ALBITZ/MILOE & ASSOCIATES, INC.

REGISTERED INVESTMENT ADVISER

FINANCIAL NEWSLETTER

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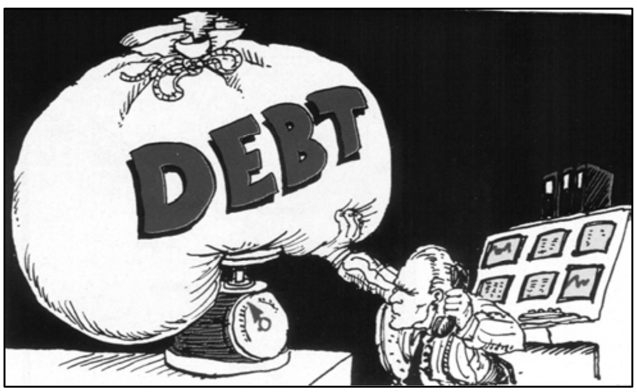
THE CRYSTAL BALL

This is going to be a tough year. Not that it is going to be a horrible year from a financial standpoint, however 2010 is shaping up to be quite frustrating for investors. Anytime politics and political posturing are involved, it makes for a difficult investment environment. Certainly the debt explosion in this country is



worrisome as is the high unemployment rate. These problems will have to be dealt with eventually (the sooner the better, but then again, we aren't politicians). Internationally, pretty much everyone knows what the problems are: A plunging Euro, potential sovereign debt defaults, China credit tightening. The markets are all global now, so problems overseas directly affect our financial markets. Since those are the cards that have been dealt, this is the hand that has to be played. Here is our straightforward plan: Stay diversified and expect volatility… this isn't a novel concept. However, it is easy to let a portfolio get out of whack either because of nervousness and then holding too much cash, or because of being emboldened by big returns and having too much in equities. Things change and emotions will only cause you to make mistakes. [If you want to take volatility out of your portfolio, check it less often.] The middle ground should work this year. For fixed income investments, we would still stay short on the yield curve; we're not going out more than 5 years. At the present time, you just don't get paid enough to invest in longer maturities. Utilities have had a nice pullback and we think they are attractive equity investments. Look for yield but don't chase yield… there is a reason for a big yield. It could be that part of the yield is return of capital, it could be the yield is unsustainable, or it could mean there is high leverage involved. [When in doubt, remember the 50-50-90 rule: Anytime there is a 50-50 chance of things working out, there is a 90% probability that it won't.] Assumption: We are not going to quit using oil anytime soon. Therefore, the integrated oil companies are good core holdings (at the right price). Don't overpay for these big companies. Wait for your price, it will come. Technology will continue to be a growth area. In many cases some of the biggest companies are selling for prices lower than they were five years ago, and they are paying higher dividends than are being earned on CDs. Dividends and potential growth make for a nice combination. Gold is another asset that you don't want to chase. We like the sector for a portion of a portfolio. Miners look better than the bullion at the present time but that can change. Watch out for the wave of speculative mining companies being touted… five years from now, most will be gone. Stick with the big names and don't fall in love with them. They won't love you back.

After the ridiculously harrowing year of 2008 and early 2009, this statement from the English economist Arthur Pigou is worth remembering... *"The Era of Optimism dies in the crisis. It is followed by the Era of Pessimism which is born not an infant but a giant."*

OVERHEARD . . .

"When someone tells you nothing is impossible, ask them to dribble a football."

STOCK CORNER

Here's one for you…there is a group of stocks that is known as the S&P 500 Aristocrats. These are companies that have enriched their dividend payouts for at least a quarter of a century. That is quite an accomplishment for the 43 companies who are Aristocrats. Companies like Abbott Labs, Bemis, Chubb, Coca-Cola, McDonalds, 3M, and PPG are part of the clique. As you know, we like companies that pay dividends. Over the years since 1926, dividends have contributed about 1/3 of the total return in stocks with capital growth making up the rest. Before we get all excited, we must remember that just because there is a good payout doesn't exclude the prices of these stocks from falling, and it doesn't mean that one day they can't be kicked out of the club because they no longer qualify. That said, be aware that there is an exchange traded fund that invests in this elite group of companies. If we mention the symbol of this exchange traded fund, we run into "advertising compliance" issues. If you want to know what it is, let us know and we'll share our information.

FROM AN EMAIL. . .

