract to purchase a property by April 30, 2010, and close on that property by June 30, 2010.

- If you're an individual and you earned less than $105k in 2009 you can make up to a $5k contribution to a Roth IRA. Married couples making less than $167k can make a $5k contribution to each individual's Roth IRA. Partial contributions are allowed if you made up to $120k ($177k married). Roth IRAs grow tax-free forever!

- Term life insurance costs have come down substantially over the last 10 years. Even though you're older, you may be able to purchase cheaper insurance than you have. A 40-year old healthy male can purchase $500k of 20-year term insurance for ~$30-35/month.

- If you're enrolled in a group legal plan through your employer, they'll likely help you fight traffic violations, close on a home (buy or sell), create a will, explore foreclosure or bankruptcy, and review just about any legal document.

- If you received a big tax refund from the IRS or your home state this year, don't be so happy about it. That means you let the government hold your money interest free all year while you could have had it invested (S&P500 up > 60% in the last 12 months) or used it to pay down high interest debt. File a new W-4 and/or state withholdings form with your employer. Contact your advisor if you need help setting the appropriate number of allowances. You should generally have 1 Federal allowance for every exemption you claim plus an additional allowance for every $3650 in itemized deductions above your standard deduction. ■

Markets: The Lost Decade, Or Was It?

As the *Markets At A Glance* table shows, the 2010's have started off fairly well. Rather than dive into the details of the last quarter, since we now have the first decade of the 21st century in the books, let's take a look back and see how the markets performed overall during the 2000's.

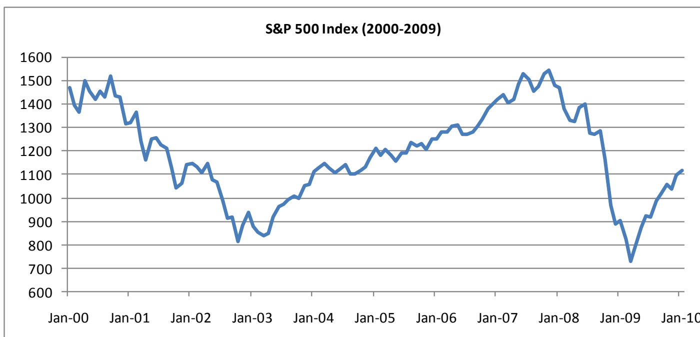
The gloom-and-doom crowd has already taken a stance that the 2000's were the lost decade for stocks as evidenced by the miserable performance of the S&P 500, the most popular market-weighted benchmark for U.S. stocks. A chart of the S&P 500 from 2000-2009 backs up their point quite nicely.

Markets At A Glance

Segment*	2008	2009	YTD 2010	
US Large Cap Stocks	-36.8%	26.4%	4.6%	thru 3/26
US Small Cap Stocks	-36.1%	36.3%	9.7%	thru 3/26
Foreign Developed Stocks	-41.4%	28.3%	0.0%	thru 3/26
Foreign Emerging Market Stocks	-50.0%	71.7%	-1.0%	thru 3/26
US Treasury Bills	1.8%	0.1%	0.0%	thru 3/26
US Med Term Treasuries	18.0%	-6.4%	1.4%	thru 3/26
US Long Term Treasuries	33.8%	-21.5%	-0.4%	thru 3/26
US Aggregate Bond Index	5.2%	6.0%	1.3%	thru 3/26
US Corporate Bonds	0.3%	12.1%	2.4%	thru 3/26
US High Yield Bonds	-23.9%	40.7%	2.5%	thru 3/26
US REITs	-37.0%	29.7%	10.2%	thru 3/26
Gold	3.0%	27.1%	1.2%	thru 3/26
Oil**	-54.7%	86.5%	0.8%	thru 3/26
Aggregate Commodities	-36.7%	18.6%	-7.2%	thru 3/26
US Home Prices	-18.6%	-3.1%	N/A	thru 12/31
Inflation (CPI) Y/Y	0.1%	-0.4%	1.0%	thur 2/28

