



# Guide the Journey

Second Quarter 2010

A publication for Miller Gesko

## Winning by Not Losing

Given a choice of (1) participating in the best days of the market or (2) missing them altogether *along with the worst days* of the market, which would you choose?

In a study conducted over 25 years of S&P 500 index history, the answer is surprisingly consistent. Investors don't need to participate in the best days of the market if they can miss the worst days. Missing both the best and worst 10, 20, 30 or 40 days of the S&P 500 returns outperforms the index by more than 1% annually. Over the 25-year history of the study, that 1% is the difference between a \$100,000 investment turning into \$673,836 versus \$846,624 – a \$172,788 or 25% increase in value.

With that said, keep in mind this is a hypothetical example and there's never been an investment strategy that missed just the best and worst days of the market. This study also doesn't take into account management or trading fees that might be incurred in implementing such a strategy. Nor can you invest directly in the S&P 500 index.

What this example does demonstrate is how important not losing *continued on page 2*

S&P 500 – 25 Years Ending Dec. 31, 2009 Average Annual Return 7.93%			
	Miss the Best	Miss the Worst	Miss Both Best and Worst
10 days	4.83%	12.14%	8.92%
20 days	2.79%	14.74%	9.28%
30 days	1.12%	16.93%	9.56%
40 days	(.46%)	18.86%	9.67%

Source: Hepburn Capital Management 2009 Study

## Stable Income Investment Options

Shocked by the volatility of the market over the last ten years, many retirees are asking where they can invest for stable income. "Forget appreciation and gains. I just need to know that I will have steady income in the years ahead," has become a common comment.

In January 2010, the White House's Middle Class Task Force recommended immediate annuities\* as a way to reduce "the risks that retirees will outlive their savings." Before you take that advice, however, we have some different recommendations.

An immediate annuity makes income payments immediately, or very soon after purchase. The problem with an immediate annuity is that you are locking in today's ultra-low interest rates forever. If you buy a bond, you collect interest for the term of the bond and then get your principal back. With an annuity, you get a higher payout, but your purchase price is gone forever. Your bet is that you will outlive the repayment of your original investment and interest, upping the long-term return from your invest-

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## Estate Tax Consequences Still Exist

So far, Congress has failed to reenact estate taxes for 2010, but that doesn't necessarily mean no tax consequences for heirs in 2010.

Yes, estate taxes and generation-skipping transfer taxes were repealed at the end of 2009. Without Congressional action, they will be back in 2011 at rates from a decade ago of \$1 million exempt from taxes and 55% taxes on the remainder. While Congress could pass estate taxes retroactive to January 1, 2010, the more time that passes from the start of the year, the messier that becomes to implement.

Barring new legislation, where taxes still come into play for a 2010 estate is cashing out an inheritance. Items sold from a 2010 estate will be taxable based on their original price. Inherit 1,000 shares of Amazon purchased in 1997 for \$18 and sell them today for \$130 per share, and you will have taxable gains of \$112,000. As a result, individuals who might not pay estate taxes under even a \$1 million exemption, may find themselves with a taxable inheritance.

The real problem for estates in 2010 will be wills designed to pass as much of the estate through tax free as possible. For example, a will might state that 100% of the estate that could be passed on tax-free be distributed to a designated charity while the remainder goes to the surviving spouse. Today, that could mean nothing for the surviving spouse.

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## Stable Income Investment Options *continued from page 1*

ment. Die early and the annuity issuer wins the bet.

### Stable Income Alternatives

The most conservative, safest, stable income investments are found in U.S. treasury market issues. The catch is that these are your lowest yield options. If you believe, as we do, that interest rates will not stay this low forever, purchasing short-term issues will allow you to roll over your investment into higher yields in the future.

The next step up the yield curve is the purchase of corporate bonds and municipal bonds. Corporate bonds are debt issues from businesses. Municipal bonds are offered by local government agencies. The catch with both corporate and municipal bonds is that if you need access to your funds before the bond matures, depending on where interest rates are at the time, you could receive less than the face value for your bond when you sell.

Bond funds offer corporate and municipal bond interest income with access to your funds. Buying a bond fund also provides individual security diversification, which can reduce volatility if a bond issue does go bad. But a bond fund still leaves investors vulnerable to interest rate risk. If interest

rates increase, the value of the bond portfolio will decline.

Other options for individuals who understand and are willing to accept more investment risk include utilities and master limited partnerships that are structured to generate regular income payments.

### Build Flexibility into Your Portfolio

If stable income is your investment priority, let's review your options together. Remember, it doesn't take long for even a modest level of inflation to eat away at the value of a fixed income payout, leaving you without sufficient funds for your lifestyle.

Keeping flexibility in your portfolio is essential if you are to take advantage of future opportunities for profit.

*\* Past performance is not indicative of future returns. All investments have the potential for loss as well as gain. Make certain you understand an investment's objectives, past performance, and risk factors before investing, as well as what management, sales, distribution, transaction, and administrative fees are involved in the purchase, ownership, and sale of investments.*

*An annuity is a long-term, tax-deferred investment designed for retirement that allows you to create a fixed or variable stream of income through a process called annuitization. An annuity contains guarantees and protections that are subject to the issuing insurance company's ability to pay for them. An annuity is sold by prospectus, which describes risks, fees and charges that may apply to you. Individuals selling these products must be licensed insur-*

*ance agents and registered representatives.*

*Money market funds are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although they seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in money market funds.*

*The values of government bonds funds, which invest primarily in the securities of the U.S. government and its agencies, are not guaranteed by these entities. Bond funds have the same interest rate, inflation and credit risks associated with the underlying bonds owned by the fund.*

*Read the prospectus thoroughly and understand the risks and expenses before investing in any limited partnership or non-registered security.*

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## Winning by Not Losing

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can be to an investor.

2008-2009 was a perfect example. The average mutual fund was up 34.9% in 2009 according to Morningstar. Unfortunately the average loss in 2008 was -40.5%, again according to Morningstar data. At the end of 2009, despite one of the best years for the S&P 500, the average mutual fund was still down -19.7% from where it started in 2008. If that doesn't seem to add up, you need to do the mathematics of gains and losses. A 40.5% loss needs a 68% gain to make it back to breakeven because you are starting from a much small balance.

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