BRIAN D. LOWDER, INC.

QUARTERLY NEWSLETTER

Volume 12, Issue 3 October 2009

INSIDE THIS ISSUE

- Financial Market Overview
- Current Economic Outlook
- Portfolio Adjustments
- Reverse Mortgages
- Financial Planning Updates
- Announcements

FINANCIAL MARKET OVERVIEW

The stock market continued to confound the skeptics and rational investors by ending the third quarter 2009 with a 15% gain. Incredibly, the 15% quarterly gain was the best stock market performance during any three-month stretch since 1998. Even more confusing is the fact that the most risky stocks led the charge along with junk bonds. International stocks soared, financial stocks were the best-performing U.S. sector and real estate investment trusts earned a significant return during the third quarter. This all makes perfect sense, right?

In general, growth stocks outperformed value stocks and small to mid-size stocks outperformed large-company stocks. International holdings performed better than the overall U.S. stock market and gold funds continued moving up and passed through the $1,000 per ounce threshold. The broadest measure of stock prices, the Total Market Index, was up 16.3% during the third quarter.

In the following column are sample returns of various asset categories during the third quarter of 2009:

2009 3rd Qtr	**Index Return** *(includes dividends reinvested)*
+ 15.8%	**Dow Jones Industrial Average**
+ 15.6%	**Standard & Poor's 500 Index**
+ 16.3%	**DJ U.S. Total Stock Market (Broad Market)**
+ 14.1%	**Large-company stock-Growth**
+ 16.3%	**Large-company stock-Value**
+ 17.5%	**Mid-Size Stocks – Growth**
+ 21.0%	**Mid-Size Stocks – Value**
+ 16.4%	**Small-company stock- Growth**
+ 21.4%	**Small-company stock- Value**
+ 18.9%	**International (excludes U.S.)**
+ 21.2%	**Emerging Markets**
+ 32.5%	**Real Estate Investment Trusts**
	Fixed Income
+ 1.4%	**Short-term U.S. Treasury** ***(includes appreciation)***
+ 3.2%	**Intermediate U.S. Treasury** ***(includes appreciation)***
	Alternative Investment Category
+ 19.1%	**Gold**
+ 16.3%	**Natural Resources**
+ 0.9%	**Managed Futures**
+ 4.5%	**Declining U.S. Dollar (dollar down 4.5%)**

CURRENT ECONOMIC OUTLOOK

Over the past six months, most of our client conversations eventually gravitate toward the same topic; the seemingly nonsensical behavior of the stock market. How in the world can stock prices be up more than 50% since March 9, 2009 given all of the negative events and media coverage over the past twelve months along with declining economic indicators?

The best answer I can provide is: Most investors form their opinions and base their confidence on current market conditions, television coverage and the news media (newspapers, financial programs and opinions provided through the internet). On a daily or weekly basis, the direction of the financial markets are based

Continued on page 2

Continued from page 1

solely on new information, rumor, trends and the desire for activity or trading profits over very short periods of time. None of the above explanations have anything to do with "investing".

Looking beyond the daily and monthly movement of stock prices, the stock market is *a forward-looking* barometer that will eventually see past the current malaise and move forward – usually four to nine months *before* the actual evidence of recovery is picked up by the news media. Over the short-term, stock market performance is greatly influenced by investor sentiment and short-term trading activity. And, that short-term sentiment is wrong most of the time. On a semi-annual basis since 1999, Wall Street economists have correctly forecast the direction of interest rates only 35% of the time. Similarly, Wall Street strategists' one-year forecast of stock market performance since 1999 have been correct 30% of the time, and when they were correct (the right direction), their *closest* guess was off by 3% and the furthest miss was off by 18%. Forecasting stock market performance is not easy to do, especially when the forecasts are influenced by current market conditions.

The primary point is; successful investing can be attained over the short-term primarily by luck or beating the odds. Long-term investing offers a greater probability of success but requires using different tactics. The first step is starting with the proper reference point.

The last ten years is the first time in decades that the overall U.S. stock market has produced a negative (-2.2%) ten-year return. And this time period includes the abnormally high annual returns exceeding 20% in 1998, 1999 and the 30% plus return in 2003. In addition, current economic conditions are unfavorable (unemployment, negative growth in the economy, poor corporate earnings, growing deficits at the local, state and national level, etc.). On the surface, this seems to be a perfect time to stay away from stocks and perhaps real estate.