It's a slow day in a little east Texas town. The sun is beating down, and the streets are deserted. Times are tough, everybody is in debt, and everybody lives on credit...On this particular day a rich tourist from back east is driving through town. He stops at the motel and lays a $100 bill on the desk saying he wants to inspect the rooms upstairs in order to pick one to spend the night. As soon as the man walks upstairs, the owner grabs the bill and runs next door to pay his debt to the butcher. The butcher takes the $100 and runs down the street to retire his debt to the pig farmer. The pig farmer takes the $100 and heads off to pay his bill at the supplier of feed and fuel. The guy at the Farmer's Co-op takes the $100 and runs to pay his debt to the local prostitute, who has also been facing hard times and has had to offer her "services" on credit. The hooker rushes to the hotel and pays off her room bill with the hotel owner. The hotel proprietor then places the $100 back on the counter so the rich traveler will not suspect anything. At that moment the traveler comes down the stairs, picks up the $100 bill, states that the rooms are not satisfactory, pockets the money, and leaves town. No one produced anything. No one earned anything. However, the whole town is now out of debt and now looks to the future with a lot more optimism.

And that, ladies and gentlemen, is how the United States Government is conducting business today!

IMPORTANT REMINDER AGAIN

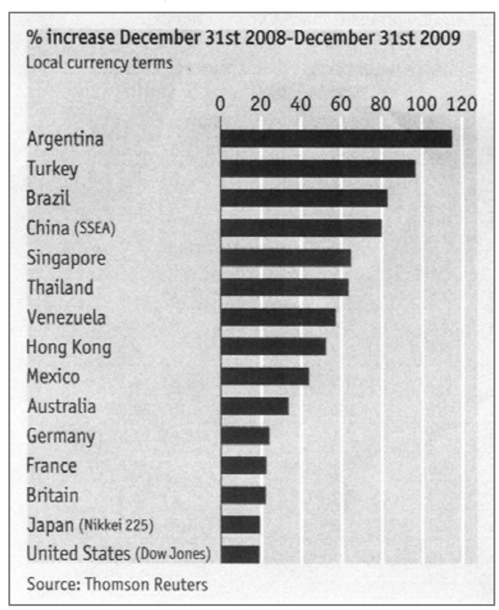
Born on May 17th, 1895, Mary Josephine Ray is currently the oldest person in the United States. At age 114, she has undoubtedly had plenty of time to plan her estate and ensure the orderly and efficient transfer of her assets to her beneficiaries. We hope she has the correct titling on her assets, has reviewed her beneficiaries, and has drafted the proper documents. In our recent experience, we have seen too many people postpone this process until it is too late.

Your estate plan should be reviewed following major life events such as a birth, marriage, divorce, or death. If you have not reviewed your plan within the last five years, it would be a good time to do so. In addition, estate tax laws are being updated in 2010, and it will be worthwhile to review the language in any estate planning documents that aim to take advantage of specific estate tax exemption amounts.

We suggest you make 2010 the year to complete or review your current estate plan. Your beneficiaries will thank you, as proper planning will save them time and much stress when settling your estate one day. More importantly, the process will provide you some peace of mind knowing that your estate is in good order. Contact your estate planning attorney sooner rather than later. If you want our assistance, we are here.

BOOYAH

Last year provided nice returns for equity investors in the U.S. However, check out these eye-opening increases in the emerging markets. Our take: We don't expect these returns to be repeated and many of these markets should be sold.



REVERSE MORTGAGE… PROCEED WITH CAUTION

Are you or someone you know considering a reverse mortgage? If the answer is yes, be sure to take a look at the recent guidelines proposed by federal regulatory agencies for financial institutions. They point out potential pitfalls that senior consumers may encounter when dealing with unscrupulous lenders all too eager to separate seniors from their assets.

A *reverse mortgage* is an interest-bearing loan for senior homeowners that uses a home's equity as collateral. The loan amount available depends on three factors: age (older is better), current interest rate, and appraised value of the home. The loan does not have to be repaid until the last surviving homeowner permanently moves out of the property or passes away. To qualify for this loan, the homeowner has to be 62 or older and have a minimum of 35% equity in their home. Payments to the borrower can be made in periodic disbursements, credit lines, a lump sum or a combination. The reverse mortgage loans are underwritten by private lenders who are insured by the Federal Housing Administration against potential loss. Federal regulators are aiming new guidelines at banks and other institutions that offer reverse mortgage loans to seniors.

Often times, these seniors are unaware that they are signing up for a debt instrument that needs to be repaid when they leave their homes or upon their death. Direct mail is replete with misleading marketing materials from lenders, implying that reverse mortgages are a government benefit, cost little to initiate and do not need to be repaid. Not true. Some lenders also engage in inappropriate cross-selling of additional financial products, presented as a requirement to obtain the reverse mortgage, such as annuities; others fail to mention that the borrower continues to be responsible for paying property taxes and homeowners insurance, as well as maintain the property in good repair.

