

# CSENGE

ADVISORY GROUP

ASSET MANAGEMENT FOR LIFE®



Ideas and information to help guide your **ASSET MANAGEMENT FOR LIFE®**

Q3 2009

## *In brief:*

Fear and greed are the emotions that rule the markets, and changes in stock prices often seem to reflect the swing between the two extremes. Only lately the swings seem to come with more violence than the Transformers movie. It is easy to be fearful when the economic data is dreadful and the markets are falling. It is when the economy and markets seem to be diverging that our anxiety starts to rise. It's not so much wondering what to do, it's that what's going on doesn't seem to make sense. Over the past few months many may very well feel themselves to be in just such a pickle.

Crazy markets can drive you to do dangerous things. Warren Buffett calls fear and greed "*super contagious diseases*". If you catch either one, you risk serious damage to your financial health. Mr. Buffett also was quoted, "*The future is never clear. You pay a very high price in the stock market for a cheery consensus. Uncertainty actually is the friend of the buyer of long term value.*" He said that in Forbes magazine back in August, 1979 – thirty years ago!

That is why we have our disciplined strategy and process - to keep you on a steady course – a way to help navigate through the fear and greed without being sucked into it.

So far 2009 has been a text book example of sticking to the basics;

**Basic #1** – Don't let emotions (fear and greed) drive investment decisions. In March, just when the gloom seemed at it's darkest, no hope was left and fear and panic were setting in, there in fact was the bottom.

**Basic #2** – Don't try to "time" the market. As history has shown, the stock markets typically anticipate economic recovery, and move higher sooner and faster than expected. We may have seen as much in the strong rally over the past few months.

What a difference a few weeks can make. Stick to the basics.

***"Quality is the presence of value and not the absence of mistakes"***

*Benjamin Franklin*

## **Federal Tax Issues:**

If you are feeling a little less flush in the wallet these days odds are you have lots of company. Perhaps this is a clear indicator of the decline in individual and corporate income. Tax receipts are on pace to drop 18% this year, the biggest single year decline since the 1930's. Individual income tax receipts fell 22% from a year ago and corporate tax receipts have dropped whopping 57%. As you may have notice, state governments are feeling the pinch too. Let's hope we've seen the beginning of the return to earnings growth and employment!

Source: FPA Capital Update - August, 2009

Source: Fidelity Market Analysis, July, 2009, HS Dent Newsletter, August, 2009

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## Celebration of the Common Worker

It has been known by many different names -Worker's Day, Labor Day, the last big weekend of the summer - and sadly, once Labor Day passes, we put the summer clothes away, drain the swimming pools and fountains, and start to batten down the hatches for winter.

“Labor Day differs in every essential way from the other holidays of the year in any country,” notes Samuel Gompers, founder and longtime president of the American Federation of Labor. “All other holidays are [to some degree] connected with conflicts and battles of man’s prowess over man, of strife and discord for greed and power, of glories achieved by one nation over another. Labor Day . . . is devoted to no man, living or dead, to no sect, race, or nation.”

The holiday is a creation of the labor movement and is dedicated to the social and economic achievements of American workers. It constitutes a yearly national tribute to the contributions workers have made to the strength, prosperity and well-being of the country.

The first Labor Day was celebrated on Tuesday, September 5, 1882, in New York City, in accordance with the plans of the Central Labor Union. In 1884, the first Monday in September was selected to be the annual holiday, and the idea spread with the growth of labor organizations. In 1885, Labor Day was celebrated in many industrial centers of the country.

Originally, Labor Day was to be celebrated with a street parade to exhibit to the public “the strength and esprit de corps of the trade and labor organizations” of the community, followed by a festival for the recreation and amusement of the workers and their families. In recent years, there has been more a shift in emphasis and medium of expression. Addresses by leading union officials, industrialists, educators, clerics and government officials are given wide coverage in the media.

The vital force of American labor has added materially to the highest standard of living and the greatest production the world has ever known and has brought us closer to the realization of our traditional ideals of economic and political democracy. It is appropriate, therefore, that the nation pay tribute to the creators of so much of the nation’s strength, freedom, and leadership—the American workers.

As you and your family gather for this celebration, may you find comfort and joy in knowing that America still has the strongest, most stable economy in the world, all thanks to those who work for the common good every day.



### ***Retirement Talk:***

***Traditional 401(k) or Roth 401(k) does your plan offer both?***

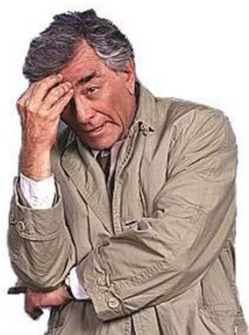
Starting in 2006 401k plans were allowed to offer a “Roth-k” option. The difference with the Roth-k being that the contributions are after tax (not before tax as with the traditional 401k) but the future withdrawals, both contribution money plus any growth will all be tax free (not taxable income as from the traditional 401k). **For many younger workers the tax free strategy may be a more beneficial route to take.** Also, for higher income people, who cannot qualify for Roth IRA contributions, the Roth-k may be the only way to take advantage of the tax free option.

