FINANCIAL FOCUS

A Newsletter from
Fleishel Financial Associates
An Independent Registered Investment Advisor

Financial Markets Update

It wouldn't be surprising if more than a few investors mumbled "good riddance" as the crowds sang "Auld Lang Syne" to show 2008 out the door. It was particularly gratifying to see the end of the fourth quarter, easily the worst three months of a year that saw unprecedented market volatility and negative returns across the board. No matter what specific moves are ahead for 2009, clearly the restoration of trust and confidence – and, therefore, credit – needs to top the list.

For the record, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) dropped 19.1% for the quarter; for the year it lost 34.3%, measured from 2008's opening bell. The broader indexes were off by even wider margins. The NASDAQ (an unmanaged index of common stocks listed on the NASDAQ National Stock Market) was off 24.6% for the quarter (minus 40.6% for the year), while the S&P 500 (an unmanaged index of 500 widely held stocks) dropped 22.5% during the quarter (minus 38.5% for the year). The MSCI EAFE (Europe, Australasia, Far East) index (a free-floating adjusted market capitalization index consisting of the country indices of 21 developed nations and designed to measure equity performance), finished the year down 45.09%.

The markets finished the quarter up from the year's lows they set in mid-November, when the Dow twice finished under 8,000 – bottoming out at 7,552.29 on November 20 the lowest closing number in more than five years. Analysts found that the Dow had its third worst year in its 112-year history, having lost more only in 1907 (down 37.7%) and 1931 (down 52.7%).

On another front, mutual fund flow trackers reported that as of December 29, investors had withdrawn $320 billion from equity and bond mutual funds – much of it sent to money market funds. As the year went on, dividend rates from money market funds dropped to less than 1.0% as the Federal Open Market Committee kept lowering the fed funds overnight lending rate. In December that rate was set between zero and 0.25%.

Not all the economic news was so dark. Light crude oil, selling at an all-time high of $147.27 per barrel on July 11, closed the year at $44.60, a drop of nearly 70% that translated to gasoline at the pump selling in the $1.50 to $1.75 per gallon range, welcome relief for motorists who had paid more than $4 a gallon in mid-summer. It was a pleasant way of putting more spending power back into the hands of consumers. The spectacular fall was the result of drastically curtailed gasoline demand not only in the United States, but in other developed and developing countries.

Job and housing-related figures turned a little more cheerful as the quarter ended, with a fall of 94,000 in new unemployment benefit claims for the week ended December 27. Residential mortgage application volume rose 155% compared with the same December in 2007, according to the Mortgage Bankers Association. Mortgage rates kept falling, ending the year at an average of 5.1% for a 30-year fixed-rate mortgage.

With the financial services business landscape already altered by company failures and buyouts in September, Congress in October passed a $700 billion economic stabilization bill and the Treasury Department eventually began injecting money into the economy through banks and other firms, although Treasury Secretary Henry Paulson cancelled the debt buy-back idea he had originally

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Financial Markets Update Cont.

proposed. Congress balked at bailing out the Big Three automakers, but the Bush administration in mid-December agreed to make available $17.4 billion of the economic stabilization funds as rescue loans in return for a series of concessions by unions and management.

In the middle of it all, there was an election, from which Barack Obama emerged as president-elect. He wasted no time in reassuring both Wall Street and Main Street that he would place the economy as his highest priority, proposing a number of measures he hopes to have ready after he took office on January 20.

I expect a period of disillusionment will occur with the new president, no matter how large the government economic stimulus package, one cannot wave a magic wand and expect all the programs to have an immediate effect.

Just as no one knew in advance to what depths the markets would sink in 2008, no one knows what the markets and the economy will look like at the end of the first quarter of the new year. But there is a degree of optimism that new, positive economic measures and gradually easing credit will begin to spur investors to take advantage of the investment opportunities that arise and watch carefully for market confidence to return in 2009. I personally believe the credit markets have to heal before we realize a prolonged rise in common stocks. When credit worthy businesses of all sizes can borrow money, they we can begin to see confidence restored which will lead to economic recovery.

