GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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Markets Often Rebound Before The Economy

Given the extreme recent volatility of the stock market and the worsening economy, it's no wonder investors are on edge. Most have suffered significant setbacks during a recession that is already at record length and could continue for another year or more. It hardly seems like the right time to buy stocks. Yet while no one can know for sure when markets will turn around, that typically happens well before the economy gets going again.

The numbers don't lie. One recent study examined nine recessionary periods defined by the official arbiter, the National Bureau of Economic Research (NBER). According to NBER data charting recessions from 1953 through 2001, the stock market typically declines until sometime during the middle of the downturn and then begins to strengthen.

Starting at the low point of each recession and continuing until six months after its official end, the Standard & Poor's 500 stock index averaged a gain of 36%. That compares with an average decline of 21% for the S&P during a period starting six months before the official onset of each recession and ending at its low point. The average return for an entire recessionary period, including the six months before and after the actual recession, was 8%, and the average recession lasted 11 months.

The positive return is due to the role of the markets as a leading indicator, meaning that by the time the recession grips the economy, the markets are already looking forward to the eventual recovery. Similarly, much of the drop in the markets occurs in anticipation of the recession, many months before it is made official.

Throwing in the towel. Despite the hard data showing its benefits, buying stocks during the depths of a recession is bound to feel counterintuitive, particularly if you've spent months watching current holdings steadily lose value. Psychologically, it feels better to jump into the market after prices are already surging and getting out when they're falling. But it's exactly when most investors have finally given up on stocks—a situation market pros call capitulation—that the market is likely to bottom out and start climbing. Capitulation tends to happen when economic news is most dire.

Indications of things to come. In the end, of course, market movements are driven by supply and demand, and stocks won't improve this time just because they've risen under similar circumstances in the past. Still, history can provide important clues about where the economy and markets are likely to go, and economists consider the stock market a leading indicator—a preview of what may be to come for the economy.

Other lagging economic indicators

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A Personal Note From Global Wealth Advisors

During the last three months, we have experienced a market recovery exceeding 30% from the lows of early March. As we've indicated in prior communications, the stock markets tend to rise prior to the end of a recession. The recent market performance once again substantiates the wisdom of staying focused on your long-term objectives, periodically rebalancing your portfolio, and staying invested.

It's also clear that no one can predict the future, but we can take advantage of an important axiom: *Fees and taxes can only reduce investor returns.* Global Wealth Advisors adheres to a passive strategy that allows our clients to participate in a globally diversified portfolio, but at reduced cost. We use predominantly low-cost mutual funds and exchange-traded funds with dramatically lower internal costs than actively managed funds. That advantage accrues directly to you, the client.

By design, a passive strategy is traditionally more tax-efficient than an active approach in a taxable account. We also take advantage of tax loss harvesting whenever possible.

Finally, we continue to experience sustainable growth, primarily due to the referrals our clients provide. Thanks for your continued support and confidence.

Jim Knaus Mike Krencicki

Financial Plans Are Meant To Be Revised

One great benefit of a financial plan is that it gives you a feeling of certainty. Designed to take into account wide-ranging scenarios, it seemingly should be able to shrug off an uptick in inflation, a bear-market stretch for stocks, or a spike in interest rates. Yet there are some circumstances —such as the recent once-in-several-decades plunge of the economy and financial markets—that even the most carefully constructed plan can't fully anticipate. Such events, as well as possible changes in your own situation, mean that every financial plan, sooner or later, will have to be revised. Preparing a financial plan is a process, not a one-time event, and making smart, timely alterations is crucial.

Consider how that process works. A financial advisor takes stock of an investor's overall financial situation and asks questions about goals, comfort level with investment risks, and the timetable for using investment proceeds. Then, the advisor establishes a comprehensive plan designed to help achieve those objectives.

That requires several assumptions about how markets and the economy will behave. For example, an advisor might base a plan on a projected inflation rate of 3%, an 8% average annual return for stocks, and 4% yearly gains for bonds. Though some or all of those assumptions might miss the mark, the idea is that, taken together, they should be close enough to be useful. Yet even small inaccuracies, left uncorrected for 20 or 30 years, will leave a plan seriously out of whack.

Think of a ship setting out from New York for, say, Lisbon. The captain charts a course that should take the ship across the Atlantic to Portugal. But what if he makes a small miscalculation? Even if he's off only 1%, that could be a problem, and unexpected changes in winds and currents along the way are likely to make things worse. If he sticks to his original bearings, he could end up in Africa—or Ireland.

But that won't happen, because every good sailor understands the need for minor but constant course corrections. And a financial plan requires similar adjustments. Look at the predictions of economists, market forecasters, or the government, and you'll see that no estimate extending more than a year or two into the future will be even close. So a financial plan written to predict the feasibility of a retirement 30 years away won't—and can't—be accurate. But it can establish a starting point. Reaching your goals requires frequent adjustments to compensate for the winds and currents you meet along the way.

