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Written by Philip C Benedict, CFP®
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the BENEDICT *REPORT*

6000 Lake Forrest Drive NW, Suite 550, Atlanta, GA 30328-5901 • 770 671 8228 • 770 671 0232 *fax* • 800 678 8227

I BET YOUR CLIENTS ARE PANICKING…!

As many of you know, I am not a fan of the television entertainment they call “news,” and I do not expose myself to it. Thus, I am probably far less impacted by the emotion of the current economic situation than many people think I should be. [I also think you will find that the other decision makers here at the office seldom pay much attention to the stuff that comes over the airways either. Remember the old line…if it is easy, it isn’t worth much…or something like that. In fact, if it is too easy, it may be harmful. I consider making the typical business and investment cycles into an ongoing soap opera silly and potentially harmful.]

Instead of staring at the television set, maybe we should spend more time looking out the window and watching nature and the changing of seasons. Almost everyone loves the approaching of spring, the newness, the liveliness, the creation of life. And, summer always follows spring. Some summer days are perfect and some are hot and miserable. Autumn comes next as we witness nature preparing for the winter that will follow. And, winter ALWAYS follows.

The seasons have been coming and going like clockwork for thousands of years. Some are harsher, some are cooler, some are more humid, but the seasons come. And yet, there are probably some animals in God’s kingdom that didn’t catch on to this season’s thing and didn’t put away their acorns for the winter. “What?” the stupid animal may say, “no one told me about this winter stuff, I will starve.” You see, the stupid animals don’t have a government to bail them out; they have to pay the consequences.

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Our economy has cycles, the world economy has cycles and the investment markets have cycles. It is never spring all year round. If you expect spring all year, you will be greatly disappointed. If you expect the investment markets to always avoid the harsh winter season, you will be greatly disappointed. A lot of headline news has happened over the last few months that make this “winter season” sound far more severe than anything we have ever experienced before. Only time will tell whether that is true or not, but I think those who have enough *acorns* will endure until spring.

Successful investing is more about expectations than anything else. We expect to have “winters” and have learned to enjoy them, BECAUSE we know spring is just down the road. [We also like to think that some of the *stupid financial animals* that created some of this winter’s events would be allowed to die off before spring, but that is too much to expect.]

WHY DO WE HAVE CYCLES?

Probably, the real question being asked is why do we have down cycles? Why can’t the investment markets go up continually? Why can’t our economy just keep growing continually?

If you understand the *system*, you probably find these questions rather silly. However, to many people they are serious questions. And, I’m not sure I have short, cute answers to the questions other than to say…because there are *people* involved.

The other part of the answer is that, generally, the investment markets and the economy have been going up for years and years. That is unless you start paying too much attention to relatively short periods of time. Let me explain.

Let’s say you are sixty; you probably have an investment account that you hope will provide you an income for the remainder of your life.

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Inside:

- I Bet your Clients are Panicking…
- Why do we have Cycles?
- One Lottery Ticket and a Lifetime of Ruin

BFA Posts - www.benedictfinancial.com

- How Does 3.6% Sound?
- “Bears” can do Good things…
- What are we Teaching?
- What’s the Next ‘Hot” Thing?

That income may need to last a few years or it may need to last for decades. Your "time horizon" is years and decades - not days and weeks. But, if you let your "psychological horizon" be a few weeks, you might make decisions that could do harm to your longer "time horizon" needs.

STORY

A fifty-five year old couple redeems a mutual fund account that they have held since1986 to move it into the safety of a certificate of deposit. "Things are just so scary now."

Think about it. They held this mutual fund since before the fall of the Berlin Wall. They held it during the Savings and Loan crisis of the late 1980's. They held it during Desert Storm in the early 1990's, the Asian currency crisis and the Russian debt crisis. They even held it during the time that Y2K was going to disable the world economies. The big jolt to our lives on September 11, 2001 did not deter them from holding their shares of this plain vanilla mutual fund. They even remained share-holders during the shenanigans of the Enron boys and the MCI guys and even during Martha's problem.

So, here we are in 2008, a time when it is likely that world economic growth will slow down for a few months or maybe even be a little bit less than last year's growth, a time when the stock market shot up last fall only to fall back and a time when houses look like they may finally become more affordable. A time when Americans have been forced to realize that debt is not limitless and fiscal sobriety is the order of tomorrow.