If you are considering a reverse mortgage, first check out the new federal regulatory guidelines. A reverse mortgage is a complex financial product that requires extra time to comprehend. This can be a great product but remember that there is no free lunch. Ask questions and understand exactly what you are doing when taking a reverse mortgage.

BLUE CRUSH!

If you haven't found out already, there's a shocker coming to you if you're insured with Anthem Blue Cross. In California, policyholders have received notifications that premiums will increase by as much as 39% this year. In a preliminary statement, Anthem stated that the increase was in response to more people foregoing buying insurance, thus lowering the number of people in the insured pool, and thereby driving costs higher across all subscribers. A moratorium on price increases until May just bides time. Whether you are for health care reform or not, as introduced by the Obama administration, one thing is clear, these types of increases are unsustainable for individuals and businesses.

So, what can you do now? Start by analyzing your current policy. Moving to a higher deductible plan is one way to lower costs. If you're eligible, you might give serious consideration to a Health Savings Account (HSA) plan. HSAs are high deductible plans that allow you to invest money each year that can be used to cover medical expenses. Funds accruing in the account do so tax-free, and can also be withdrawn tax-free for medical expenses. Further, you may be eligible to take a tax deduction for funding your HSA. One lesser known option with the HSA is the ability to use it to pay for Long-Term Care premiums. If you'd like to know more about HSAs, or seek alternative health insurance coverage, give us a call.

PERSONAL NOTES

Steve K. - It was good to talk with you after the hiatus. Look forward to working with you again.

Double O. - Keep the faith.

Patti Z. - We appreciate being part of your team.

Sheldon and Susan S. - Thanks for choosing to work with us. We'll miss your Mom.

Dickson and Carol - It was good to see you recently. Thanks for the kind words.

TAX DOLLARS AT WORK

As you send off your income taxes, why not see what the government has to offer you for all that you pay them? Spending 5-10 minutes completing a questionnaire at www.govbenefits.gov will provide you a summary of all the government benefits and programs for which you may be entitled.

LIFE INSURANCE REVIEW

If you currently own life insurance, it is a good time to review your coverage and policy design. Rates have come down with increases in the mortality tables that are used to tabulate premiums. Market volatility and low interest rates have also begun to seriously strain some permanent policies. Fortunately, there are many options available to exchange, modify, or rewrite policies. If you have not had your policy audited in the past 2 years, do it now. By analyzing in-force ledgers, we can help ascertain if any adjustments should be made to your policy. The sooner you act, the better you can control any changes to planned premiums. If a new policy is warranted, we can recommend alternative products; many of which can be funded via tax-free 1035 exchanges. We are actively conducting policy reviews to help ensure you have adequate coverage at affordable rates. If you'd like to utilize this service, just give us a call.

Today's Teardrop from the Government

"Don't worry, it's not a tax, it's a fee."

A STORY ABOUT INGENUITY

The inmate was aware that all prison mail passes through censors. One day he received a letter from his wife asking about the family garden—"Honey, when do I plant potatoes?" she wrote. He wrote back, "Do not, under any circumstances, dig up our old garden spot. That's where I buried all my guns." Within days his wife wrote back, "Six investigators came to the house. They dug up every square inch of the back yard looking for your guns." By return mail she got his answer: "Now is the time to plant potatoes."

Albitz's Opinions and Judgments…

On Health Care Politics . . .

The best line I heard regarding all the back room deals and vote buying that went into trying to get 60 votes for the health care bill was this: "We saw in real time the corruption of politics." I know for a fact that voters don't like that type of politics and it just makes people mad. And making people mad is bad politics.

On the Recession . . .

It might be over technically, but it's not over until the unemployment rate starts to fall. The old saying still applies…"It's a recession when my neighbor is out of work, it is a depression when I'm out of work."

On Ten Things That Make Me Happy . . .

Obviously, family and friends would be at the top of the list but that would be too easy. Here's my list in no particular order: 1) Hearing Art Garfunkel sing "Bridge Over Troubled Water"; 2) Having a good dog; 3) Applesauce and rice; 4) the iPod; 5) Receiving a thank-you note; 6) A funny joke; 7) Homemade lemon meringue pie; 8) A clean car; 9) A tasty mango; 10) Plugging in the Christmas lights and having them all light up.

On Book Recommendation . . .

If I was going to recommend a book to read by a young adult it would be *How to Make Friends and Influence People* by Dale Carnegie. My Dad gave it to me when I was a kid and I just reread it. It's still good.

Until next time,

Phil Chris Paul Clete Sylvia