January 2013

CHECKMATE

Market Updates, Perspective, News and Context

IN THIS ISSUE

IS AN "OBAMACARE RECESSION" LOOMING?

The 2013 Post-Election US Market Outlook

By Thomas K. Brueckner

Now that the uncertainties of the U.S. Presidential election are behind us, many of you have called to ask what we see coming for 2013, now that ObamaCare is certain to become the law of the land. For those of you with self-managed equity positions – or even ones managed elsewhere – the following is not intended as investment advice, just the informed and well-read opinions of someone approaching a quarter-century in private practice, someone who has, sadly, seen this all before.

The most noteworthy aspect of what I see coming is the discrepancy between a still-volatile but eager stock market, and a regrouping domestic and slowing world economy. Because there is more than $9 *trillion* still sitting on the sidelines, desperate for yield and starving for certainty apart from further government manipulation of the markets, the stock market has now become the place that many investors believe to be their only source of yield. (They obviously have not heard about the market-linked interest available via

Continued on page 2

Quotes for the Times

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

- Robert Kiyosaki

"The economy depends about as much on economists as the weather does on weather forecasters."

- Jean-Paul Kauffmann

STRATEGIC ASSET CONSERVATION

Continued from page 1

Index Annuities.) Their hesitation has been about avoiding the "Fiscal Cliff," a growing recession in Europe with even Germany now slowing to near-zero growth, and the myriad of challenges facing the business community as it prepares for ObamaCare.

The following are some of the issues with which the markets will have to contend as we enter 2013:

The ObamaCare layoffs are coming:
Within 48 hours of Obama's re-election, dozens of American companies announced layoffs in anticipation of a slowing economy as well as higher health insurance costs due to the pending implementation of the Affordable Care Act (ACA). These include:

- Research in Motion Ltd.
- Lightyear Network Solutions
- Darden Restaurants
- Providence Journal
- Hawker Beechcraft
- CVPH Medical Center
- Momentive Performance Materials
- Westinghouse
- Husqvarna
- ING
- SRA International
- Rocketdyne
- Rockwell Collins
- Boeing

That was just the first 48 hours.

Since then, additional companies have announced layoffs, including Cummins, Bristol Myers, Corning, Lockheed, Kimberly Clark, Dow Chemical, Zynga, and hundreds of smaller firms in communities all around the country.

The country's entire service sector, including hotels, restaurants, and resorts, will now struggle to compete in the new ObamaCare economy, and has already begun preparing employees for cut-backs in hours worked to part time employment (28 hours per week). Imagine two competing companies – one with 56 employees and another with 48. The company with 56 will be required to provide "adequate coverage" to all its full-time employees simply because they have more than 50, passing the added cost of doing so onto their customers. Lest the 48-employee company with no such requirement put them out of business, the larger firms will likely lay off seven people – not only denying these seven the employer-paid insurance that was goal of the ACA in the first place – *but causing them to lose their jobs over it*. This idiocy, the result of the ever-predictable "Law of Unintended Consequences," will happen all across the country, as employers, employees, and consumers alike take evasive action to avoid going out of business, losing their jobs, and paying for ObamaCare in the higher cost of goods and services.

This is to say nothing of the employment chaos that two-income families will endure when the second bread-winner in the family must now find a second job, making up those lost 12 hours elsewhere. This may require working weekends, resulting in less family time, added day care costs, more unsupervised children, and more fractured families amid a fractured economy. For many such employees, the 40-hour, one-employer workweek will become a footnote in history.

Europe in recession:
Austerity, though necessary, will not bode well for European markets or their economies in 2013, and central planners (President Hollande in France comes to mind) are doing all the wrong things by driving away the job-creators and investor class. Unemployment in Spain and Greece is now above 25 percent. Some even believe that Europe is entering a long-term period of malaise and could face a multi-decade period of stagnation like Japan. Investors in Europe, still desperate for yield, will continue to buy our "least-worst" U.S. markets instead, while those American companies that get half their profits selling to Europe will see slower sales and lower profits and share prices.