Once you understand that basic certainty, you can prepare by discussing how, and under what circumstances, your plan will need to be altered. We would be happy to review your plan with you to make sure it continues to move you toward your long-term goals. ●

New Law Suspends RMDs For Just One Year

There's good news and bad news for retirees in the new pension law—the Worker, Retiree and Employer Recovery Act of 2008. The good news is that you don't have to take the usual "required minimum distribution" (RMD) from tax-qualified plans and IRAs. The bad news: The RMD exemption applies only for the 2009 tax year. The normal rule wasn't suspended for 2008—when you probably needed it most.

If you own assets in a tax-qualified plan such as a 401(k), an IRA, or both, you ordinarily must begin taking RMDs by April 1 of the year following the year in which you turn age $70^{1}/_{2}$. For instance, if your 70th birthday was January 1, 2008, you became $70^{1}/_{2}$ on July 1 of that year, so you must take your first distribution by April 1, 2009. That's actually the distribution for the previous year, and you have to take a second by the end of 2009. However, if you are still working and you don't own five percent or more of the company that employs you, you may postpone distributions from qualified plans—but not from IRAs—until you actually retire.

The amount of the annual RMD is based on your life expectancy and the balance in your account on the last day of the prior year. Unfortunately, that means that RMDs for 2008 must reflect the account balance on December 31, 2007, even though that's probably much more than the account is worth now, after the late-2008 stock market plunge.

Some retirees were hoping Congress would provide last-minute relief for 2008 RMDs. But the technical hurdles proved too daunting, as most retirees had already received their annual distributions before the law was

Housing Act Boosts Reverse Mortgages

A recently passed federal housing law—the Housing and Economic Recovery Act of 2008—is expected to give a big forward push to a financial product with a backward-sounding name: reverse mortgages. The legislation hikes the loan limits for reverse mortgages—well past the half-million dollar mark in some cases—and reduces the financing and administrative costs borrowers must pay. This comes at a time when many retirees have suffered major losses in retirement savings and may be looking for new sources of income. Yet despite these improvements, reverse mortgages still have significant drawbacks. So tread carefully if you're considering this kind of loan for yourself or your parents.

Unlike a traditional mortgage which requires you to pay the lender, with a reverse mortgage, the lender pays you. You could opt to receive a one-time lump-sum distribution, monthly payments, or a line of credit to use at your discretion. Or you could combine one or more of these options.

To qualify for a reverse mortgage, you must be at least 62 years old and own your house free of debt or with low enough debt that you can pay it off with the proceeds of the reverse mortgage. (If you're married and own the home jointly, both spouses have to meet the age requirement.) But because you won't be repaying the loan as long as you live in the home, you don't have to meet any income requirements. The actual amount you'll receive depends on several factors, including your age, the current value of your home, the area you live in, the loan term, and the interest rate on the loan. The older you are, and the greater the value of your home, the more money you'll qualify to receive.

The changes included in the new legislation seem likely to broaden the appeal of reverse mortgages. One major shift is higher loan limits. Most reverse mortgages are a product known as a home equity conversion mortgage, or HECM, that is backed by the Federal Housing Administration. Until now, the FHA limited the amount you could borrow with an HECM to a maximum of $362,790, with the actual ceiling determined by the county in which you lived. The new law creates a single national loan limit of $417,000, and in some high-cost areas, homeowners may be able to borrow as much as $625,500.

The law also provides relief from the exorbitant fees that have often characterized reverse mortgages. Those high costs have been a major stumbling block in efforts to get more people to consider reverse mortgages, with more than 60% of homeowners responding to a 2007 AARP survey saying fees had kept them from applying for a loan. Prior to the new law, a lender could charge an origination fee equal to the lesser of 2% of the home's value or a specific limit for the county. Now, the maximum fee can't exceed 2% of the first $200,000 of the home's value plus 1% of the remaining value, with the total fee capped at $6,000.

A third improvement involves how reverse mortgages may be marketed. In the past, some lenders tried to put the squeeze on senior citizens by requiring them to buy annuities or other financial products as a condition for receiving a reverse mortgage. The new law prohibits such cross-selling arrangements.

These positive changes could motivate some older homeowners to take a new look at reverse mortgages, which could provide a welcome stream of cash to retirees who have seen much of their nest eggs disappear during the bear market. Keep in mind, though, that a reverse mortgage doesn't excuse you from your regular obligations. You'll still have to pay property taxes, homeowners' insurance premiums, utility bills, and upkeep expenses. Fall short on those outlays and the lender could demand immediate repayment of the loan.

Another potential drawback is that you or your estate must repay the cash you've received, including interest, if you sell the home or stop using it as your principal residence for 12 consecutive months. That means that if you decide to move to a warmer climate or you're forced into an extended nursing home stay, you'll have to ante up. (You or your heirs will be entitled to any equity left in the home after the debt has been repaid.) So if you don't envision staying in the home for a long time, a reverse mortgage probably doesn't make sense.