If your plan doesn’t have the Roth-k option, **let us know who the plan administrator is within your company and we’ll be happy to show them how easy it is to add.**

## **IRA Update: Roth Conversions – to do or not to do?**

Lately we are seeing more in the media and local market about Roth conversions. This is “converting” or making a taxable distribution from your regular IRA and putting the funds into a Roth IRA. In essence paying the tax today, to gain tax deferred growth and tax free withdrawals in the future from the Roth.

The reason for so much attention is tax law changes coming in 2010 from The *Tax Increase Prevention and Reconciliation Act* enacted in 2006. Starting in 2010 the \$100,000 adjusted gross income ceiling that prevented many from Roth conversions is removed. It also provides for a 2010 conversion, that no conversion income needs to be reported in 2010. The amount converted in 2010 can be included on your 2011 and 2012 tax returns. In all other years, income must be included on the current year’s return. Needless to say this has some running around with conversion mania, should they convert now at known 2009 tax rates or wait to 2010? If you wait till 2010, should you pay all the tax at once or spread the taxable income over 2011 and 2012, risking the potential that tax rates may be higher in those years?



**The real question is should you even convert at all?** It’s not hard these days to imagine that future tax rates might be higher and the concept of tax free sounds wonderful. However, calculating whether a Roth conversion will in fact provide a tax benefit for most people can be very complicated. Factors include items such as your age, are you going to need income from the IRA and if so when? Where will the money come from to pay the tax on the extra taxable income? Who are your beneficiaries and what are their estimated tax brackets? Just to name a few. The point is **it’s complicated and if you are close to, or already retired, then any benefit is much more uncertain.**

As part of our planning services we regularly look at our clients financial plan and if a Roth conversion may make sense, or not.

*Source: Ed Slott IRA Newsletter, July, 2009*

### **Technical Corner:**

We have seen quite a few new client referrals over the past months with a common issue. They thought they were diversified - they had managed accounts - but still suffered large losses. **Why? No one “managed” the managed account.**

The problem most people run into with diversification is they implement it wrong. They start out right - with a mix of so much in stocks, so much in bonds and cash. Then they spread the investments into various asset classes, Large companies, Small companies, International companies, Corporate bond, Government bonds, etc.. Then they just leave it that way. I refer to it as the **“set-and-forget” problem.**

The problem with this is it presumes a world without change. I don’t know about you, but I see the economy and the market change all the time.

**As the economic and market conditions change, to manage your risk - your mix of assets needs to change also.** It must reflect the current conditions - not the old ones that you started with however many months or years ago.

That is why you see the activity in our CAG managed accounts. We regularly adjust based on the ever changing conditions to keep focused on the stronger asset classes while taking the least risk possible.

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

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

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Sectors exhibiting Relative Strength:

**Technology**  
**Financials**  
**Basic Materials**  
**Commodities**  
**Consumer Cyclical**  
**Emerging Markets**

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 investing based on strategies or models does not assure a profit or guarantee against a loss. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. \* If converting a Traditional IRA to a Roth IRA, you will owe ordinary income taxes on any previously deducted Traditional IRA contributions and on all earnings.

## ***In the news:***

**Thanks for all your help!** We'd like to thank all of you for the record number of friends and relatives you have referred to us this year. Your help in pointing "business our way" allows us to spend time doing more for you, such as continuing to enhance the quality of the many planning services and most importantly, the asset management. We greatly appreciate your help and hope you will continue – for all our benefit. As part of our way of saying thanks; **have you heard about our new service?**

**Educational Events!** With the explosion of information in the media and on the internet, sometimes too much of a good thing can be just that - too much. Also, how do you discern between what is relevant and what is just "hype" and headlines for headlines sake? We thought it might be helpful if from time to time we hosted a dinner and spent a few minutes with subject experts or passing on information from our economists and analysts. It might be even better if we can find fun and interesting locations too. Look for our next event in September.

When: **Thursday, September 24<sup>th</sup>**

What time: 6:30pm (dinner served)

Where: **The Armed Forces Museum, Largo**

What to bring: A friend, relative or neighbor

Please RSVP with Korili as space will be limited. Also, save the date – this January we will hold our annual appreciation event – more details to come.

**Congratulations to Eric – again!** In June, Eric passed Level 2 (of 3) of the **Certified Financial Analyst (CFA)** program. The CFA is a three-year, graduate-level program for investment professionals and is considered throughout the world as the gold standard among investment analysis designations. It is a huge accomplishment as only a bit over 1/3<sup>rd</sup> of applicants are able to pass the rigorous testing. Congratulations Eric (only 1 more to go)!

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