Iran vs. Israel and the United States:
The upcoming resignation of Hillary Clinton as Secretary of State may provide the opportunity Iran has been waiting for. Iran is the Big Bully on the Middle Eastern stage that lesser thugs (Egypt, Syria, Libya, et. al.) look up to and from whom they receive funding and training. Put down the biggest bully, and the others scatter in disarray. Ignore or appease the bully, and expect emboldened action by them.

Although Obama has paid lip service to our historic allegiance to Israel, the Israelis understand that their survival cannot depend solely on America's willingness to again engage in military action in that part of the world. Iran knows that the American people are war-weary, and that we are unlikely to sustain a long, drawn-out war against them. Obama's indecision and continued reliance on sanctions and diplomacy allows Iran to continue their nuclear ambitions, even as Israel needs definitive action.

Many now expect some form of military confrontation by next summer, and expect it to last several weeks or perhaps months. Increased Saudi production and Obama's release of some of our strategic petroleum reserves will likely temper the initial world-oil price spike. The market's subsequent sell-off may be the long-awaited "next major buying opportunity" that sidelined investors will use to "buy low, sell high," drawing some of that idle $9 trillion back into long-term investment.

One Unknown: Whether Russia and China will side with Iran, leading to a major international confrontation.

Continued on page 4

LEAVE YOUR HEIRS A WINDFALL INSTEAD OF A TAX LIABILITY

Tripling an IRA in Five Weeks

By Thomas K. Brueckner

During the past 24 years, we have acquired many clients with an IRA account from which they take distributions only because they have to. They have pension income, rental income, and Social Security sufficient for their expenses, and no mortgage. They live well within their means, give generously to their church or favorite charity, and adore their grandchildren.

As well as they are doing, many such clients tell us that their adult children are struggling through a tough economy, with some having lost jobs, homes, and even their marriages to the Great Recession and its aftermath. Many of their adult children have spent what funds they had in 401(k)s and IRAs avoiding foreclosure, paying their attorneys, or just paying their rents and monthly expenses, while looking for jobs that simply do not exist. Their parents wish there was something they could do to restore those lost dollars, fearful that their children will never enjoy a retirement of their own some day.

Happily, by employing the leveraging power of life insurance, there is great good that can come from small amounts of money meant for subsequent generations. *Many of our clients have been able to double, triple, and in some cases, quadruple the money in their IRA or emergency reserve accounts, in about a month, without market risk, income tax-free to their heirs.* What makes this strategy even more consequential is those same clients have maintained access to their funds, with full liquidity and a guaranteed minimum yield of 3 percent interest, should their future need for those funds outweigh their children's, or the latter's circumstances eventually improve.

In many cases, we have recommended *indexed* universal life insurance for clients also looking for greater returns on their money. Unlike many index annuities today, the caps on indexed life are often two to three times as high – approaching 12 and even 14 percent in some accounts – so when the market goes up, so will your account, by up to that amount. Should the market drop precipitously the following year, their accumulated cash value is protected against loss, retaining their gains from all prior years.

Clients are often reluctant to shell out for long-term care insurance, at $3,500 to $6,500 per year for traditional coverage. Meanwhile, many have emergency funds of $50,000 or even $100,000 earning next to nothing in a money market account. When repositioned into an indexed life or long-term care combo account, *four* problems are solved:

1. Yield is immediately increased to 3 to 14 percent market-linked interest;
2. The asset is often doubled toward the funding of a long-term care need;
3. Access to the funds are maintained; and
4. Any dollars still unspent at the owner's passing are paid out income tax-free as a residual life insurance benefit to their heirs.

Important: These benefits should be tailored to each couple's individual circumstances by someone familiar with such strategies, such as an indexed life and long-term care specialist with an equities background. Critical importance must be placed on the tax consequences of the funding, policy design and suitability, and surrender options should a couple's circumstances change over time. For those who think they are uninsurable, a policy can be written on *two* lives (spouses, parent/sibling, even parent/child), as long as the other insured is reasonably healthy. The key consideration is that each benefit is available when it is needed, in succession, tax-efficiently.

