

# BEYOND THE HORIZON

3rd Quarter, 2009 Issue

## MARKET OUTLOOK

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Bear markets are a natural part of the economic landscape. In fact, severe market declines of 20% or more have historically occurred about once every 3.5 years having an average duration of 332 days. The last of such occurred in October 2002. Unlike most bear markets, however, the depth and breadth of this current one has been widespread and more severe. In 2008 only about 5% of the S&P 500 recorded gains for the year. In fact, there have been only a few other bear markets in history that have been as severe as the current one. They occurred during the Great Depression, World War II and the early 1970s (during the Vietnam War, oil crisis, and Middle East conflicts).

The period following those severe bear markets, however, brought about a resurgence of the equity markets. If we consider the most recent severe bear market of the early 1970s, the S&P 500 dropped 44.8% from January 11, 1973 through October 3, 1974 amid roaring unemployment and rampant inflation. Despite these issues, things began to turn around and markets started to rise. From its October 3, 1974 low through September 21, 1976, the peak of the market cycle, the S&P 500 advanced 87.8%.

Recoveries don't happen overnight, and this one may be even slower than those in the past. But as of mid-year, the equity markets have regained some of the losses incurred since the low point of March 9, 2009. There are also signs of an improving economy. Banks are raising capital and lending again, though on a limited basis. Home sales are climbing, albeit slowly, and are actually expected to add to GDP growth next year. Consumers are spending again, which should result in retail sales being better in the second half of this year. Although unemployment continues to rise, the economic pluses are outweighing the minuses. We may have a way to go before a recovery is on solid ground, but we are confident that the worst is behind us.

Fortunately, the drastic cost-cutting measures taken by corporate America will limit the damage to corporate health. BusinessWeek reports that the inflation-adjusted earnings decline of corporations, based on the Commerce Department's tally, have been less thus far than in the comparably severe downturns of the 1970s and 1980s. Therefore, as an economic recovery picks up steam, corporations are expected to be extremely lean, financially fit, and in top condition to take advantage when a recovery arrives. In a recent interview by ABC News, Warren Buffet stated "we're going to come out of this better than ever". He felt that it would not be next week or next month. But when we do recover, "we will come out big time".

Where do we see opportunities when the economy does recover? We believe that the next wave of prosperity will be brought about by innovations in technology. The world is demanding products and services that are cleaner, cheaper, and faster. For example, we see cloud computing growing in demand. As a very basic definition, cloud computing is the ability to use software and data on the internet (a.k.a., the cloud) instead of on your hard drive. Instead of storing information on devices such as laptops, handhelds and smartphones, information can be accessed over the internet making it possible for people to be connected almost anytime and anywhere from any device. It makes computing less expensive by reducing the amount of hardware and software needed. Major corporations are embracing the technology. It is allowing them to reduce their IT costs, better manage sales, increase connectivity, and improve service response time. BusinessWeek reports that for the tech industry, the shift toward cloud computing may offer the largest growth opportunity since the internet boom. Gartner, an information technology research and advisory company, predicts the market for cloud products and services will vault from \$46.4 billion last year to \$150.1 billion in 2013.

As consumers and investors, there are opportunities for us to rebuild our portfolios and get ourselves in top condition for a recovery. Establish or continue automatic investment plans, such as contributing to a 401(k) or retirement account on a regular basis. During market downturns, you are buying at lower prices, thereby buying more shares. When the market recovers, you have a greater number of shares to appreciate in value. Be sure you have sufficient emergency/cash reserves. If not, accumulate them where possible. Take advantage of tax incentives such as tax-free earnings in a Roth IRA or 529 and Coverdell Education Savings accounts. Make it a priority to pay down debt or avoid incurring additional debt.

Now is the time to take stock in how we live our lives. Look for opportunities brought about by challenging times such as these. Americans, as a whole, have begun to take action. As of May 2009, the personal savings rate in the U.S. is the highest it's been since December 1993. We should position ourselves now to take full advantage of the recovery when it comes.

*Sources: American Funds "flyer" January 2008, June 2009, July 2009; The Kiplinger Letter; BusinessWeek, June 15, 2009, July 13 & 20, 2009; U.S. Department of Commerce: Bureau of Economic Analysis.*

*Disclaimer: The opinions expressed herein do not necessarily reflect those of Trustmont Financial Group/Trustmont Advisory Group.*

## YOUR FEEDBACK IS IMPORTANT

As an independent advisory firm, we work for you, our clients — not a bank, insurance company, or Wall Street firm. That is why your opinion is important to us!

Please take a minute and answer the questions on the enclosed survey. We have provided a postage-paid return envelope for your convenience in returning it to us.