There's one thing about reverse mortgages that hasn't changed: Before you can receive an FHA-approved loan, you must meet with a loan counselor to ensure you fully understand the ramifications. If an elderly relative is considering a reverse mortgage, tag along for the meeting, then shop around for the best deal. We are here to help so please feel free to contact us. ●

signed. Moreover, the IRS has indicated it won't change the rules retroactively. To compensate for being stuck with disproportionately large distributions for 2008, try investing your distributions in stocks in a taxable account and reap the rewards when the market rebounds.

At least the new law suspends the requirement for the 2009 tax year. If you can afford to leave your retirement nest egg untouched this year, you may be able to recoup some of the value you lost during the stock market downturn. With this temporary reprieve, you could stockpile more cash if the market rebounds.

But first-timers who turned age 70½ in 2008 aren't off the hook. Your first distribution, due by April 1, 2009, is actually for 2008, and you still had to take it this year. But you won't have to make a withdrawal for 2009. If you're turning age 70½ in 2009, you'd ordinarily have to take an RMD by April 1, 2010—a withdrawal the new law permits you to skip. But you'll still have to take a distribution for the 2010 tax year by December 31, 2010.

Keep in mind that not taking the RMD (other than in 2009 when you don't need to) is unwise. The penalty tax for failing to take an RMD is 50% of the amount of the required distribution you didn't take. ●

Federal Estate Tax Exemption... Going Up!

At long last, we're approaching the final step of a long climb for the federal estate tax exemption—the value of assets in an individual's estate that is shielded from potential estate tax liability. Under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), the exemption amount (also known as the *Applicable Exclusion Amount*) gradually increased to $2 million for 2008, and has finally jumped to $3.5 million for 2009.

As the exemption has risen, the top tax rate for estates has declined to 45% in 2009, and under EGTRRA, the federal estate tax is scheduled to be repealed completely for 2010, only to return at pre-EGTRRA levels in 2011. While that still might happen, there's a growing consensus for congressional compromise that would keep the estate tax but with a high exemption level—perhaps 2009's $3.5 million.

With these changes afoot, it makes sense to take a fresh look at immediate and long-range estate plans. At a minimum, you should consider the implications of the higher estate tax exemption amount for 2009.

Prior to EGTRRA, the federal estate tax exemption for 2001 was only $675,000. But EGTRRA raised the exemption to $1 million for 2002 and started scaling back the highest tax rate from 55%.

Estate Tax Exemption In Flux

Tax Year	Estate Tax Exemption ($)	Maximum Tax Rate (%)
2009	3.5 Million	45
2010	Unlimited	0
2011	1 Million	55

If the estate tax makes its scheduled exit in 2010, which many believe is unlikely, another change will complicate tax planning. Under current law, people who inherit assets are allowed to "step up" the assets' cost basis to their market value at the owner's death. That step-up is supposed to go away in 2010, with heirs instead inheriting the original cost basis. That could increase capital gains tax liability when the assets are sold, and could force heirs to have to go through years of old documents to determine their basis. But there will be two key exceptions—a one-time $1.3 million step-up in basis, and an additional $3 million step-up for assets inherited from a spouse.

While much about the future of the estate tax remains up in the air, it's important to have your will and trust documents revised to reflect the 2009 change to a $3.5 million exemption. Wealthy couples may also want to keep up to $3.5 million in assets in each spouse's name to make the most of the estate tax exclusion. A credit shelter trust, for example, may use the maximum exemption to establish how much goes into the trust when the first spouse dies. But using the new, higher amount could shortchange the surviving spouse unless special provisions are made.

One strategy the new exemption level doesn't affect is your ability to reduce your taxable estate through lifetime gifts. The annual gift tax exclusion increased in 2009, to $13,000 per recipient from $12,000 per recipient in 2008.

We can work with you and your estate planning attorney to determine whether your estate plan should be revised to factor these and other possible changes in estate laws. ●

Markets Often Rebound

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reflect what has already occurred. For example, a higher unemployment rate typically develops because the economy is struggling; when demand for goods and services slackens, companies often respond by reducing their payrolls. Similarly, inflation may keep rising for months after upward pressure on prices, reflecting an economy at its peak, has already largely dissipated.

Stock prices, in contrast, are based on what investors consider to be a company's prospects. When the economy is at its worst, the road ahead may begin to seem comparatively bright, and company earnings could start to rebound even while current statistics continue to paint a gloomy picture. And when investors finally stop selling and start buying, rising demand for stocks will push up prices.

Chances are that this time, as in the past, the stock market will strengthen well before the economy and point the way forward for investors. But keep in mind that the sample size of this study is very small; only nine recessions occurred between 1953 and 2001. Also, the current economic crisis is largely viewed as the worst since the Great Depression, so the rebound may take longer than past recessions.

As always, it's crucial to stick with a long-term investment plan that reflects your goals, timetable, and risk tolerance. We are closely following developments in the economy and investment markets and would be happy to discuss whether any adjustments to your portfolio might be in order. ●

Average return from six months before recession starts until recession low point	Average return from recession low point until six months after recession ends	Average total return from six months before recession until six months after recession
-21%	+36%	+8%

Source: "A Historical Look at Recessions and Stock Market Returns," JennisonDryden, Prudential Insurance Company of America

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