I also think that most American consumers are getting a wake-up call, that our expectations about retirement, spending and levels of consumption have been unrealistically inflated by borrowed money. Perceptions that have been built over the last 15-20 years about reality for most will readjust to more realistic levels.

I am cautiously optimistic that by 2010, the federal economic stimulus actions will begin to take hold. Bankruptcies and industry consolidation will equate to improved bottom line profits for the survivors. If that occurs and the equity markets follow their historical pattern of discounting the future economic conditions, the second half of 2009 could bring higher prices.

We could still see some unpleasant surprises before then. For most investors, now is not the time to abandon your investment strategy. Withdraw as little as possible from your portfolio. When the upturn comes, based on history, it can be sudden and dramatic, with large run ups in a few days. You should be positioned to participate.

If you have general questions about the market or about the particulars of your portfolio, please call me. I always enjoy talking with you.

To access the link to our recent webinar on "How to Handle a Bear Market" please go to our website and click on Resources You Can Use and the link is at the top of the page.

www.fleishelfinancial.com

On a Personal Note

The holidays were a special blessing as my sister Jean and her husband Dean were down from South Carolina and my daughter Sarah made the drive from Athens, Georgia. Dean is a fabulous chef and specializes in wild game, so as usual, came loaded with a Canadian goose he bagged this year from Winnipeg and bags of fresh shrimp harvested from just off their coast south of Charleston. Marcus and Vika were somewhat tentative on the wild stuff but managed to suffer through the ordeal.

Dean also requested that we all make the annual trek to the DeLeon Springs Old Spanish Sugar Mill restaurant where you cook pancakes on your own table. It sounds kind of crazy to pay to cook your own meal but it's all about the ambiance. I always loved going there as a kid when they used to have diving boards, slides and even an under- water observatory peering into the spring. Spanish settlers established the location and there were Indian wars and even Civil War events. In years past, the flour was milled by the water wheel powered from the natural spring flow from DeLeon Springs until some dumb kid thought he'd try and ride the wheel up and over the top.

At last, after committing 15 years of blood, sweat, tears and setbacks the Athens Theatre is open! Thanks to a few volunteers, donors (private and public) and believers that would not quit, the grand lady is open. The other night, we were greeted

Personal Note Cont.

by a few lovely ladies in hoop skirts before seeing *Gone with the Wind* on the big screen, sipped a mint julep at intermission and thoroughly enjoyed ourselves. **Check out the upcoming events calendar at www.athenstheatre.org**

After the year we just experienced, I've been reflecting on some ideas about our values. Having everyone together for the holidays makes life's difficulties seem less burdensome. It's a time we can rejoice in the blessings that are rich indeed, our faith, our family, our friends… Despite a most challenging year economically and financially, we really have so much to be thankful for. We live in the most prosperous country, by far, in the world. Despite uncontrollable circumstances and financial setbacks, we will derive satisfaction if we have a plan and are managing our money well.

We're all about helping people achieve their goals and fulfill their values, but sometimes we lose our way and get focused on the wrong goals. Why are we saving and investing? Some people think of money as an end to pursue endless leisure and an overabundance of possessions. Unfortunately, after a few months, endless leisure can seem like monotonous tedium. Likewise, a shiny new car or fancy new home might be the allure to eternal bliss but after some time elapses, the thrill is gone and some other new fangled contraption may be more attractive.

This is not to say a proper perspective and sufficient financial means can't enhance your life. *First,* if you have money, you don't have to worry about it. If you live beneath your means and invest prudently, you can achieve a sense of financial control, perhaps even before you reach complete financial independence. *Second*, money gives you the freedom to pursue and financially support your passions in life. Whether it's volunteering at the local non-profit organization, coaching a grandkid's basketball team, helping at church or diving back into your studies, financial freedom offers these opportunities without worrying about a paycheck. *Finally*, money can also make it possible to spend more quality time with friends and family.

