



October 19th, 2009

Here is our newsletter for the 3rd quarter of 2009.

The Markets

The equity markets had another great quarter with a gain of 15.4% for our blended benchmark. Overall the equity markets have climbed about 60% from their lows on March 9th of this year. The Barclays Aggregate Bond Index rose 4.1% for the quarter.

For the quarter our equity-tilted composite gained 9.2% compared to 12.3% for the benchmark and our balanced composite gained 8.4% vs. 10.4% for the benchmark. The underperformance can be largely attributed to our underweight to equities of about 25%.

Despite our underperformance over the last few months, our year-to-date performance has exceeded our benchmarks. The biggest positive contributor has been the T.Rowe Price High-Yield Bond fund, which has gained 40.9% year-to-date and is our largest holding. Also, over the 12 month period ending September 30th all of our clients have had a positive return, while the major markets are in negative territory.

Our Outlook

It is important to understand that our outlook does not try to predict what the markets will do over the next quarter or even year. Our outlook is an analysis of the long-term prospects for earnings and expected market returns going forward over the next several years.

We remain cautious on the stock market. The stock market is always looking ahead and current prices always reflect what investors think the economy and corporate earnings will do in the future. Most everyone agrees the recession probably ended sometime this summer, at least by the usual technical measure of a positive GDP. We have all read commentators describing the recovery coming out of the recession as V shaped, U shaped, etc. William Hester presented an interesting analysis that looked at earnings expectations going forward from Wall Street analysts. On July of 2007 the S&P 500 twelve month operating earnings were about \$90 per share. For this quarter they are expected to bottom at about \$38 per share. Analysts have penciled in earnings growth of more than 40% over the next year, and then another 22% between 2010 and 2011, putting the operating earnings back to about \$90 per share, where they were on July of 2007. This would imply a V shaped return to near record earnings that William's analysis finds improbable based on what has happened in previous recessions.

Current valuations for the equity markets are not cheap as measured by the Shiller P/E ratio which sits at almost 20 (the long-term average is about 15). Nor have headwinds to sustainable economic growth dissipated with the stabilization of the economy and all the government sponsored bailout programs, such as cash for clunkers, homebuyer credits, etc. We're not going to confuse short-term stimulus with sustainable long-term growth.

We remain positive on corporate bonds, despite their large rally and continue to overweight them. We will be patient and wait for better times to get more aggressive.

Do You Really Know Your Age?

By coincidence today is my 58th birthday. In the past I have used age calculators to help clients find out how their lifestyle and family history can affect their health and longevity. Recently I found a new one that I enjoyed a lot, primarily since it told me my "virtual age" is really only 49 and I am expected to live for another 10,000 days plus. The calculator is located at <http://www.sonnyradio.com/realage3.swf> and takes about 10 minutes. It gets into more detail than others I have used and is interesting in that you see how your age changes while inputting various health and family history data.

As a caveat, my wife Abigail, who is almost 51 calculated her virtual age at 25. While it's interesting to think I might be married to a 25 year old, we may need to reconsider our retirement plans.

All kidding aside, what I call "longevity risk" is one of the biggest unknowns we all face. Exploring this issue and identifying strategies to deal with it offers tremendous value for my clients. This exploration can provide answers to questions such as "Will I outlive my nest egg?", or "Should I annuitize some of my assets?" or "Is our current lifestyle sustainable?"

Risk Management

As fee-only advisors, we do not sell any financial products, including insurance. We can, however, provide general advice regarding your insurance needs. We can also refer you to reputable insurance brokers and agents who will be able to provide both insurance products and detailed recommendations regarding coverage. The following discusses some of the issues we help our clients with.

1st Step-Define Your Risks. As part of a comprehensive financial plan we can help clients identify their risks for loss of property, life, liability or income. We can then determine if they have the financial resources to cover these risks, or self-insure. A life insurance needs analysis is one example where we help the client determine the need for insurance and recommend the type and quantity of coverage. By analyzing the survivor's income and expenses we can illustrate how much insurance may be appropriate.

Property and Liability Insurance. We have been able to show clients how to reduce their insurance premiums and plug holes in their coverage. For example, a family with one house, two cars and a motor home saved about \$1,800 per year on their premiums through our review of their coverage with an independent insurance agent. Another family with two houses, two cars and several SUVs saved about \$1,300 per year on their premiums. We were even able to increase their liability coverage by adding an umbrella liability policy on top of their underlying coverage. The cost for this additional coverage is typically much lower than for other types of property and casualty policies. For example, annual premiums can be as low as \$200 for \$1 million coverage.

Recently I attended a seminar on High Value homeowner's insurance policies. These policies have higher levels of coverage, can cover usually excluded items such as land restoration and are good at insuring 2nd homes. These policies are more expensive but are worth considering for the right situation. Will Connelly with Mountain West Insurance has written these policies and is a good source of information.

Disability Insurance. Your chance of being disabled is far greater than your chance of premature death. Statistics show that during your working years the odds are nearly 2 to 1 in favor of disability (90 days or longer). For a female, the odds increase to almost 3 to 1. In addition, a disability may be more of a financial hardship than untimely death since increased expenses often accompany the loss of income. Disability insurance protects you against these risks by providing benefits when you are unable to earn a living because you are sick or injured. Recently it has been reported insurance premiums have dropped due to increased competition among insurers.

As part of a financial plan we help identify how much coverage, if any, is required.

Long-Term Care Insurance. This is probably the most difficult type of insurance to understand and make a decision about. John Ryan with Ryan Insurance in Denver has great information on his website at <http://www.ryan-insurance.net/>. John works exclusively with fee-only NAPFA members like myself and specializes in long-term care, life and disability coverage. After we have done an analysis of your needs John can help us determine the best features and obtain quotes from numerous insurers.

Thank you for your continued interest and give me a call anytime to discuss any of your specific needs.

Sincerely,

Stan Johnson, CFP(R)
Comprehensive Financial, Inc.
Registered Investment Advisor