Historically, whenever stocks produced less than a 5% annual return over any 10-year period, in every case, the 10 years that followed produced annual returns averaging from 7% to 18% per year. While we cannot know for sure what the next decade holds, it is highly likely to be much better than what we have suffered through in the last ten years. Why? The reason is not because of past statistics and an expectation of repeat historical performance per se. The logical reasoning for better performance following a terrible ten-year period is that *low prices increase the likelihood of better future returns.* Investors who buy at lower prices should enjoy better future results than if they bought at higher prices.

One of the most successful investors, Warren Buffet, states the above reasoning succinctly: "The most common cause of low prices is pessimism – sometimes pervasive, sometimes specific to a company or industry. We want to do business in such an environment, not because we like the pessimism but because we like the prices. It is optimism that is the enemy of the rational buyer".

The biggest challenge we are facing as investment advisers is the dreaded "timing" issue. We know that market timing is futile, current prices are relatively low, and the likelihood of better returns in the future is compelling. Our dilemma is the belief that the prospect of a meaningful economic recovery occurring within the next year is weak. Conversely, we can see why the stock market may hold its current level and perhaps go higher over the balance of this year for several short-term reasons.

First, the comparison of corporate earnings in the third and fourth quarters of 2009 against the same periods in 2008 is likely to be favorable. Corporate earnings during the third and fourth quarters of 2008 were pathetic and miserable as banks were failing, lenders were not extending credit, and the stock market was plummeting. Even though corporate earnings are likely to be awful in the third and fourth quarters of 2009, the comparison of awful earnings this year with pathetic earnings during the same period last year will be reported in the financial news media as "an improvement".

Second, the Federal Reserve has reduced short-term interest rates to nearly zero percent. While this reduction is designed to jump-start businesses to lend and take additional risk in pursuit of profit and to reduce consumer borrowing costs, low interest rates are hurting investors who are accustomed to maintaining all or a meaningful proportion of their investment assets in safe and income-earning investment vehicles. Safe returns for income oriented investors range from 2/10^{ths} of 1% for savings and money market accounts to 2% for certificates of deposits. Treasury Notes with a ten-year maturity only pay 3.25%.

Continued on page 3

Continued from page 2

The low and safe return is insufficient to cover normal living expenses and is causing or forcing investors to pursue additional risk in search of higher returns via the stock market. Combine the pursuit of higher safe returns with the recent 50% advance in the overall stock market since March 9, 2009, and you can easily make a very compelling case that this current stock market advance lacks solid fundamentals. The economic fundamentals are terrible: the unemployment rate is 9.8% and when you consider part-time workers who cannot find full-time employment with those individuals who do not have a job, about 26 million Americans are out of full-time work. Our Gross Domestic Product (the sum of all goods and services produced in the U.S.) is negative! The current macro economic policies (stimulus money) of providing temporary funding to keep employment from falling along with gimmickry programs, such as the "cash for clunkers program" are not long-lasting solutions at all. Credit card defaults or charge-offs rose to a record high last month. Simply stated, we are taking a conservative path.

PORTFOLIO ADJUSTMENTS

Our position for investment management clients is to take the middle of the road at best, err on the conservative side by holding fewer equity positions than normal, continue adding/holding more conservative choices such as energy, water, and other income-paying stocks along with other temporary positions such as declining U.S. Dollar positions, gold and foreign government bonds. We will wait patiently for more conviction and (long-term) evidence that the economy is headed for a sustainable recovery and ignore the short-term trading opportunities over the balance of this calendar year.

Reverse Mortgages: Worth Considering?

The most common reverse mortgage is the *Home Equity Conversion Mortgage, or HECM*, which is insured by the Federal Housing Administration. If you are considering one, there is much to learn and much to know before signing on the dotted line.

A reverse mortgage is a loan that allows homeowners to tap the equity in their homes without making monthly payments. The bank loans you the money either as a lump sum, a line of credit, monthly draws or a combination of the above. You have to repay the loan eventually with interest – usually when the home is sold, if you move out for more than 12 months or after both owners die. You don't have to repay the loan during the term of the reverse mortgage, no income or credit qualifications are required but the homeowner(s) must be age 62 or older. Further, you retain title and ownership of your house and must continue paying property taxes, insurance and repairs. Because the reverse mortgage is a loan, the money you receive is not taxable and there is no interest deduction because interest accrues and isn't paid back until loan maturity, the property is sold or the surviving joint owner dies. Lastly, if you have an existing mortgage on the home, you must use part of the proceeds from the reverse mortgage to pay it off completely.

