



In brief:

Do you hear it? It's that sign of relief among millions of investors who are thankful that at last the stock market has stopped going south – at least for a few weeks. Is it time for optimism – well I think it always is, but that's just me. Certainly some in the press and media see it otherwise and herald how “unprecedented” the economic times are or that we are on our way to financial Armageddon.

Yet, according to Jim Stack of InvestTech Research, a major reason for such gloom is that *we have had it so good for so long*. We haven't seen unemployment rise above 7% in 16-years. In addition, we haven't seen a protracted recession – lasting more than 12-months – since 1982, over 26-years ago. The reality of previous recessions is that unemployment peaked above 7% in seven of the past 10, and above 9% in two of them – 1974 and 1982. So, not so “unprecedented” but we likely still have more job losses to face.

However some **signs of possible economic recovery may be emerging**. The Weekly Leading Index of economic indicators has been steadily moving up, the inventories of existing homes are finally dropping significantly, making the way for a potential flattening or maybe even a minor rebound in home prices later this year, and consumer debt has shown a meaningful decline for the first time in almost 6 decades. Most important, the credit markets are beginning to function more normally and even starting to become less reliant on government support.

Some are wondering if this is just a bear market advance or perhaps something with more staying power. Well, again according the InvesTech, there have only be two “fake-out” rallies in bear markets over the past seventy years. One was in the 2000 – 02 bear market, lasting from September 2001 to January 2002 and gaining 21.4%. The other was just last fall from November 20, 2008 to January 6, 2009 which gained 24.2%. So bear market rallies that exceed a 20% gain and then go back down again have been rare. Let's hope they remain a rare event and that this rally will continue considerably higher.

Source: Clark Capital Navigator Report, Q1, 2009, HS Dent Newsletter, May, 2009

"We are continually faced by great opportunities brilliantly disguised as insoluble problems."

Federal Tax Issues:

Need a new car? Those with old cars may want to wait before purchasing a new replacement. Check this out! Congress is considering a “**Cash for Clunkers**” program that would provide a voucher to consumers who trade in vehicles that get less than 18 miles per gallon to be used to offset the purchase of a new vehicle. The current House proposal would provide between \$3,500 and \$4,500 depending on the efficiency of the new vehicle. The program as currently envisioned would last for one year and would not apply to the purchase of a used vehicle.

Source: FPA Capital Update - May, 2009
www.cseenge.com

Happy Memorial Day

The following story was shared by John S. McCain, USN Captain (Ret.) and U.S. Senator from Arizona. May we all remember the true significance of this holiday.

As you may know, I spent five-and-a-half years as a prisoner of war during the Vietnam War. In the early years of our imprisonment, the NVA kept us in solitary confinement or two or three to a cell. In 1971, the NVA moved us from these conditions of isolation into large rooms with as many as 30 to 40 men in a room. This was, as you can imagine, a wonderful change and was a direct result of the efforts of millions of Americans. One of the men who moved into my room was a young man named Mike Christian.

Mike came from a small town near Selma, Alabama. He didn't wear a pair of shoes until he was 13 years old. At 17, he enlisted in the US Navy. Then he became a Naval Flight Officer and was shot down and captured in 1967. Mike had a keen and deep appreciation of the opportunities this country—and our military—provide for people who want to work and want to succeed.

As part of the change in treatment, the Vietnamese allowed some prisoners to receive packages from home. Mike got himself a bamboo needle. Over a period of a couple of months, he created an American flag and sewed it into the inside of his shirt.

Every afternoon, before we had a bowl of soup, we would hang Mike's shirt on the wall of the cell and say the Pledge of Allegiance. I know the Pledge of Allegiance may not seem the most important part of our day now, but I can assure you that in that stark cell it was indeed an important and meaningful event.

One day the Vietnamese searched our cell, discovered Mike's shirt with the flag sewn inside, and removed it. That evening they returned and for the benefit of us all, beat Mike Christian severely for the next couple of hours. Then they opened the door of the cell and threw him in. We cleaned him up as well as we could.

The cell in which we lived had a concrete slab in the middle on which we slept. Four naked light bulbs hung in each corner of the room. After the excitement died down, I looked in the corner of the room, and sitting there beneath one of those dim light bulbs with a piece of red cloth, another shirt, and his bamboo needle, was my friend, Mike Christian. He was sitting there with his eyes almost shut from the beating he had received, making another American flag.

He was not making the flag because it made Mike Christian feel better. He was making that flag because he knew how important it was to us to be able to pledge allegiance to our flag and our country. So the next time you say the Pledge of Allegiance, you must never forget the sacrifice and courage of thousands of Americans to build our nation and promote freedom around the world. You must remember our duty, our honor, and our country.

"I pledge allegiance to the flag of the United States of America and to the Republic for which it stands—one nation under God, indivisible, with liberty and justice for all."

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Retirement Talk:

Is your 401(k) now a 201(k)?

Ouch! but, you want to resist the urge to cut or halt your contributions to your 401(k). If you invest only when stock prices are on a roll and not when they're in the dumps, you'll be buying in only when stocks are selling at the high end and missing the bargains. In a way, you would be like someone who always pays full retail and never takes advantage of a sale. This "only buy high" approach could limit the size of your nest egg.

