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Written by: Philip C Benedict, CFP®
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OUR OFFICE:

Philip C Benedict, CFP®
Travis M James, CFP®
Mark A Beaver, CFP®
Ashley A Thompson
Jean B Wilson

the **BENEDICT** REPORT

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

IT HASN'T BEEN PRETTY!

Most of us can describe in reasonable detail the stresses we are currently feeling...the financial stresses, the emotional stresses and the stress of thinking about our future and the future of the country.

Sometimes we have to remind ourselves that investing is not a straight line. **ASSET VALUES:** All assets, whether stocks or real estate or gold or oil or farm land or whatever, go up and they go down! In fact, I don't believe there is any asset in the world that doesn't fluctuate in value, unless some artificial force promises that the asset won't go down in value. (Most people assume their bank accounts will not decline in value, but that is only because the government promises to make the investment whole even if it has to use other people's tax collections to honor that promise. And, you can "pay" an insurance company to guarantee that your account will not decline in value.) But, generally, we all need to accept that assets values will go up and down. It's life in the world of investing.

The volatile nature of asset values is a definite challenge when we are counting on those values to remain stable. Whoops, I just said IT. I said something that happens all the time, but should never happen. First, we acknowledged the fact that asset values do NOT remain stable, then why do we

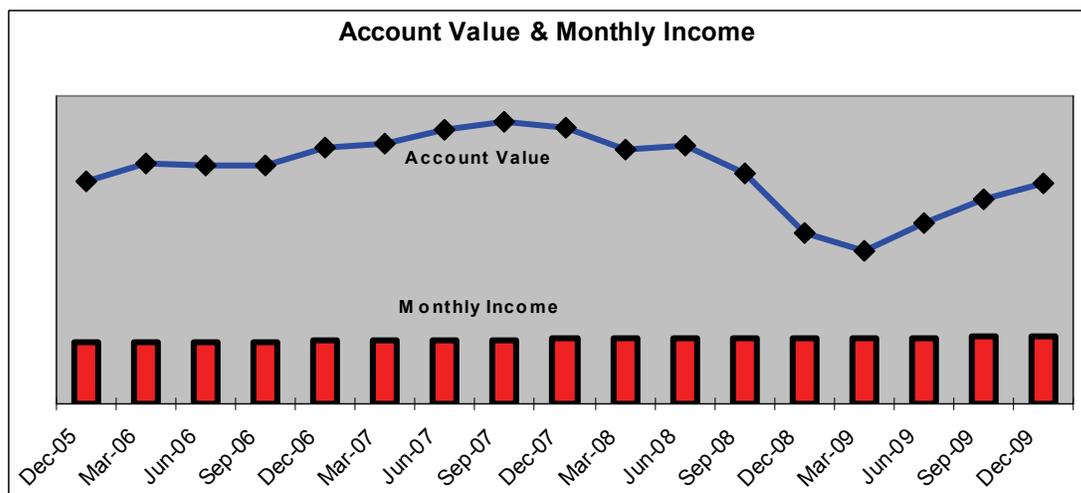
"count on those values to remain stable?" In a big way, we create much of our own stress...by counting on something that just isn't going to happen.

"But, I want it to happen," you may say. "But, it won't," I have to respond. Asset values have always been volatile and my guess is that they always will be. Investing is a messy game, a very messy game, because we just plain don't know what tomorrow will bring.

Less Messy...

For the most part, we have no control over asset values other than choosing to own the asset or not. But, in many cases, we do have reasonable control over the income that the asset produces. And, this is how we keep our sanity while managing retirement investment accounts.

Below are two hypothetical charts that are combined. The **LINE** represents the quarterly **account value** similar to the value one would see on their statements. The **COLUMN** represents the amount of monthly **income** the account might earn. If an account is managed for income, one should focus on the amount of income instead of the account value. Doing this may make one's life feel a little less messy.



It's the beginning of a new decade; maybe we should all sit back and reflect on the last ten years, the highs and the lows of the markets and of our life in general, and after we have done that, then accept the fact that it is part of the journey of life and enjoy the fact that we have been able to experience the journey.

