

Inside this issue:

- Perspective on the Year (cont) **2**
- Long-Term Care Insurance **3**
- IRA Legislation **3**

Perspective on the Year

2008 was one for the record books. I'm glad it's over because now I can focus on the better days that are sure to come.

There seems to be a torrent of negative information pouring over Main Street right now. The recession is becoming real out there, friends, neighbors and family members are losing jobs, houses in the neighborhood and condos in the complex are vacant—some have been foreclosed upon. Greed has been vanquished by fear and certainty by confusion on Main Street just as it has been on Wall Street. I hear it and feel it everyday.

That being said, I feel the need to share some thoughts with you—to cut through the clutter if I can and attempt to shine a somewhat more dispassionate light on our situation. I do many tasks during the course of every day, many of which are obvious—speaking with our clients, trading, portfolio reviews, reallocations, and the like. One of the most difficult and time consuming tasks I perform almost constantly is also the least obvious—taking in and sifting through information. Finding the information is easy. In fact, I'm bombarded by it daily. *The hard part is separating the wheat from the chaff, understanding what is music and what is just static.* Since (as my partner reminded me today) I ultimately get paid for insight and perspective, let me share some of my current thoughts with you.

- ◆ **I think we are around half way through a difficult corrective recession, not a depression.** Short recessions last around 6-8 months and long recessions last around 24 months. This one started almost 14 months ago in December 2007 and I think that because we are simultaneously deflating a real estate bubble this will be of the longer and deeper variety. My Grandmother told me about the depression and I've studied it from a social and economic viewpoint and we're no where near a depression.

- ◆ **Politicians will use a recession to gain their ends;** they always have, they did last fall, and they are now. Take it all with a grain of salt and don't let it cloud your positive instincts.

- ◆ I am constantly reminded lately of the Warren Buffett quote, **"you don't know who's swimming"**



Continued on page 2

Special points of interest:

- Markets closed—Martin Luther King Day (1/19), Presidents' Day (2/16).
- Tax time! We will be sending out your 2008 Realized Gain/Loss Reports this month to help you prepare.
- There is still time to fund your 2008 IRA. Deadline is April 15!

Fourth Quarter 2008 Market Wrap

<u>Market Indexes</u>	<u>% Change in Q4</u>
S&P 500	-22.6%
DJIA	-19.1%
NASDAQ Comp	-24.6%
MSCI EAFE	-20.3%
Russell 2000	-26.5%

<u>Mutual Fund Yardsticks</u>	<u>% Change in Q4</u>
Equity Income	-19.5%
Large Cap Growth	-23.3%
Balanced	-14.4%
Gen US Taxable	-0.9%
Intermediate Bond	-0.3%

Perspective on the Year (cont.)

naked until the tide goes out.” Our economy has been like an athlete on steroids for the last 10-15 years. We’ve achieved some great things, broken some records, and felt good about it. Part of it was us, but part of it was “the juice”. When interest rates rose and energy prices spiked, the juice was taken away from us. Now we’re in withdrawal and it hurts, but we’ll be feeling better soon and best of all we will be healthier without the juice.

When things are going great a strong economy can cover up a lot of sins—like imprudent banking practices, mortgages for homes that are really above the means of the borrower, Ponzi schemes, overly leveraged poorly managed hedge funds, over leveraged and morally bankrupt brokerages, etc. When the economy stumbles and the tide goes out we find that they weren’t any smarter

than us—they were in fact naked.

I don’t believe that capitalism is broken, in fact, the corrections we are experiencing right now just proves to me that it is a system that is indeed imperfect yet one that will correct its excesses and heal itself.

- ◆ I told you last July that oil and commodities were priced in a bubble and that demand destruction would burst that bubble (Market Talk July 7, 2008). I currently believe that **oil pricing may remain surprisingly weak for a long time.** Lower pricing relieves the “energy tax” that the world was saddled with in 2008 and I believe was a major trigger that caused the worldwide recession we find ourselves in today. Lower energy prices are a good thing and a positive stimulus to the world economy.