In other words, they are fleeing the stock market after a significant drop to move into low interest savings just when the Federal Reserve is acting to lower interest rates to almost zero. If their television "advisors" were not "entertainers" and "emotion grabbers," they may be telling them this is the time to GO INTO THE STOCK MARKET...just look at the cycle.

The time to be worried and panicked in the investment marketplace is when everything looks perfect, when the bubbly is overflowing the glass and euphoria rules the airways. When people, businesses and countries are pulling-in-their-horns and are concerned about the future - THAT is the time to become confident!

Spring ALWAYS follows winter!

ONE LOTTERY TICKET AND... A LIFE OF RUIN!

It is a story made for the media. Couple living in a mobile home in rural Georgia wins the big lottery worth over two hundred million dollars. Soon, the entire family will be on national news; soon the father will be taped calling his employer and telling him what to do with that job, etc.

What if that happened to you?

At first you may think about not working...a life with no financial worries...the financial ability to help others that need assistance. Now, those are nice thoughts.

What do you think it would do to your children? You are going to be strong and not let it influence them...right! Most likely they will quit their jobs as fast as you did yours. What about the grandchildren? They no longer see their parents or grandparents working and being part of society. They learn the destination of life is the "lottery ticket." They will not be allowed to experience the magnificent journey we call LIFE.

So, if you see the CNN truck pull up in front of your house, be prepared - because it is likely your life will be ruined...over money!

SUMMARY

The financial markets get less risky after they have declined. Our system of free markets and capitalism is not pretty, but it works amazing well. Learn to understand the system and reap the rewards.

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www.benedictfinancial.com

We have had a web presence for several years, but we now feel we have finally progressed into the twenty-first century with our new site. We feel the new web-site quite accurately shows who and what we are. Take a look and see what you think. We even welcome any good ideas you may have because we now have the ability to make changes on the site fairly easily.

One section of the new website is entitled **BFA POSTS**. We hope this grows into the heart and soul of our website. We plan to "post" articles and comments here on a regular basis. (By "regular" we do NOT mean daily market comments. Life is too short for that sort of dribble, but we do hope you will find some of our insight into current events and happenings.)

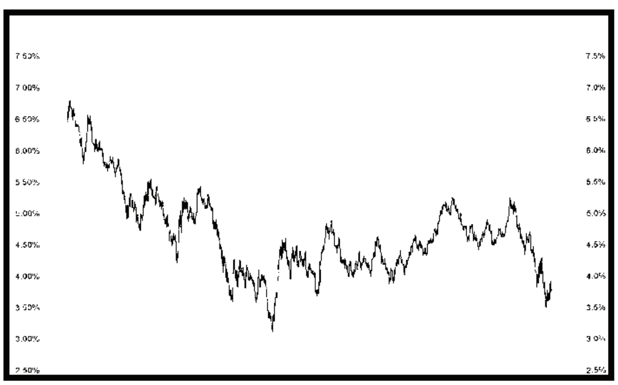
The following articles were written for BFA POSTS and the date they were "posted" on the website is listed at the top of each article.

Posted Monday, January 28, 2008

HOW DOES 3.6% SOUND?

Let's say you have some serious money. Let's also say you are a little concerned about the stock market right now? Let's also say you have no interest in real estate investing right now? While we are at it, let's also say that you are fed up with everything that comes out of Wall Street. You don't want to even talk to any real estate agent, even hearing the word "mortgage" makes you cringe and there isn't a single Presidential candidate that you think is capable of doing anything positive.

When reading this you may feel this person is a little extreme, but my guess is that this person is pretty much our Average Joe with money. Where does this Money Joe put his money in this scenario? Look at the chart below of the yield on the Ten Year Treasury Note. The rather dramatic decline in the interest rate on this note tells us that a lot of Money Joes, along with Money Juans and Money Wongs and the rest of the world are satisfied with earning 3.6% for the next ten years.



Would you invest in a ten-year certificate of deposit at 3.6% right now?

What do you think inflation will be over the next ten years? Three percent, some of you say. Then, assuming that Money Joe pays no income taxes, it appears his "real" return, the return on his money after taking inflation into account, will be about 0.6% per year. If inflation runs a little higher than expected or if Money Joe has to share his profits with the government, then the "real" rate of return is even less, maybe even negative.