Most 401(k) investors tend to leave their portfolios on autopilot. But as you begin to approach retirement, it's more important than ever to make sure you're controlling for risk and positioning your portfolio to ride out any rough patches. Fine-tuning your 401(k) portfolio to the appropriate mix of risk and growth takes hard work and diligence. **Start managing your investments early - or pick the right people to do it for you - so you can reap rewards down the line**

Source: Spectrum Group Survey – Jan, 2009

IRA Update:

Last quarter we highlighted the provision of **WRERA** that mandated the ability to have **non-spouse beneficiary** transfers or “rollover” from **employer plans – such as 401(k)’s** - will be mandatory for all plans beginning in 2010. While this is a great improvement for beneficiaries it is also a potential **huge tax trap** if these “rollover” are not done correctly. I’ve already heard some of those “financial experts” on the radio shows getting this wrong.

The key here is the rollover **has to be to a properly titled Beneficiary IRA** – NOT to your personal IRA as a spousal beneficiary can do. And the Beneficiary IRA will be subject to annual required distributions. Get this wrong and you have by default taken a full distribution from the inherited account and triggered full income tax as well as possible penalties if prior to your age 50 ½. Our suggestion is **if you, or someone you know, inherits an IRA or 401(k) – call us before you do anything.**

Why you should not use a revocable trust as your IRA beneficiary. In a case settled at the end of 2007, *Commerce Bank v Bolander*, (2007 WL 1041760) a taxpayer created a revocable trust, which was designated as the beneficiary of two IRAs. When IRA owner died, one of their creditors (a bank) pressed a claim against the estate and the trust. The trustee said that the IRA assets were exempt from claims by creditors of the decedent. The court ruled for the bank citing that within the IRA the asset were protected but upon the owners death, since they went to the IRA owners trust and not to a different person, they then became fair game.

If protection from the deceased IRA owner’s creditors is a concern it may be smarter to not name a revocable trust as IRA beneficiary. This might be the case if the IRA owner is a professional, such as a physician, who might be subject to malpractice claims or a small business owner who might be subject to creditor claims.

If you have questions or wish for more details on any of these, please don’t hesitate to give us a call.

Source: Ed Slott IRA Newsletter, February, 2009

Technical Corner:

The process of making constant decisions amid a sea of overwhelming choice – be it health care options, televisions, or investment products – can and often does result in emotional biases, stress, and poor decisions. The fact that some choice is good doesn’t necessarily mean that more choice is better, unless those choices are made within the context of a logical and organized framework.

In times such as the current economic and market turmoil investors can often end up being driven by perhaps the worst decision process - emotions - panicking out or crossing your fingers and just sitting in the same funds doing nothing.

One of the biggest advantages of our CAG investment process is that it can incorporate an enormous number of choices without increasing the stress involved in selecting the portfolio holdings. Use of relative strength strategies excel by defining the rules of selection and then systematically allocating and changing based on the relative strength ranks. For example, managing an asset allocation strategy with thousands of options, including everything from Latin American equities to Silver, need not be any more stressful. **And it keeps the emotions out, letting a systematic, logical approach prevail to manage your risk and returns.**

Based on current Relative Strength, the general prevailing themes include;

Growth stocks	over	Value Stocks
Small	over	Large / Mid Cap
International	over	U.S. Stocks

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Sectors exhibiting Relative Strength:

Technology
Financials
Basic Materials
Commodities
Consumer Cyclical

This presentation is designed to provide accurate and authoritative information on the subjects covered. It is not, however, intended to provide specific legal, tax, or other professional advice. For specific professional assistance, the services of an appropriate professional should be sought. Investors should be aware that there are risks inherent in all investments, such as fluctuations in investment principal. With any investment vehicle, past performance is not a guarantee of future results. Indexes are unmanaged and investors are not able to invest directly into any index. There is no guarantee a diversified portfolio will outperform a non-diversified portfolio in any given market environment.

In the news:

We hope you like the new quarterly consolidated statements! Those receiving our quarterly consolidated statements might have noticed a new look. It's much more than just the look. As part of our fiduciary responsibility and our policy of full disclosure, we believe one of the most important items of client communication is your statement. You should be able to easily see:

How am I doing – not just the dollars but the overall Household **percentage returns**

Cash flow – the impact of monies you add in or withdraw out

Performance of accounts – my IRA is at 3 different places but **how is it doing all together**

It sounds so simple and obvious doesn't it? Yet, ask some of your friends if their statements have even one of those three! **In fact if you can show me one bring it in, I'll buy you lunch.**

Speaking of statements, please keep us up to date with any changes in your address, phone numbers or email! The use of email has been a significant help in reducing the time needed for many of the routine service items. If you have changed your email, or are not sure if we even have your email address, please send us an email to admin@csenge.com so we can update your record.

The more we can do with email the less paper we all need to deal with – a small way we can help the ecology. Also we can all save some money. Effective May 11th the price for stamps has gone up *again*, this time from 42 cents to 44 cents.

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