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Glenn Woody
Certified Financial Planner

Where From Here?

So, the stock market bottomed on March 9, and the major indices are up 50% or so from that low. The economy has clearly turned a corner and numerous economic indicators are showing positive, rather than negative signs.

The recession has not been officially declared over yet, but the consensus is that, when the recovery is pronounced, it will be shown to have turned in June or July.

The official pronouncements of recessions beginnings and endings don't come until months after the fact. Some feel by the time the end of the recent recession is officially announced, we may already be starting a new one.

So, as investors, we have to be asking, "Where do we go from here?"

As always, the advice is mixed. One can find an expert to support what ever position one wants to take.

Economists like to describe the recovery in graphic/alphabetic terms. They use descriptors such as a V shaped recovery, or an L shape, or a U shape, or a saucer shape, or, horrors, a W shape (a double dip).

We heard a new one recently: a square root shape, $\sqrt{\quad}$. We have had the V, now the flat line?

Two of our most respected economists have diametrically opposing predictions. To summarize:

Six Forces for Economic Growth:

1. Massive and unprecedented economic policy stimulus.
2. Rebuilding of corporate inventories.
3. Steady rise in economic confidence.
4. Housing and autos will likely add to Q3 GDP.
5. Domestic net exports now boosting GDP growth
6. Mortgage rates and energy prices have stalled.

Five Reasons for Caution:

1. Consumer sentiment remains low.
2. Toxic assets remain on the books of banks.
3. Bank lending is still anemic.
4. Unemployment at or near 10% and rising.
5. Fiscal deficits are boosting debt concerns.

I often understand where President Truman was coming from when he wished for "a one-armed economist. ("On the other hand.....")

More Identity Theft

Our treatment of the subject of identity theft in last month's issue brought some additional things to worry about.

Someone passed along the caution that, when you have presented a credit card that is taken away from your visibility, such as in a restaurant, you should examine it carefully when it is returned to make sure it is yours.

What some of the scam artists do is accumulate cards they have stolen, keeping them even after they have been deactivated. Then, when they take your card away, they go through their inventory of cards, finding one that looks just like yours to return to you, keeping yours. Most put it away without checking it carefully.

Better yet, our advice last month was to pay for meals in a restaurant with cash and just don't give them your card.

Another scam occurs even when the card is not taken away from your sight, such as your paying for a purchase at a counter. With the card laying on the counter, while you are looking at the charge slip and signing it, the clerk takes a photo of your card with his/her cell phone camera, capturing the number, name, etc.

GLENN WOODY FINANCIAL CONSULTANTS INC.

COSTA MESA

151 Kalmus Drive, Suite C-150
Costa Mesa, CA 92626
714.850.0534 (Phone) 714.850.0934 (FAX)

LA QUINTA

55-365 Riviera
La Quinta, CA 92253
760.771.3734 (Phone) 760.771.8434 (FAX)

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gwfc@planretire.com  
www.planretire.com

## NO 2009 RMD

Those near or over the age 70.5 who have IRA or other retirement accounts know about RMD's. "RMD" is our short-hand for Required Minimum Distribution.

Most retirement plans that enjoy tax-deferred growth fall under a rule that forces an annual minimum taxable distribution at and after that age. The Roth IRA is an exception in that there is no forced withdrawal after 70.5 .

Due to the economic and investment malaise in the last year, Congress passed a law which waives that required distribution for the calendar year 2009 only. We simply don't have to take any distribution at all in 2009.

One may always take a voluntary distribution of any amount. It will be taxable as ordinary income in the year taken. If one is below the age 59.5, there will be a tax penalty in addition to the ordinary income tax.

This waiver seems to be a bit confusing for those who turn 70.5 during 2009 and thus would have otherwise been dealing with the RMD for the first time. If you have questions of any sort about this issue, call us for a chat.

## Roth Conversion Ceiling Removed

Ever since the birth of the Roth IRA in 1998, there has been available the option of converting funds in a traditional IRA to a Roth. However, that option was available only to those whose adjusted gross income for federal tax purposes was less than \$100,000. The number applied to both single and married tax-payers alike.

Beginning in 2010, that income ceiling will be removed and one may make a Roth conversion regardless of the amount of their adjusted gross income.

These two rule changes make for some interesting tax strategy planning.