What does this tell us about Money Joe's expectations? I believe it tells us that Money Joe is very fearful for the future and has very low expectations. Money Joe has no place else he would rather have his money at this time.

You may feel that is a sad commentary on our economic situation. I see it differently. When the big money gets very defensive, it just may be telling us we are near the end of a cycle. You see, it is when money is happily chasing the new stocks, the new real estate deals, etc. that we should be concerned because that is usually near the top of a cycle. When money becomes very fearful, it is probably near the bottom of a cycle.

I'm quite certain it will take a few more months, maybe several months, but the stock market cycle just could be approaching the lowest point we will ever see it again. I'm not telling you this to encourage you to rush out and invest in more stocks; I'm just sharing an observation. My advice is to "stick with your plan," and if you don't have a plan, then get one. Investing without a plan is like the dog chasing his tail…even when he catches it, there is no gratification. Get an investment plan that is part of your financial plan. **Take charge and live in peace.**

Posted January 25, 2008

"BEARS" CAN DO GOOD THINGS...

Jimmy called. "I'm planning to retire in less than two years and this "bear" market hits. I wonder if I will be able to retire now."

Let's look at Jimmy's account in a more rational manner. At the beginning of November, his account was producing a monthly income of about $4,100. The day after the *day fear stuck*, January 22, his account was producing a monthly income of about $4,100.

If Jimmy was dependent on a stock market index to provide his retirement withdrawals, he had big reason to be concerned. [This is why we seldom use index funds for retirement income investing.] However, in Jimmy's case, our plan is to provide all or at least the vast majority of his retirement income distributions from the income the account earns. And, the income doesn't fluctuate with the account value.

If fact, the market decline may allow us to increase the income in his account a little faster than we could have without the market drop. Let's use a couple of examples to see how that works:

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- A large North Carolina based electric company pays an annual dividend of $0.88 per share. On January 8th the stock traded at $20.58, making the annual *yield* 4.2%. On January 24th the same stock traded at $18.28, making the annual *yield* 4.8%. The dividend stayed the same, but the lower market price provided a higher return for new buyers. [Divide the annual income of $0.88 by the January 28th share price of $20.58 and you get a *yield* of 4.2%. Divide the same income by the lower share price of January 24th and the *yield* is 4.8%. In other words, paying a lower price for the same income gives the new owner a higher *yield*.]

- A propane gas distributor pays an annual dividend of $2.44. On January 14th the stock traded for $36.90, making the annual *yield* 6.6%. On January 22nd the stock dropped to a low of $20.30 per share, making the annual *yield* 9.8%.

- A real estate holding company pays an annual dividend of $1.68. On December 26th the stock traded for $29.95, making the annual *yield* 5.7%. By January 22nd the share price had dropped to $20.30, making the annual yield 8.3%

We don't know if the stock market is going to go higher or lower over the next few months, but we do know that we are going to try and take advantage of some of the higher yields this *bear* market has given us. [In financial jargon a *bear* market is a declining market.]

Posted February 4, 2008

WHAT ARE WE TEACHING?

The week of January 22nd was a rotten week for the stock market. During that week, I spoke with a twenty-six year old lady who was very concerned about our future, learned of an eighteen year old girl who stayed at home from school to watch the economic disaster on television and talked to a twenty-three year old college student who was demanding that the government keep this horrible experience from happening.

What are we teaching young people these days? The government cannot stop tornadoes, hurricanes, snow avalanches and neither can it keep the financial markets from incurring bursts of fear. The government can't keep the cost of gasoline at some ridiculously low price or make the cost of milk and bread zero.

Let's put our brain in gear and forget the emotion of the tube for a few minutes. Let's look at the stock market over the last six months… the extremely LONG period of one-half of one year. Maybe that is a long time to a television talking-head and, maybe, to an eighteen year old, but to most people saving for retirement, six months is about as long as a wink. Anyway, six months it is.

At the end of July, the Dow Jones Industrial Average was at 13,212, and at the end of January it was 12,650. That decline is *hundreds of points* or, more calmly, a decline of a little over four percent. Now, we would all rather see the stock market index higher every six months, but that's never happened in our history, thus, I don't think it is in the cards for the future.