- ◆ **There haven’t been multiple bubbles, there has only been one over-inflated monetary policy.** The multiple manifestations of this have rolled through the various markets since the late 1990’s—tech stocks, real estate, commodities, and the latest to burst, oil. The over-inflation is still out there and I’ll say it simply right now—U.S. Treasuries, particularly short-term bills and notes, are the current bubble. Look for them to fall in value and interest rates to rise.

Unfortunately, all of the various Federal government and Treasury “stimulus” plans and bailouts will only continue to keep overall pressure in the system. So long as the system is over pressurized, new smaller bubbles will continue to emerge. Count on it!

- ◆ **I don’t think capitalism has failed us; I think we**

have failed it. We are going through a correction phase to bring things back into balance. The last and perhaps most important thought to pass on to you is this: **the economy will look pretty grim to you on Main Street for the next quarter or two, but don’t necessarily couple that to the stock market.** The stock market has already discounted itself by 40-50% over the past year and a quarter and is already assuming the disheartening news you will be seeing. The markets are beginning to look ahead right now and are gauging whether they are priced properly or maybe even have overshot things on the downside. As the economic story plays out the market will be assessing whether the economy will be better or worse 6-12 months out. I think better.



MARKET TALK

Sokolowski Investment Advisors
77 Falls Rd., Suite #1
Shelburne, VT 05482

Phone: 802-985-8400
Mobile: 802-233-1365
Fax: 802-985-8433
Email: rws@siwealthadvisors.com
pns@siwealthadvisors.com



Wealth Management & Financial Planning

Help the environment!
Please recycle this by
sending to a friend who
could benefit from our
services!

Coming to the web in 2009!
At
www.siwealthadvisors.com



Pat Sokolowski, CFP®

Long-Term Care Insurance

Think you don't need long-term care insurance? Think again. In Vermont, the average cost for a health care facility is \$233/day and some parts of the country are much higher. Compound this by the typical length of stay—3.8 years— and the bill could be over \$323,000 per person, before inflation. And don't count on Medicare to pay for it. Medicare is designed to cover short-term skilled nursing care following a hospitalization and is very limited in scope.

Perhaps you have considered it, but just haven't gotten around to buying it yet. The delay could cost you in more ways than one. First, the premium increases with age. If you are presently age 52 and wait just one year, you will pay 7-8% more annually. If you wait **5 years**, you will pay **45% more**. Secondly, although you may be insurable now, you may not be so lucky in the future.

You may be able to elect long-term care through your employer. If not, be sure to select a *reputable* insurance company who will be there when you need them. There are many new and flexible options for coverage. Ask about coverage for at home care— 70% of

people who require care actually stay at home the entire time. Also inquire about their policy on pre-existing conditions. Many insurance companies will cover individuals with serious conditions (such as cancer) after a period of exclusion like six months. Know what you are buying and what the limits are. A typical policy will cover a certain daily amount (such as \$200/day) for a fixed period of time and offer provisions for inflation.

Need more help? Call us. We are happy to help you manage and assess your risk.



▶ ▶ ▶ *"The national average nursing home stay costs \$74,806 per year yet only 6-7% of people have long-term care insurance."*

IRA Legislation

In late December President Bush signed legislation that suspends the required minimum distribution in IRAs (including Inherited IRAs) and other retirement accounts for the year 2009. The intention is to give these accounts some time to rebound and recoup some of the market losses that were so prevalent in 2008. If you don't need the distribution, take advantage of this! This is a one year moratorium unless Congress extends it; mandatory distributions will resume in 2010. Although there was speculation that this might have been put in place for 2008, this proved not to be the case. For those who turned 70 1/2 in 2008 the deadline for the first withdrawal remains April 1, 2009.

For those of you contributing to your IRAs, the limit is unchanged for 2009—\$5,000 with a \$1000 catch-up for those who are age 50+. If you are considering converting your IRA to a Roth (and your adjusted gross income is \$100,000 or less), this might be a good year to do so. The decline in asset values and the relatively low tax rates means that you will probably owe less in taxes now than at any other time. Once you convert your account to a Roth and hold it for at least 5 years, future withdrawals are tax-free.