Properly designed, these solutions have become the new Swiss Army knife of estate and income planning: Liquidity for emergencies, excellent yields, a doubled long-term care benefit, and a tripled life insurance benefit – all combined with tax-free efficiency. What's not to love? ■

Give Jennie or Rachel a call today at (480) 661-6800 to set up a phone conversation with me to see if you qualify.

Continued from page 2

Tax hikes may cripple our small business economy: Economists have long understood that when you tax something at higher rates, you get less of it. Obama's negotiated tax increases on the most entrepreneurial among us – the job creators, venture capitalists, and small business owners – will serve to punish commercial investment and thus reduce job creation. I have spoken to at least 50 business owners since the election, and *none* of them are optimistic for our nation's economic prospects in 2013. Many of them intend to retire sooner, with some simply shutting down their businesses amid the lesser likelihood of selling them. While this is anecdotal, the unanimity of their opinions has to be considered and their sentiments must surely be prevalent around the country.

LONG TERM HOPE?

Reversion to the Mean:
Those of you who have attended our seminars know that market history can be measured in 17-year cycles of boom and bust. The periods from 1900 to 1917, 1929 to 1948, and 1962 to 1982 were periods wherein the market lost its former highs and eventually recovered them 17 years later. Conversely, the periods from 1917 to 1929, 1948 to 1962, and 1982 to 2000 were periods in which the markets expanded, averaging 10 percent a year.

Whenever stock markets yield exceptionally well above historic norms, market watchers know that the next bust cycle will likely be deeper than normal, followed by a "reversion to the mean," in which markets once again settle into their historic averages. This deeper downturn has certainly been the case for the last 13 years, as the S&P 500 is only now within reach of reacquiring its values from early-2000, having yielded essentially nothing to those who chose to ride the roller coasters of two 50-plus percent declines during that period. What this also means, however, is that *historically speaking, we are just a few years away from the next long-term secular bull market*, one likely to last 12 years or longer, and one that could be marked by some stellar years, given how desperate for yield investors have become lately.

However, analysts who claim that "this time is different" do make some valid points, one of which is that while we have had debt-ridden *companies* in the past, there have never been so many debt-ridden *countries* before. Noted market watchers like Jeremy Siegel have opined that the days of GDP in excess of 3 percent a year are over, never to be seen again, and others have added that the S&P 500 cannot possibly average 8 percent when economic growth is less than 3 percent. I believe these are all valid points.

In summary, while the economy and stock market have many challenges to overcome, there are $9 trillion itching to cheer on the latter, and they have been waiting 13 years for a reason to hope again. It remains to be seen whether they will start celebrating early, or whether a slowing American economy can keep them away for another quarter or two. If I had to venture a guess, I expect plenty of volatility through the spring and early summer, but am hopeful for a stabilizing market thereafter, with a year-over-year gain of 6 to 7 percent. In spite of our many challenges, few should bet against an accommodative Fed chairman when $9 trillion are cheering him on. ■

New SAC website launched

Strategic Asset Conservation is proud to announce the launch of our new website. Still located at www.go2knight.com, the new site offers a more thoughtful array of information about our company, as well as extensive resources for clients and soon-to-be-clients.

We're also excited to announce that the new site includes a blog where Thom will discuss timely issues, changes he sees coming in the financial markets, the economy and geopolitics, as well as current events that affect the financial needs of retirees and pre-retirees. Take a look, read what is there already and, if you like what you see, click on the Subscribe button to have each post emailed to you when it's published each week. ■

Strategic Asset Conservation, Inc. • Thomas K. Brueckner
8800 E. Raintree Dr. Ste. 220, Scottsdale, AZ 85260 • P 480-661-6800 • Inquiries@go2knight.com • www.go2knight.com