I'll even accept the argument that the stock market is very likely to decline even further. That certainly wouldn't surprise me or a lot of others.

But, a decline of four percent is not exactly the end of the world…it's actually just a very normal part of investing life, get used to it.

What does it mean to me?

When we are putting together an investment strategy, we realize we cannot control what the market will do, but we can control, at least to a degree, how sensitive a strategy is to the market. This *sensitivity* figure is very important to us and it gives us an indication of how volatile an account will be. **Here's an example you can use for yourself:**

Let's use the last three months. The stock market was close to its high on November 1st. From that date through January 31st,, in round figures, these stock market indices declined this much:

Dow[1]	- 7%
Standard & Poor's 500 Index[1]	- 9%
Nasdaq [1]	-14%

To get a feeling for how sensitive your account is to one of these indices, calculate your percentage decline since November 1st. (Use your October 31st balance and subtract your January 31st balance. Then, divide this change by the October 31st figure.) For example, we recently looked at an account that declined 3% during this period. This would tell us that this account is less than fifty percent *sensitive* to the volatility of the overall market…at least during this this cycle.

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You may think that a very low *sensitivity* to the market is good…it is - during a down market, but it also limits the growth of an account during good market cycles. There is no right or wrong on how sensitive an account should be to the market as a whole as it is just one piece of creating an investment strategy.

[1] The Dow Jones Industrial Average, Standard & Poor's 500 Index and the Nasdaq are unmanaged indices that cannot be invested into directly.

"OUT OF DEBT,
OUT OF DANGER"

Mark Zinder, February 28, 2008

Posted February 8, 2008

WHAT'S THE NEXT "HOT" THING?

I don't think he is a big-time investor or anything like that, but I found his question intriguing. "Phil, now that real estate is no longer a good investment and the stock market has bombed, what will be the next thing that skyrockets and then crashes?"

My immediate thought was the Chinese stock market or the Euro/US Dollar exchange rate, but those things are unlikely to capture the spirit of adventure and lust for riches like the Internet stocks of 1999 or coastal condos in 2005. Actually, right now as I write this, if you are able to see fields where corn will be growing in a few weeks, you may be in the *next hot thing.* By that I mean it is already *hot;* whether it will skyrocket further and then crash, I have no idea. But, farmland is taking on some of the aspects of a *financial "bubble."*

In many areas, bidders for available farmland are not farmers at all, but "investors." And, some of the land is being purchased by "overseas" owners who, because of the currency exchange rates, are finding they can buy farmland at truly bargain prices.

In October, *LandOwner* magazine reported that more than 1000 acres of DeWitt County, Illinois farmland was rented, at auction, for $341 per acre. This is almost twice what most farm operators in the area are currently paying to rent land. Landlords, of course, were very pleased with the news. The same magazine reported in December that 160 acres in Pike County, Illinois were sold for $7,400 an acre, again almost twice the previous prices.

Now land prices may become the "bubble" of the day in the Corn Belt that extends from Ontario to Iowa, but I don't think Suburban Joe in Atlanta, Dallas or Boston is going to get overly excited and push the frenzy to truly exorbitant levels. However, when the Wall Street brokers start "pitching" the farmland investment to the suburban affluent, things will get really "hot!"

What will be the next "hot" thing to capture our culture? I don't know, but it will be fun to see what it turns out to be.

STAY TUNED!

OUR OFFICE

Philip C Benedict, CFP®
Travis M James
Mark A Beaver
Christopher P Hall, CFP®
Ashley A Thompson
Jean B Wilson
Kristen D McElwaney

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The primary author of The Benedict Report is Philip C. Benedict, CFP®, an Investment Advisor Representative and Registered Principal with **LPLFinancial**, a registered investment advisory firm and member of FINRA/SIPC. Travis James, Mark Beaver, Chris Hall, CFP® and Ashley Thompson provide technical assistance. Jean Wilson handles the layout and editing of the newsletter and Kristen McElwaney assists with the mailing.

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BENEDICT
FINANCIAL ADVISORS, INC

6000 Lake Forrest Drive, Suite 550
Atlanta, GA 30328-5901
770.671.8228

PANICKING…!