Research has proved that regular time with friends and family can enhance happiness and quality of life. I think now is the time to re-focus on our values and goals for the coming year and determine what is most important, count our blessings and our lives will be far richer. I look forward to these discussions with you….Next time we talk, ask me about the ***Quality of Life Enhancer*** exercise.

Don't Need IRA Funds in 2009? You Can Leave Them in Place.

Most of us have seen the value of our IRAs and employer-sponsored retirement plan accounts dwindle during the recent bear market declines, However, new legislation provides that if you're already taking Required Minimum Distributions (RMDs) from your retirement accounts—or will soon have to because you are approaching 70 1/2—you can now choose to keep those assets working for you by not taking your 2009 RMD.

The temporary relief came about because of concerns that seniors were being forced to withdraw funds from their traditional IRAs, Inherited IRAs, SEP IRAs and SIMPLE IRAs, as well as most employer-sponsored retirement plans, including profit sharing and 401(k), 403 (b), and 457(b) plans, when the market is at a low point. Such withdrawals remove a larger percentage of savings than when the market is flourishing. The Worker, Retiree and Employer Recovery Act of 2008 will allow you to skip these withdrawals in 2009.

By leaving your savings in your retirement plan accounts you not only eliminate the tax due on the distribution, you also give those assets time to recover value and grow in a tax-favored environment. Unless there is further legislation, the mandatory RMD will return in 2010. Some aspects of the law are a little less clear, but we are actively monitoring developments. Give us a call to discuss your options.

Many Taxpayers Stand to Gain From New Law—Just a few worth noting…

Starting Jan. 1, the basic federal estate tax exemption jumped to $3.5 million from $2 million in 2008. But not all the automatic 2009 changes will spell relief. For one thing, many people who suffer personal casualty and theft losses in 2009 won't be able to deduct as much. And about 11 million workers will pay higher Social Security taxes this year.

Much larger changes are expected soon from Washington in response to the economic crisis. President Obama and congressional leaders are working on a wide-ranging plan that includes large cuts for both individuals and businesses.

Estate and gift taxes. The annual gift-tax exclusion rose to $13,000, up $1,000 from 2008. This means you can give as much as $13,000 this year to anyone you wish, or to as many people as you want, without having to worry about taxes or even having to file any forms with the Internal Revenue Service.

Retirement savings. The maximum amount that someone under age 50 can contribute to a 401(k) plan for 2009 rose to $16,500 from $15,500. Those 50 or older can put away an additional $5,500 this year, for a total of $22,000 up from $20,500.

Minimum distributions. Past President George W. Bush recently signed legislation that allows millions of people who are 70 ½ or older to skip taking distributions from IRAs and certain other retirement plans during 2009. (see Don't Need IRA Funds in 2009 in this edition for further details.)

Social Security taxes. The maximum amount of earnings subject to Social Security taxes rose to $106,800, up 4.7% from $102,000 in 2008.

Avoid filing amended tax returns.

Please be patient to make sure you receive all of your tax reports before filing your final tax return. Certain types of assets inherently cause delays in the preparation of your tax return. Major delays can be—and often are—caused by having to wait on outside K-1s in accounts that hold interests in partnerships or Sub S Corporations or that receive distributions from another trust or estate. Several of the new Alternative Investment funds are in this category. It is imperative that your tax professional receives all of these reports prior to preparing your final tax return, to eliminate the need and wasted cost of filing an amended return.

Please call our office or have your CPA call us to obtain the anticipated filing date on these particular investments. If they are held in an IRA, the tax reporting is not necessary. For more information, please visit our website at www.fleishelfinancial.com to review other tax changes.

How to Reach Us

Please note that we are not able to initiate security or investment purchase or sales via email or voice mail. You must speak directly to a representative of our office for any trades to occur. For other communications, our email addresses and phone extensions follow.

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