And always keep in mind...Investing is Messy...Living is Messy; life is not a straight line so enjoy the mess around you!

When is it going to end?

I need a job.
My husband needs a job.
My children need jobs.
I need to sell my house.
I want to hear some good news.
When is it going to end?

Unfortunately, times of economic "boom" are usually followed by three to four years of economic "bust." The tremendous amount of debt that households, corporations and governments piled into, especially over the last ten years, provided massive fuel to the economic "boom," but as we sometimes forget until the "boom" ends, we must pay off debt with today's dollars for things we enjoyed yesterday and it is not pleasant.

The federal government has tried to ease our pain with all sorts of stimulus programs and while those actions plugged some economic leaks, they wave a flag to our employers, our citizens and the world that we are in economic trouble. Thus, corporations are firing, not hiring and banks are hoarding, not lending.

Our economy seems to be slowly healing, but it needs something to provide a big boost of confidence about our future.

What do you see for 2010?

Predictions are easy to make, but more difficult to get right. And, if you get one right, it doesn't mean you will get the next one right. Thus, we don't spend a lot of time trying to accurately predict the future, but we do try to follow trends and anticipate things that may occur in the future. We have found that anticipating something, especially something bad, makes it a little less bad when it actually happens.

The **BAD** things we are anticipating:

- ◆ The first one is easy...we expect a stock market pull-back. (Remember what we said about asset values.)
- ◆ This is an election year and it looks like it will be a very messy campaign season.

- ◆ Housing will remain down and probably will fall further, despite the billions we are feeding into Fannie Mae and Freddie Mac and tax credit programs.
- ◆ The fear of rising interest rates will scare the financial markets and make big headlines. This can be real big and we will address it more in the future.

The **GOOD** things we are anticipating:

- ◆ As the years goes on, we expect the economy to be stronger than most of the predictions. Businesses are lean and fit and ready to grow.
- ◆ Our political leaders will hear from their constituents that we want them to slow down a bit and get our economic house in order before they try to change the world.
- ◆ We expect the dollar to strengthen significantly which may, or may not, help the economy and the financial markets, but we feel it will help the attitude of the public.

It is when the seas are roughest that you focus on the captain of the ship!

And, it is when the economic alligators are hungriest that you focus on the Chief Executive Officer of a company. The present and future look unsettled, even scary, thus, the only constant is good vision and good leadership. It is times like these that highlight the importance of recognizing the right big things and making the right decisions on those things. When we are looking at companies as an investment, we are looking carefully trying to determine if they are positioning themselves to become stronger, using the crisis to their advantage, or are they making short-term decisions to temporarily look good. Are they getting ready to prosper or are they just hanging on?

Some of us need to look at our households in the same way. Are we struggling with too many fixed expenses and too much debt? Are we putting away the money into our retirement account that we need to? If we are withdrawing from our investments, are we withdrawing more than the earnings? If we are employed, should we be acquiring new skills that will help us stay employed? If we are unemployed, are we doing what we can to avoid going deeper in the hole each month?

The list can go on, but every successful corporate C.E.O. has stepped back from her or his daily routine to contemplate the company's future...the big picture. Maybe your household C.E.O. needs to do the same.

The November 20, 2009 Atlanta Business Chronicle's cover story: Georgia Companies Piling up Cash.

According to the article, the state's largest fifty public companies were holding \$38 billion of cash at the September 30th quarter end. This is 40% higher than one year ago.

Here is \$38 billion sitting idle in one state, think how much more there is around the country.

Naturally some of those billions are necessary operating funds, but most likely a lot of these billions of dollars are funds waiting to be deployed. Deployed on what you may ask?

- Research on new products
- Additional marketing
- Expansion of facilities
- New products or services

This new research, marketing, expansion and products will need more employees, more office or manufacturing space, more office supplies, etc.

When will these companies open their check books and start spending the money?

- If they think a competitor may be gaining an advantage on them
- When they have confidence in the future

We need strong leadership to come out with a plan for our future, a plan other than "let's have the government borrow more money to spend on stuff."

WE NEED JOBS!

