Comprehensive
FINANCIAL PLANNING
INC.

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Here is our newsletter for the 3rd quarter of 2010.

The Markets
In the 3rd quarter stock markets gained back most of what they lost in the previous quarter and all major averages are up for the year. Most of the gains came in September. For the quarter, U.S. large-cap stocks rose 11.3%, International stocks rose 16.5% and the Barclays Aggregate Bond index rose 2.5%.

For the quarter our equity-tilted portfolio composite gained 5.9% vs. 10.0% for the benchmark. Our balanced portfolio composite gained 5.5% vs. 8.5% for the benchmark. Our conservative stance hurt our returns relative to the benchmarks, with our underweight to equities being the primary culprit. Our bear funds and the Hussman Strategic Growth Fund also lagged because the fund is fully hedged out of the market.

Outlook
Our view of the markets and the economy remains cautious and is largely unchanged over the last year. We are in the middle of a multiyear period of subpar economic growth, low interest rates and low returns on investment. While equity returns will probably be higher than bonds, the premium over bonds are not very compelling taking into account the downside risks. Also, current equity valuations are high, with the Shiller P/E ratio at over 21 compared to the average of 16.

The bond market, especially the high yield and emerging market debt funds we own have done very well for some time now. Unfortunately going forward returns from these assets will be much lower, as yields have dropped to about 7.5 to 6.0% respectively for high yield and emerging market.

Litman/Gregory has recently updated their projected returns over the next five years under four economic scenarios. The most probable of the four scenarios they call "Sub-par Recovery" where the economy grows, but at a much slower pace than a normal recovery. They assume at the end of the five year period, 10-year Treasury bonds will yield 6%, implying a return of moderate inflation and interest rates toward the end of the five years. Under this scenario annual returns over the next five years are projected to be 4.0% for equities, 0.8% for high quality bonds and 2.9% for high-yield bonds. REIT returns are -0.9%. Under less probable, yet possible scenarios of Stagflation and

Recession/Deflation, equity returns are negative. Let me know if you would like to discuss this in more detail and receive a copy of the full report.

To find better risk-adjusted returns we have been evaluating several alternative investment strategies that have a low correlation to the stock and bond markets. Some of these include hedged equity, merger arbitrage and market neutral funds. We will also be looking for opportunities to add to our emerging market equity positions over time, as the growth prospects appear better than the developed economies.

Update on Housing

It's been over a year since we have written about the housing market. Three years ago in our October 2007 newsletter we had a detailed analysis. Talking about home values we said "price declines have been accelerating and will likely get worse before hitting bottom." Since then home prices have declined nationally about 20% thru June 1st of this year, according to Zillow.com data. The national data from the Case-Shiller home price index shows prices hit a low point in the summer of 2009 and have risen about 3% since then. Some markets have rebounded more, mostly those hardest hit, such as California.

In Durango, prices did not peak until May of 2008, almost two years after the national market peaked. From that peak prices have dropped from $371,000 to $311,000 according to Zillow.com thru June of this year, representing a 26% decline.

Looking forward, new home sales nationally in August were at an annual rate of 288,000, the 2nd lowest on record going back to 1963. This has increased inventories and will put downward pressure on prices. Many homeowners who are underwater on their mortgages are having to, or increasingly choosing to walk away from their homes. None of the numerous government mortgage modification programs have put a dent in the problem. All this plus the poor labor market will prevent a meaningful recovery in the housing market for some time. Some analysts are calling for another 5% decline nationally.

In Durango, price-to-rent ratios are still higher than they have historically been here, as detailed in an article in the Durango Herald by Luke Miller, professor of economics at Fort Lewis College. Luke states "using data from the region covering the last 20 years (and similar mountain communities), the intrinsic value of a home in this area is 15 times annual rents". He goes on to state an average $1,500 monthly rent would imply a value of $270,000, compared to the second quarter in-town Durango median home value of $335,000. Add to the mix the lag that Durango has with the national market points to a high probability of further price declines here in Durango.

Could be a Great Time to Refinance

Due mostly to the unprecedented efforts of the federal government, mortgage interest rates are near 40 year lows. The average rates nationally are about 4.25% for 30 year fixed and 3.75% for 15 year fixed loans. Could this be a good time to refinance?

Helping clients determine the best way to refinance, restructure and develop a long term plan to pay down their debts is an important part of our holistic planning advice. An article from the Financial Planning Association on our website CompFinancial.com on the "What You Need To Know" page has some good information.

One of the points made is to make sure you work with a mortgage broker who will tell you about the loan's "yield spread". Yield spread is a commission paid to the loan officer by the lender, and this can be thousands of dollars. Kevin Iverson, President of Reed Mortgage Corporation does not receive any commissions paid by the lenders. Instead, if there are any credits from the lenders on the loan, Reed Mortgage provides the customer with a rebate. Kevin's website has lots of great information at http://www.reedmc.com. Go to the "Should you Refinance" page to get his take on the advantages and disadvantages of refinancing.

We have had several clients refinance lately. Whether it is a good time to look at your debt all depends upon your situation. Qualifying is much harder than it was, as lenders are requiring higher credit scores, higher down payments and more documentation. However, someone with good credit and at least 20% equity in your home could reduce your interest costs significantly and enable you to pay off your debt sooner.

Cutting your Tax Bill in Retirement

Kiplinger magazine has an interesting guide on their website that summarizes the differences in how retirees are taxed from state to state. Turns out Colorado is one of 13 states rated as most tax-friendly for retires. One of the bigger tax breaks is the exclusion from taxation of up to $24,000 of Social Security and other pension income. Also, there is no inheritance tax or estate tax levied by Colorado.

If you're considering moving to another state in retirement, go to this link then give me a call to see how this could affect your financial future.
http://www.kiplinger.com/tools/retiree_map/index.html?map=12#anchor.

Thank you for your continued interest and don't keep me a secret.

Sincerely,

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