## IMPORTANT REMINDERS

- Our summer hours are in effect through September. Therefore, our office closes at Noon on Fridays. If you need immediate assistance or to place a trade after Noon on Fridays, emergency contact information will be available on our answering machine.
- Statements from TD Ameritrade and American Funds are available for e-delivery. If you would like to receive those statements electronically, please call our office.
- The Residential Energy Property Tax Credit is back for 2009 and increases the tax credit for homeowners who make energy efficient improvements to their existing homes. The new law increases the credit rate to 30% of the cost of all qualifying improvements and raises the maximum credit limit to \$1,500 for improvements placed in service in 2009 and 2010. Be aware that the standards in the new law are higher than the standards for the credit that was available in 2007 for products that qualify as “energy efficient” for purposes of this tax credit. The IRS has issued guidance that will allow manufacturers to certify that their products meet these new standards.
- If you carry your health insurance coverage through your employer and lose your job, you may be entitled to continue the coverage at a reduced premium. Assistance is available for those who lose their job due to involuntary termination that occurs between September 1, 2008 and December 31, 2009. Individuals who are eligible for COBRA continuation health coverage may receive a subsidy of 65% of the premium. Individuals are required to pay 35% of the premium. The employer will recover the other 65% of the cost from the Federal government when they file their quarterly employment tax returns with the IRS. This provision is part of the newly passed American Recovery and Reinvestment Act of 2009.
- The 0% tax rate on qualified dividends and capital gains is still available for years 2009 and 2010. The rate applies to qualified dividends and capital gains earned in taxable (non-retirement) accounts for individuals who fall in the 15% tax bracket or less (which is less than \$67,900 of net taxable income for married filers and less than \$33,950 for single filers for 2009).
- The first-time homebuyer tax credit is available for purchases that close before December 1, 2009. Taxpayers will receive a tax credit of 10% of the purchase price of their primary residence or \$8,000, whichever is less. A first-time buyer is considered anyone (including your spouse) who has not owned a home in the three years prior to a purchase. The credit begins to phase out for married couples with adjusted gross income in excess of \$150,000 and for singles in excess of \$75,000.

Sources: *Internal Revenue Service.*

## INVESTMENT CORNER

As an independent advisory firm, we work with all types of clients and all types of investment products. Over the past 20+ years, we have found that the tax-deferred annuity has been an appropriate investment for many of our clients. That is why we would like to highlight the tax-deferred annuity in this issue. The following describes what an annuity is and how it works.

There are different types of annuities, but all annuities have several features in common. First, they all offer tax-deferred interest. In other words, the earnings are not taxed or reported until withdrawn. You are also able to transfer existing annuities from one company to another without incurring income taxes. This option is used for older policies that are earning lower rates than what is offered for newer policies. Because annuities offer tax-deferred earnings like most retirement plans, they also carry similar IRS guidelines. For example, withdrawals prior to age 59-1/2 are subject to an IRS 10% penalty for early withdrawal. Therefore, annuities become more flexible for clients nearing or in retirement. Annuities also do not impose fees or sales charges to purchase them. Instead, an annuity will have a surrender charge period, whereby excess withdrawals during that period would be assessed a surrender charge. Nearly all annuities allow you to withdraw your interest and, often, as much as 10% of the account value each year without a surrender charge. Lastly, annuities allow you to name beneficiaries. Therefore, payouts upon death to named beneficiaries bypass the probate process. (*Refer to our previous newsletter for a further discussion on the probate process.*)

Though all annuities have the above features in common, other features of an annuity can vary depending on the type of annuity policy. There are three basic types of annuities— fixed, variable, and index. A fixed annuity refers to the principal as being fixed. In other words, it is not subject to market risk. The interest rate being earned, however, can be fixed or variable. A variable annuity, on the other hand, does involve market risk because your principal is invested in mutual fund-like portfolios called subaccounts. The investor chooses how the annuity is invested among the subaccounts offered. The rate or return earned is dependent upon the performance of the subaccounts chosen. Lastly, an index annuity, in our opinion, is a cross between the fixed and the variable annuity. It is much like the fixed annuity in that your principal and earnings are NOT subject to market risk. However, like a variable annuity, your rate or return is tied to the performance of the market, most commonly to the S&P 500 index. This type of annuity affords you the opportunity of a higher return without the risk to principal.

If you have questions, would like to inquire about current rates, or would just like to learn more about an annuity, please call our office.

*Annuities are not FDIC insured. Highlighting this product in no way implies that it is suitable for everyone.* FOR RATES OR MORE INFORMATION ON THIS OR OTHER SIMILAR PRODUCTS, PLEASE CALL OUR OFFICE.

### **HORIZON FINANCIAL ADVISORS**

Jonnet Building, Suite 303 4099 William Penn Highway  
Monroeville, PA 15146-2513  
Phone (412) 856-7300 / (800) 852-7182 - Fax (412) 856-3677  
E-Mail: [info@horizonfinancialadvisors.com](mailto:info@horizonfinancialadvisors.com)

Securities Offered Through  
TRUSTMONT FINANCIAL GROUP/TRUSTMONT ADVISORY GROUP  
200 Brush Run Road, Greensburg, PA 15601 / (724) 468-5665  
Member FINRA/SIPC