



July 9th, 2008

Here is our newsletter for the 2nd Quarter of 2008.

### **Our Portfolios**

We managed to prevent losses in all our portfolios at TD Ameritrade over the last quarter despite the markets being down. Our most aggressive All Equity portfolio composite was flat during the quarter compared to a loss of 2.5% for the benchmark. Our more conservative Equity-Tilted portfolios returned 0.3% vs. a loss of 2.3% for the benchmark.

Over the last year our All Equity composite was down 5.2% compared to a loss of 14.3% for the benchmark. The Equity-Tilted composite lost 3.1% over the last year vs. a loss of 9.0% for the benchmark. With the stock market down over 15% from their highs in early October our conservative positioning has paid off well in preventing large losses.

Our best performing fund over the last year has been our commodity index fund, which has returned over 70% the last three years. We sold about 50% of this fund in late April and just sold the rest on July 8th.

### **Market Outlook**

Going forward we continue to believe the economy and corporate profits will continue to disappoint and the risk in the stock market outweigh the opportunities. The continued drop of housing prices, which we expect to continue well into next year in most markets, will increase asset write-offs and increase the strains on households and the credit markets.

We will continue to hold our tactical position of cash in our portfolios, with our current position in most of our portfolios at over 20%. This will make our portfolios less volatile than our target portfolios and provide us with the cash needed to invest when we see better opportunities. As the markets evolve we are keeping our eye on growing opportunities in several asset classes including REITs, high-yield bonds and others.

### **TD Ameritrade Financial Strength**

In March TD Ameritrade sent a memo to all clients to address concerns many are having in light of the continued turmoil at many financial institutions. You can find the information on the Documents page under Articles of Interest on our web site <http://www.compfinancial.com/>. In short, TD Ameritrade has no liquidity issues, has no exposure to subprime and Structured Investment Vehicles and offers protection for client's

accounts through the SIPC and additional insurance that covers accounts up to \$150 million per customer.

One important distinction needs to be understood about TD Ameritrade, which is a Broker, and the so called investment banks who are Broker-Dealers. A Broker brings buyers and sellers together to buy and sell securities and collects a fee to do so. In this transaction the ownership of the security transfers directly from the seller to the buyer without the Broker ever owning the security. A Dealer will buy a security for itself in hopes of selling it sometime in the future for a profit. The investment banks like Merrill Lynch, UBS, Morgan Stanley and Wachovia act as Brokers and Dealers. They often perform both roles on the same transaction.

Since last year the major investment banks have written off over \$400 billion in asset losses, mostly mortgage-backed securities that they owned as dealers. TD Ameritrade has not incurred any of these losses.

### **Annuity Rescue**

Annuities have long been one of the vehicles investors have used to help secure their retirement. In the past most of these have been promoted and sold by brokers that earn commissions to sell them. In the last couple of years two new platforms have become available for the growing number of fee-only advisors to help them serve their clients. These platforms do to the annuity market what the no-load mutual fund has done for the mutual fund industry. While I have not been a fan of most of these products in the past, there are a couple of situations where an annuity could make sense for you.

1. You are retired, have no pension other than Social Security, a conservative investor and plan on having a long retirement.
2. You have an existing annuity you bought several years ago and would like to exchange into a lower cost annuity without triggering any current taxation.

There are two major types of annuities, along with an endless array of variations.

### **Immediate Annuity**

Purchase an immediate income stream that will pay you, and/or your spouse income for life or some period certain. The major advantage of these is to reduce the “longevity risk” for your retirement. If you live to be 90, 100 or more an annuity could help reduce the chances of you outliving your retirement nest egg.

Last year a company that has served the institutional market for annuities offered to company retirement plans, Hueler Investment Services, started offering immediate annuities to members of the National Association of Personal Financial Advisors (NAPFA). Fee-only NAPFA members may request annuity quotes and make purchases from several large, well known, high quality insurance companies. Until now access was only available through corporate plan sponsors and plan administrators, not Fee-Only advisors. All annuity quotes requested through Income Solutions® are competitively quoted and institutionally priced. They also have annuity payout options that can be indexed for inflation, helping to prevent

trading longevity risk for inflation risk. They have a single one-time 1% fee for their service. My fee can be a negotiated flat fee or hourly fee. The result of paying lower fees vs. going through the usual brokerage route will be higher payouts in your retirement.

### Deferred Annuity

Buy an annuity while you are still working (the accumulation phase) in hopes of building up a nest egg that you can annuitize in retirement when you need the additional income. The vast majority of these annuities sold are variable annuities where you invest in stocks, bonds and mutual funds. The major advantage to these is they offer tax deferral on any income generated on the investment until the funds are withdrawn or until the contract is annuitized in retirement. The products also offer a “death benefit” that, if you die before you annuitize the contract, your beneficiaries might get more than the current account balance.

I have a hard time envisioning a situation today where a deferred annuity would serve the client’s interest. First, there are more effective and less costly tax deferral options than annuities. With an annuity you do not get a tax deduction for your contributions like you do for an IRA or company retirement plan (401-k or similar). Even after exhausting all options to contribute to your company retirement plan or IRA, there are very tax efficient mutual funds and exchange traded funds (ETFs) that will defer taxation just as well without all the additional expenses and restrictions on annuities. Most of these deferred annuities carry expenses of at least 1.25% per year, in addition to the usual expenses associated with the mutual funds inside the annuity. Second, the death benefit from an annuity is taxed to the beneficiary as ordinary income. A much better way to provide life insurance is simply to buy some term life insurance since the life insurance death benefit goes to the beneficiary tax free. Third, it is costly to get out of most of these policies. Most have surrender charges that are 7% or more of the account balance, necessary to help pay for the high commissions paid to their sales brokers.

The good news is the surrender charges disappear after several years. If you don’t want to annuitize for several years, Jefferson National Life Insurance Company has a simple annuity that has the lowest fees in the business. Go to their web site at <http://www.jeffnat.com> to find out more. You can do a tax-free exchange into their annuity and potentially save thousands of dollars a year in fees and insurance charges. Their annuity fees are a flat \$20 per month, guaranteed to not go up for the life of the contract. Also, since they are not paying a broker to sell the product, there are no surrender charges. Their advisor platform has over 200 funds from over 20 fund families. I would manage the portfolio of funds inside the annuity just as I do for my client’s other portfolios.

Thank you for your continued trust and your business. As always, we appreciate your referrals.

Sincerely,

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