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Hello Everyone,

As another beautiful summer comes to an end and as the leaves begin to change we continue to count our blessings. Argus Financial Consultants had a new addition on May 28 when Malachi Christopher Sandberg was welcomed into this world. He weighed in at 7lbs., 10 oz. Congratulations to the Sandberg family as that now brings the Argus Financial Consultants' kid total to 9!

If you find yourselves indoors more as the weather turns cooler, take a few moments to read the autumn edition of our newsletter.

If you are inspired to read more financial information, visit our Learning Center at www.EyeOnArgus.com.

Please feel free to suggest topics by sending your suggestion to Joy at joy@eyeonargus.com.

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Excellence is Defined by the Success of Our Clients

Autumn 2009

To Everything There Is a Season

There is no more important investment truism than this: that the very worst place in the world to be looking for guidance to the markets of the next ten years is a rear-view mirror, in which you can clearly see the last ten (or however many) years.

In fact, the more dramatic and extreme the last ten years were, in any respect, the more likely the next ten are to be not merely different, but just the opposite.

If you looked in the rear view mirror ten years ago—in the summer of 1999—you saw index returns of 20% a year streaming behind you. Moreover, you saw returns far greater than 20% routinely available from the "new paradigm" of tech, telecom and especially dot.com, as the Internet—for so the pundits said—was proceeding to repeal the business cycle—and with it, presumably, the market cycle.

It wasn't long thereafter that the broad equity market declined 50%, and NASDAQ—cradle of the new era—went down 80%, taking some five trillion dollars of stock market capitalization with it.

10-Year Rolling Annualized Return for U.S. Equities (1926-2008)

Source: FactSet, as of 12/31/2008. Past performance is not a guarantee of future results. Rolling periods represent a series of overlapping, smaller time periods within a single, longer-term period. A hypothetical example is the 20-year time period from 12/31/82 through 12/31/2002. This long-term period consists of 16 smaller five-year "rolling" segments. The first segment is the five-year period from 12/31/82 to 12/31/87. The next rolling segment is the five-year period from 12/31/83 to 12/31/83 and so on.

Today, a hard glance into the rear view mirror shows ten years of essentially zero returns from equities, after a decade bookended on the front end by the aforementioned stock market implosion, on this end by the total meltdown of the entire global financial system. If history is any guide—and it's about the only guide we have—this isn't the time to be anticipating a long period of substandard equity returns. Indeed, quite the contrary.

The chart, above right, shows that, far from being an entirely new and terrible phenomenon, the recent unpleasantness was actually the third time in roughly the last century that equities delivered no net return for ten years. The... first end-

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ed in 1935—no surprise there—and the second ended in 1974. Much more to the point, the chart shows that ten-year rolling annualized returns trended higher for relatively long periods of time after both of those previous troughs, eventually cycling up toward 20%. There was really only one reliable way completely to miss these periods of exceptional returns. And that was to be guided by the relatively recent past—by staring fixedly into the rear view mirror.

> "The four most expensive words in the English language are, '*This time it's different…*'"
>
> -Sir John Templeton

Mark Twain famously said that history does not repeat itself, but it rhymes. The 1930s (a period of intense deflation) were quite unlike the 1970s (our only real episode of hyperinflation). And neither era has much resonance with ours, either in its causes or its effects. What remains, and seems ever to reassert itself, is the cycle.

A while ago, we were making too many gas-guzzling cars that were too expensive, not least of all because they had labor costs embedded in them that rendered them uneconomic. That has ended now—rather dramatically, in the bankruptcy of two of the Big Three U.S. auto makers—and we're not even producing as many cars as are (at historic rates) being scrapped. That probably can't continue: at some point, people having to buy new cars again, and the production cycle resumes.

A while ago, we were building far too many houses and condominiums on spec, and selling them to people who couldn't afford them with mortgages that were little more than consumer frauds. Those mortgages were then packaged up and sold to (and by) banks and other institutions which apparently had no idea of the risks they were taking on. This, too, is spectacularly over, and (at wonderfully low mortgage rates) we are running off the inventory of unsold homes.

Given population growth and knock-downs of old houses, the long-term trend of housing starts in the US is around 1.6 million a year; in May we startled them at a 532,000 annual rate. Again, at some point the cycle of new construction turns up, adding substantially to GDP growth, just as it penalized growth sharply in the recent housing depression.

A while ago, we decried the historically high levels of household debt Americans were carrying, and their penchant for using the ever-increasing equity in their homes as a species of ATM. Shocked by the economy and the markets, and rearing for their jobs, Americans are rapidly deleveraging today, and the savings rate is soaring.