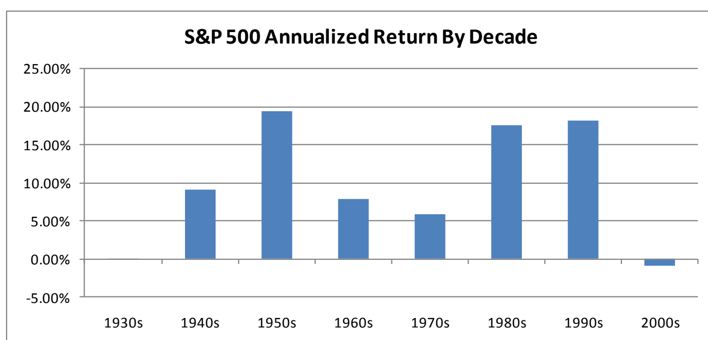
*All asset returns shown are returns by representative ETF except oil
**Oil returns measured by front month futures contract

As the chart below shows, the S&P started the decade at 1,469 and ended it 24% lower at 1,115. Obviously, a terrible return. If we use this as evidence that investing in the 2000's was a losing proposition, we might reach the conclusion that a passive approach to investing over the long term or a goals-based approach to investing are dead. But, there are three fundamental points that are excluded from this argument.



First, the chart completely ignores dividends. Adding the dividends that the S&P 500 companies (and therefore any fund that held those companies) paid improves the return to -9% over the ten year period. Annualized, that's -0.95% per year with dividends vs. -2.71% without. It's still not attractive, not even positive, but much better than without dividends.

Second, a look at how the last eight decades have performed gives a sense of the volatility of the stock market. The chart below shows the annualized S&P 500 return (including dividends) over each ten-year period. While the 2000's were the worst of all the decades shown, they're not far behind the 1930's. Had one reached the conclusion that long-term investing was dead after 1939, the opportunity to turn $1 into $1,430 over the next 70 years with an investment in the S&P 500 would have been missed.



Finally, the argument above takes a large leap in using the S&P 500 as an approximation for "investing". Any professional asset manager (including yours truly), incorporates many other asset and sub-asset classes into an overall portfolio allocation. The ultimate selection is of course based on the return that clients need in order to achieve their goals, with the minimum amount of risk that is possible to get there. While the S&P 500 certainly performed poorly during the 2000s, and just about every asset manager would have had some component of client portfolios in large capitalization U.S. stocks (like the S&P 500), the other asset classes performed much better.

Continued on page 7

In fact, a simple indexing of equal components of each asset class shown below would have led to a 6.85% annualized return throughout the 2000's (94% return over the 10 years!). And, what's even better is that only two years in the 2000's would have had negative returns. This shows the impact of having a truly diversified portfolio, as opposed to one that just contains many stocks in the same assets class (as is the case with the S&P 500).

Perpetual Wealth Advisors, L.L.C.
933 Garrett St. #201
Atlanta, GA 30316

Phone:
404-380-1977

Fax:
404-474-1629

E-Mail:
newsletter@perpetualwealthadvisors.com

Your success. Your security. Always.

We're on the Web!

Visit us at:

www.perpetualwealthadvisors.com

PWA's president, Tom Nardozzi, is a CERTIFIED FINANCIAL PLANNER™

Asset Class	Annualized Returns 2000-2009
US Large Cap Stocks	-0.95%
US Large Cap Value Stocks	1.32%
US Small Cap Value Stocks	7.69%
US Aggregate Bond Index	6.33%
US Short-Term Corp Bonds	5.86%
US Long-Term Treasuries	7.59%
Int'l Developed Stocks	1.84%
Int'l Emerging Market Stocks	10.12%
US Real Estate Investment Trusts	10.42%

So, while large cap U.S. stocks may have had a really hard time in the 2000's, the nearly 7% compounded returns that could have been achieved with the combination of assets above would have satisfied the 10-year goals of many investors. In other words, passive investing and goal-based investing focused on diversification seems far from dead.

The keys to success are in choosing the right portfolio for your goals, adjusting as events in your life warrant, and making sure that not only aren't all your eggs in one basket, but they're in as many baskets as possible. That worked during the bull market run of the 1990's, during the more stagnant 2000's and we continue to believe it is an investor's best chance at achieving his/her goals in the 2010's and beyond. ■

The Pretirement Press is a PWA's quarterly newsletter to clients. If you have comments or suggestions for future newsletters please contact us at newsletter@perpetualwealthadvisors.com. If you're not a PWA client, but received this newsletter and would like to be added to our mailing list, please send an email to subscribe@perpetualwealthadvisors.com. As always, if you or someone you know is interested in PWA's comprehensive planning, asset management, decision support, or tax prep services, please contact us to set up a free consultation. It's a small effort to start down the journey to perpetual wealth.