If your heirs inherit the house, they must pay off the reverse mortgage loan. If the debt (loan plus accrued interest) is more than the house is worth, the heirs would have to come up with the difference. The only way to avoid coming up with the difference is to sell the property because if sold the insurance, which is required on reverse mortgages, kicks in and pays the shortfall.

If you are considering a reverse mortgage, should you request a lump sum, monthly payments to you, a line of credit to use as needed or a combination of all three? Generally, the line of credit is more advantageous. You may use it if and when needed. Interest will only accrue on amounts withdrawn/borrowed. Note, a line of credit or fixed monthly payout reverse mortgage *comes with an adjustable interest rate*, which can change monthly or yearly. A fixed interest rate is typically only available if you take a one-time lump sum reverse mortgage.

A lump sum reverse mortgage is appropriate for those borrowers who want to lock in the costs and use the all of the (borrowed) money at once. Those borrowers who wish to receive monthly payments for life or a long period of time in an effort to create another source of monthly income (similar to Social Security or a pension payment) should consider the monthly payout option. In all cases, the consumer should be well aware that the costs of a reverse mortgage are significant.

First, there is a loan origination fee equal to 2% of the initial $200,000 loan and 1% more on the borrowed amount above $200,000 with a maximum fee of $6,000. Second, you will pay closing costs for title insurance, recording fees, etc. which typically run into the thousands or more. You must also pay insurance premiums – remember the guarantee that your reverse mortgage will be paid in full if sold and the proceeds don't cover the entire mortgage balance. You pay for that coverage and the cost is about 2% of the loan amount plus an annual ½% fee charged on the loan balance. Lastly, the lender sets up a "servicing fee set aside" of a few hundred

Continued on Page 4

Continued from page 3

dollars to cover the loan servicing fee of $30 to $35 per month. Most of the fees are set by the government, but some costs such as the interest rate, monthly loan servicing fee, etc. can differ by lender.

After tallying up all of these costs, a borrower is looking at costs equal to 5% to 10% of the loan amount – very expensive. If you have a short-term need for cash or you plan to move within the next 5 years, consider a regular home equity loan, a home equity line of credit or simply selling the house and buying a cheaper one (or renting).

The maximum loan amount through 2009 is $625,500 and is scheduled to drop to $417,000 in 2010. The lenders will place a limit on how much they will lend to you by making sure the limit is well-below the appraised value of the home. The bottom line is: reverse mortgages are generally a last resort for seniors. It might be a good fit or the only choice if the borrower wants to stay or age in place, with loan proceeds paying for future home health care instead of moving to assisted living. Or, seniors wish to stay put for ten years and then sell to move into retirement or assisted care facility. Reverse mortgages should not be viewed as just one more source of borrowing to avoid the discipline of living within your means.

FINANCIAL PLANNING UPDATES

Expect the maximum 401k contribution limits to fall in 2010. The maximum contribution is established by using a formula tied to the third quarter Consumer Price Index. That is normally not a concern for investors because inflation has steadily increased and therefore the maximum contribution amount has increased as well. The CPI will most likely decline because prices are falling (deflation) and the inflation figure expected to be announced on October 15th will likely be lower than a year ago.

Same bad news for Social Security recipients. Customary annual increases in benefits will not occur in 2010 because the inflation rate has declined and most likely will be a negative rate of change.

Contact Us

Brian D. Lowder, Inc.

Brian D. Lowder, CFP®, CFA
Michael Kinnear, MBA, MSFS, CFP®
Clinton Winey, MBA, CFP®, CFA
Remette Martinson
Pamela Priest

Address
12780 High Bluff Drive Suite 100
San Diego, CA 92130

Telephone
(858) 794-6800

Fax
(858) 794-6906

Website
www.bdlowder.com

Email
brian@bdlowder.com
mike@bdlowder.com
clint@bdlowder.com
rm@bdlowder.com
pam@bdlowder.com

Brian D. Lowder, Inc., a California Corporation, is a fee-only wealth advisory firm specializing in comprehensive financial planning and investment management. Brian D. Lowder, Inc. is registered with the Securities and Exchange Commission and licensed by the State of California Department of Corporations as an Investment Advisor.

Best regards

Brian Lowder   Clinton Winey   Michael Kinnear   Remette Martinson   Pam Priest