To everything there is a season, as the author of Ecclesiastes says, and a time to every purpose under the heaven. You might do well, here—in consultation with your financial advisor—to take a deep breath, step back away from the news headlines, and try to start thinking again in terms of the cycle. As you do that exercise, have another good long look at this chart.

You may decide that it's trying to tell you something.

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Q & A

Q. Is now a good time to be in the stock market?

A. That depends. If you are looking at a long term horizon (typically 5+ years) it could make sense to be in the stock market. This assumes you have your emergency fund of at least 3 to 5 times your monthly expenses in place. Everybody's situation is different and the best thing to do is to sit down with one of our advisors to formulate a game plan.

Q. Is this market decline different than the ones in the past?

A. While there are many reasons behind a bear market, they are rather a common occurance. See the chart, right, for a look at the dates of market peaks, troughs, duration of the bear market and the value of the S&P 500 Index at the market peak and the market trough.

The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the US stock market.

DATES OF MARKET PEAK	DATES OF MARKET TROUGH	% RETURN	DURATION	MARKET PEAK	MARKET TROUGH
05/29/46	06/13/49	–30%	36.5 Months	19.3	13.6
08/02/56	10/22/57	–22	14.5 Months	49.7	39.0
12/12/61	06/26/62	–28	6.5 Months	72.6	52.3
02/09/66	10/07/66	–22	8.0 Months	94.1	73.2
11/29/68	05/26/70	–36	18.0 Months	108.4	69.3
01/11/73	10/03/74	–48	20.5 Months	120.2	62.3
09/21/76	03/06/78	–19	17.5 Months	107.8	86.9
11/28/80	08/12/82	–27	20.5 Months	140.5	102.4
08/25/87	12/24/87	–34	4.0 Months	336.8	223.9
07/16/90	10/11/90	–20	3.0 Months	369.0	295.5
07/17/98	08/31/98	–19	1.5 Months	1186.8	957.3
03/24/00	10/09/02	–49	30.5 Months	1527.5	776.7
10/09/07	03/09/09	–57	17.0 Months	1565.1	676.5

Murray, Nick. Behavioral Investment Counseling. The Nick Murray Company, Inc, 2008, updated.

A 2010 Roth IRA Conversion Example

Anyone, regardless of income level, can convert a traditional IRA to a Roth IRA in 2010. Roth IRA withdrawals come out tax-free, and if you transfer or "convert" other retirement money to a Roth IRA, that too can eventually be withdrawn tax-free.

Why you may be in a higher tax bracket when you retire:

◇ You may have paid your mortgage, and therefore lost your mortgage interest tax deduction.

◇ If your grown children have moved out of the house, you may have lost your own dependent deductions.

◇ Social Security benefits could, in effect, raise your federal income tax bracket.

The cost for this is income tax on the money that is transferred.

If you think you may be in a higher, or even the same, tax bracket when you retire, paying less tax now makes more sense than paying more tax later.

In the chart, bottom right, both accounts begin as identical $100,000 traditional IRAs. Both IRAs accumulate at an average annual 8% interest rate for 20 years and have grown to $466,096.

The first account remains a traditional IRA and the second is converted to a Roth IRA. The owner of the traditional IRA will have to pay income taxes on his withdrawals. Assuming a 28% income tax bracket...

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	Traditional IRA	Roth IRA Conversion
Initial Value	$100,000	$100,000
Accumulation After 20 Years (8% Growth Rate)	$466,096	$466,096
Taxes	-$130,507 (28% tax bracket)	-$28,000 (paid at conversion)
Total	**$335,589**	**$438,096**

This is a hypothetical example and is not representative of any specific situation. Your results will vary.

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"Bull markets are born on pessimism, grow on skepticism, mature on optimism, and die on euphoria."

-Sir John Templeton

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$130,507 will be owed.

At the time of conversion, the owner of the Roth IRA is also in the 28% tax bracket and pays the required $28,000 in taxes. Because the Roth IRA account owner's withdrawals are tax-free, the final retirement savings is $428,096—more than $102,500 greater than the traditional IRA account owner's.

While converting today provides the potential to have more money tomorrow, there are important tax and financial planning issues to consider. But if a Roth IRA conversion is right for you, you have a unique opportunity. Paying taxes today gives you the potential for tax-free earnings tomorrow.

In 2009, anyone can convert assets to a Roth IRA if their Modified Adjusted Gross Income is $100,000 or less.

In 2010, the income restriction expires so that anyone can convert to a Roth IRA in 2010 and later.

2010, however, is special for another reason: Conversions made in 2010 allow for the tax liability to be spread over two years with taxes paid in 2011 and 2012. This opportunity is only good in 2010 and conversions made after 2010 will require taxes to be paid in the same tax filing year that the conversion occurs.