Comprehensive
FINANCIAL PLANNING
INC.

July 14th, 2009

Here is our newsletter for the 2nd quarter of 2009.

The Markets

The equity markets ended the quarter with a gain of 17.6%, the biggest three month gain in more than 10 years. Most markets gained back the big losses of the 1st quarter and more, with our equity benchmark gaining 2.7% YTD. The only YTD losses are in REITs with a loss of 11.7% and world government bonds at a loss of 1.5%. Foreign stocks did considerably better than U.S. stocks and growth did better than value. Emerging markets had the highest returns of all at 34.2% YTD.

Our portfolio strategies continued to work well as most of our portfolios exceeded their benchmarks. Our equity-tilted composite gained 13.9% compared to 13.3% for the benchmark and our balanced composite gained 12.5% vs. 10.8% for the benchmark. YTD our composites are up 8.0% to 9.5%.

This was accomplished even with our conservative stance we have held since last year. Our single largest holding, T.Rowe Price High-Yield Bond, gained 19.5% for the quarter. Loomis Sayles Bond gained 17.2% for the quarter. Several of our stock funds did very well also, with Fairholme gaining 32.7% and Royce Micro-Cap gaining 30.6%.

One strategy that has not worked out, at least yet, is our investment in a bear fund, Proshares Ultrashort 500. This fund was bought at the end of March and has a loss of 30.2% in the quarter. This fund was added at a small allocation of about 4% to most portfolios and was designed to reduce volatility. We simply felt after the 20% rally from the early March lows, the markets were getting ahead of themselves.

Our Outlook

Our continuing concern is the impact of the 22% decrease in household net worth over the last two years. This is the largest decline in household wealth by far since the 1930s.

Moody's estimated that more than 25% of all homeowners with a mortgage owe more than their house is worth. The housing crisis started off as a sub-prime mortgage crisis. Unfortunately there is a second wave, as large as the sub-prime wave, of mortgage resets coming in Alt-A and Option ARM mortgages that is starting now and will not peak until mid-2011. Delinquencies in these loans are very high and projected to go higher.

Delinquencies are even going higher in the prime market as more people become unemployed due the overall weak economy.

There are many positives among the bad news. Households are saving more, spending more wisely and generally learning how to live more sustainably. In the long run this is all good news. However, in the short run, over the next couple of years at least, this argues for a weak recovery from the recession in most of the developed economies.

Emerging Opportunities

Despite our concerns we still have lots of good investment opportunities. One of the more exciting opportunities is in the emerging markets. These are countries such as China, India, Brazil, Mexico and Russia. I attended a seminar recently on the prospects and several facts stand out.

In 1991 the emerging market represented 2% of the world's total stock market. Depending upon how you measure it (and I won't bore you with the details), they represent 11 to 15% of the world's stock market now. Also, over that same timeframe the emerging market's share of world GDP has risen from about 15% to 24%.

Here is the fact that really hit me. I've been talking about the excessive debt in the U.S. for some time. In the U.S and other developed economies (Western Europe, Japan) the household debt to GDP ratio is 220% overall. In the developing economies this ratio is 90%, less than one half the developed world. While for many reasons the developing markets carry additional risks over the more developed markets, they simply do not have the head-wind most developed economies have concerning the unwinding of huge debt loads. They are also less dependent upon selling goods to the developed world as they are growing their own consumer economies and trading more with each other.

We will be increasing our allocation to the emerging markets, including stocks and bonds. We have had a small allocation to emerging market stocks in the Matthews Asian Growth and Income and other international funds, but the allocation has been limited to about 5%. Expect this allocation to increase to around 15% of the stock allocation. We have already sold some of our U.S. stock holdings in anticipation of this.

Gaining from your Losses

There is always a silver lining in any situation, even in today's poor market environment. With many stock funds down 30% or more over the last year most of our portfolios have unrealized losses. If the funds are sold and the losses taken, you can reduce your taxes for the current year. Capital gains from other sources can be offset or ordinary income can be offset up to a maximum of $3,000 per year. One could also use the opportunity to reduce a concentrated, low cost basis holding and offset the gain with other losses.

After the holdings are sold the funds can be reinvested in the same fund 30 days later and avoid the wash sale rules or another fund could be purchased as a replacement.

If you would like a report of your situation give me a call. You can also run reports yourself on the TD Ameritrade website. In the Account Center look toward the bottom of the page and click on the Cost Basis tab. You can run various reports of unrealized and realized gains for the year-to-date.

The $12 Billion Burden
An article in Kiplinger's magazine on September 2007 asks the reader "what's a 12b-1 fee. The x-SEC chairman Christopher Cox called then "sales loads in drag". A 12b-1 fee is an extra charge that funds may tack on to their expenses to cover marketing and distribution costs. These range normally from 0.25% to 1.0% per year and are usually paid to brokers or advisors who sell you the fund.

The problem is few investors either know about the fee or understand the conflict of interest the payments create. There are three basic ways advisors and brokers are paid for their services.

1. Commission based.
2. Fee-based. Here fees, commissions and other forms of compensation can be paid.
3. Fee-only. Here no commissions or other compensation from 3rd parties.

As a fee-only advisor we do not get paid to sell you funds. Only two of the 20-something funds we use even have a 12b-1 fee, and the two that do have them do not pay me any compensation for having them in our portfolios. Fee-based advisors (notice how fee-based sounds like fee-only) get paid by the mutual fund companies to sell their products. This additional compensation is paid out of the investor's accounts, in addition to any loads or other fees. They even set up different fund classes to enable this, charging fund investors more who go through brokers and fee-based advisors.

Fred Frailey, the editor of Kiplinger's says it's time to "get rid of the 12b-1 fees". For our clients we already have done so and they keep more of their money as a result.

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

Sincerely,

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