# Market Highlights

## October 2009

### Positive:

- Sales of new one-family houses in August 2009 were 0.7% above those of July and 3.4% below the August 2008 level.
- U. S. retail and food services sales for August were up 3.0% from July 2009, but 6.0% below August 2008.
- Economic activity in the manufacturing sector expanded in August, following 18 consecutive months of contraction, and the overall economic activity grew for the fourth consecutive month.
- E-commerce sales for the second quarter of 2009 were up 2.2% over the first quarter.
- Privately-owned housing starts in August were 1.5% above July 2009, but is 29.6% below the August 2008 rate.
- The Index of Consumer Sentiment was 73.5 in September 2009, up from 65.7 in August, reversing the entire decline since last September and rising to the highest level since the start of 2008.
- Nonfarm business sector labor productivity increased at a 6.6% annual rate during the second quarter of 2009, the largest productivity increase since the third quarter of 2003.

### Mixed/Cautious:

- Existing home sales declined 2.7% in August but remain 3.4% above the August 2008 level.
- Non-farm payroll employment continued to decline in August, by 216,000, and the unemployment rate rose to 9.7%.
- The Leading Economic Index for the U. S. increased 0.6% in August, following a 0.9% gain in July, and a 0.8% rise in June. The Coincident Economic Index was unchanged in August. The Lagging Economic Index declined 0.1% in August.
- The Consumer Price Index rose 0.4% in August. It has declined 1.5% over the last twelve months. The Producer Price Index advanced 1.7% in August, following a 0.9% decline in July, and a 1.8% advance in June.
- Real gross domestic product decreased at an annual rate of 0.7% in Q2 2009. While the rate is still negative, it was a smaller negative number than expected.

### Informational:

- During September, small-cap, growth and domestic had better gains than large-cap, value and international, respectively.

## FYI: Short-Term Observations

*These comments are offered for your information and thought. They are short-term and tactical in nature. We invest for the long-term, three to five years plus. Don't confuse these short-term observations with what may be the best decisions for the long-run. Some even believe it is confusing, at best, and distracting, at worst, to involve short-term issues in long-term investing.*

### Improving Economy

**A**bsolutely no one in the world was surprised when the Federal Reserve left interest rates unchanged at their Sept. 22-23 meeting. There was a great deal of interest in the wording of the statement that accompanied the rate announcement.

They threw their hat into the ring of those who are observing favorable economic signs and believing that the recession is over and the economy is recovering.

Australia was the first of the major economies to raise interest rates when they did so in the first week of October. That produced a healthy two-day rally in the world's markets. It was taken as a sign that economies really are improving.

It continues to be expected, however, that our Fed will be slow to do any rate raising. Even though our economy seems to be turning a corner and showing improvements, there are still areas of concern (see our comments on page 1.)

We have been saying for some time that our market simply cannot continue advancing at the same pace as we have seen since March 9. There has to be a pause, or even a pull-back in here somewhere.

The most pause we have seen has been hardly more than a few days at a time, producing occasionally a negative week. Other than that, it has been nearly straight up.

We continue to dollar-cost-average our way along, making monthly moves from our somewhat conservative/defensive position of a few months ago into a more normal allocation. That appears to be too slow, but it won't look that way if we have a sizable pull-back.

### Market Gains Continue

**T**he standard stock market indices continue to produce positive numbers, as the report below displays. The disparity between the Year-to-Date positive numbers and the negative Last 12 Months numbers (which, by the way, include the Year-to-Date gains) shows dramatically the extent of the severe drop in Q4 2008.

Here are the results:

#### Dow Jones 30 Industrials

|                |           |
|----------------|-----------|
| September      | + 2.27 %  |
| Last 3 months  | + 14.98 % |
| Year to Date   | + 10.66 % |
| Last 12 Months | -15.86 %  |

#### Standard & Poor's 500 Index

|                |           |
|----------------|-----------|
| September      | + 3.52 %  |
| Last 3 months  | + 15.02 % |
| Year to Date   | + 17.05 % |
| Last 12 Months | -17.60 %  |

#### NASDAQ Composite

|                |           |
|----------------|-----------|
| September      | + 5.62 %  |
| Last 3 months  | + 15.64 % |
| Year to Date   | + 36.81 % |
| Last 12 Months | -10.39 %  |

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