It seems as though the entire country, maybe excluding Washington and Wall Street, is just waiting for something to happen. And, we are not sure what the something is, but we do know we need to get people back to work.

We are hearing that the recession is over because certain government statistics tell us that it is so. But, it doesn't appear that most Joe's and Jane's on Main Street think that the good times are here again.

The banks and brokerage firms showed "dramatic earnings increases." Of course, a year ago they were almost dead-in-the-water, so just surviving means their "numbers" look good.

The giant corporations are diversified all over the world and usually have thousands of employees. They use an economy like this to their advantage, by cutting expenses,

especially surplus employees, and shoring up their finances by selling new very low interest bonds to replace their higher interest rate debt. They are positioning themselves to come out of this stronger and bigger, which may be good for shareholders, but less good for their "redundant" employees and the job market as a whole.

Other domestic companies, relatively large firms, but not global giants, are much more dependent on our economy and also have less ability to move part of their operations to some other country where costs are lower and red tape less burdensome. They frequently do not have the ability to raise "capital" (new stock offerings and public bond offerings) like the global giants, thus are more dependent on bank lending.

Of course, banks are not lending. First, they probably still have a ton of bad mortgages on their books they haven't written off...yet, and, secondly, they don't have confidence the borrower will be able to repay the loan.

Finally, there are many very small firms. And, many of these small employers have told me that they need more employees, but they are afraid to commit to more spending at this time. In fact, many are just "hanging-on" waiting for something good to happen.

Depending on what source you follow, the non-giant companies and small firms are what create the majority of our new jobs and some estimates have this as high as eighty-five percent. These companies usually do not have a "pipeline" to Washington. These companies usually do not have giant law firms on retainers to "fix" any problem. In fact, these companies seem to have few friends in Washington.

It is improving a little, but overall these companies are not willing to commit to any expansion. They are still in survival mode. To change this **we need to instill confidence in our system**, then the "recovery" will find Main Street.

My Plan to Instill Confidence in Our System... The State of the Union Address

As a public service, I am providing this unsolicited outline for the President's State of the Union address later in January. I've not asked for any compensation for my efforts as I have tried to live my entire life without asking for anything from the government. In my own modest way, I believe this short talk will be the beacon that pulls our economy out of the murk and on to sunny days ahead.

Thanks for reading!

THE PRESIDENT'S 2010 STATE OF THE UNION ADDRESS!

I believe this address to the American People will stun some of my closest followers and friends, but I know what I'm about to propose is the right thing to do.

Over the holidays I had to a chance to mingle with real people for the first time in several years. It was literally the first time I have had that has not been orchestrated by my campaign advisors or the demands of my new position.

Naturally, I used the time to be close to my family, but I also used the time to speak with people...real people, real Americans, and I learned a lot.

I learned that people want us leaders to be upfront and honest with them and to explain the thinking behind our decisions. I learned that although most people lean rather strongly towards one political party or the other, deep down they wish to put the good of the country ahead of their personal political beliefs.

From what I have listened to and heard, I believe that if we had it to do all over again we would have taken a much different approach to health-care reform. Instead of assuming that the masses wanted and needed just what we were proposing, I believe what Americans really wanted was for us, as leaders, to explain how the current system is working, identify what we see as problems with the current system and offer reasonable solutions to those problems. My political consultants would tell me that Americans are not rational enough to follow such logic and the media and special interest groups will sabotage any hopes for good solutions.

After mingling with the people, I disagree with my consultants. I believe the leaders of America have for many years greatly underestimated the collective common sense of the American people. I think we have relied on political polls too much and talked with our citizens far too little. Each political party seems to have taken the approach that they have to "win" at whatever cost.

The Americans I spoke with let me know loud and clear that although they do tend to lean towards one party they are not nearly as divided as is assumed. True, both sides have their more extreme members; however, I learned that most Americans share a lot of common ground. For example, they don't like our mili-

tary involvement in other countries, but they don't have the understanding to know whether it is necessary or not. They have to trust the leaders, no matter which party those leaders represent, but they want openness from those leaders.

Americans don't want to be polluting the atmosphere, the soil or the waters for future generations, but they want good facts and open discussions of the problems with the solutions that make good common sense.

There are many other topics I heard about from Americans including immigration and dependence on foreign oil, but neither of those topics is what I'm going to address today.

The one thing I heard from almost every American that I spoke with was they are sick and tired of us leaders treating the finances of this great country like a shopaholic with an unlimited credit card. The people on Main Street are adamant that they want us, as a country, to live within our means just as common sense says every household in the country must live within their means.

My Fellow Americans, it was forty-nine years ago that President Kennedy stood before this same august group and boldly stated that we will land a man on the moon before the decade ends. It was an almost unbelievable challenge that few thought would succeed; however, if we didn't succeed it appeared that we would become a second-rate global power. But, succeed we did!

As I stand before you today, it has become obvious to me that the way this country is going fiscally is not sustainable. If we continue to follow this trail we will become a second-rate global economic power within a decade. **I'm not going to let that happen!**

We are at a time in history when we must not just slow down the devastating consequences of increasing government debt but to start on a decade long march to eliminate the debt.

Ladies and Gentleman of Congress! Starting today I am totally resolved to the fact that this United States of America will be debt-free by the end of this decade. We will have paid off our obligations to the world. We will owe no one. We will have a collective confidence that you can only understand if you run your family the same way, debt-free.

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I know this is a bold statement and the first thing many of you will fear is that such a move will cause us to lose more jobs and cause more damage to the economy. I think it will do the exact opposite...it will ignite a fire of economic enthusiasm like we have never seen before. I believe that almost every entrepreneur in the world would just love to start a business in the United States, but prior to this we seemed to be politically and economically out of control. We will no longer be out of control. Each and every business owner in America will know our plans and those plans will make us stronger for each and every citizen.

We plan to do this in an orderly manner over the ten years of this decade to create as little disruption to our economy as possible. But, it doesn't mean it won't be without pain and some sacrifice. We have a lot of talented, hard-working government employees in the country but we also have a tremendous amount of redundancy and inefficiencies. We will enter the next decade a lean, powerful economic machine that has the resources to provide for our people.

Prior to my mingling with the American people I truly believed that we needed to raise taxes to pay for all the things that Americans want and need. I now realize that we cannot be strong if we don't control our spending any more than a household or a company can be strong if they are dependent on borrowing for

paying their daily expenses. Everyone needs or wants more than they have, but like a good parent, the government sometimes has to say no. I promise that the government will not walk away from the commitments we have made to our citizens, but we will only spend money that we have.

Many will fear that if the government only spends what it can afford to spend that many employees will lose their jobs. We feel those cuts will be muted because we can reduce the overall government work force by not filling vacant positions. However, we will make the cuts necessary. It makes no sense to encourage the fat lady to get more obese just to protect a job at the local chocolate factory!

Landing a man on the moon almost seems unachievable today. Think how far-fetched it seemed as the words came from President Kennedy's mouth in 1961, but, as Americans we were up to his challenge!

My commitment is that America will enter the third decade of this century out of debt and economically strong. Because of that we will be able to honor our promises to our citizens and will be the strongest economy in the world. To make this happen I pledge to devote all my energies and challenge each of you to do the same.

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E-NEWS

In our last *Report*, we mentioned that we are planning to supplement this *Report* with updates that we will send by e-mail. We haven't started those updates, but our plan is still in place.

The updates will go to all of you for whom we have valid e-mail addresses. It will be easy to "unsubscribe." For any of you who think we may not have a valid e-mail address on file and you would like to receive the e-mail updates, you can go to our website, www.benedictfinancial.com and click on Newsletter Sign-Up.

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The primary author of The Benedict Report is Philip C. Benedict, CFP[®], an Investment Advisor Representative and Registered Principal with **LPL Financial**, a registered investment advisory firm and member of FINRA/SIPC. Travis M James, CFP[®], Mark A Beaver, CFP[®] and Ashley A Thompson provide technical assistance. Jean B Wilson handles the layout and editing of the newsletter.

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6000 Lake Forrest Drive, Suite 550
Atlanta, GA 30328-5901
770.671.8228
www.benedictfinancial.com

THE STATE OF THE UNION!