

J.K. Financial, Inc.

Newsletter

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REGISTERED INVESTMENT ADVISOR

Happy Independence USA

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What is a pension? Retirement plan and more

NOTE: With the bankruptcy of General Motors and many company buy outs and mergers, we have decided to have a pension theme with much of the subject matter in this newsletter. Much has been written about pensions, the under funding of, bankruptcy effects, benefits and strategies. In this newsletter, we will attempt to bring clarity to these subjects and more.

A pension is a retirement plan generally held in a tax advantaged or Wall Street lingo, "qualified" account. Qualified, or tax advantaged, under normal circumstances means the IRS gives you a break on paying taxes on gains, interest and dividend income during the savings part of your life, only to begin ordinary income tax rates at the distribution phase.

For the purpose of our discussion, we are talking in most cases about large corporate plans from publicly traded legacy companies.

Examples include -- and what most people think of when you say pension -- corporate company funded and managed plans that pay out a certain benefit given tenure of service and income levels at a given age. IRA's are a type of pension as well

as 401k's, although not the subject of most of our discussions; IRA and 401k plans are called Defined Contribution plans, which

For the purpose of our discussion, we are talking in most cases about large corporate plans from publicly traded legacy companies.

simply means the employee defers his or her own dollars, takes the responsibility of investment allocation and also has extreme control when leaving an employer. 501c3 and 501c plans are very similar to 401k plans but are made for non-profit entities.

The subject of our discussion is called Defined Benefit Plans. Just as the name implies, Defined Benefit Plans operate

under a formula for giving an individual a retirement benefit of a certain retirement replacement amount usually tied to an average income level for a period of time, and at a certain age, in most cases for the rest of the participant's life.

As you may have noticed, Defined Benefit Plans are very similar to a Social Security benefit, and have many of the same problems and draw backs of our current Social Security system. More on this later.

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55

percent Fortune 100 companies offer pension plans today. 90% Fortune 100 companies offered pension plans in 1998.

World's largest pension funds according to Pension and Investments:

- Government Pension Investment of Japan
- Government Pension, Norway
- ABP, Netherlands
- California Public Employees, U.S.
- National Pension, Korea



FIVE THINGS TO KNOW about your pension

- Where is my latest statement and how long ago was that?
- What age can I take benefits?
- Can I take a lump sum benefit?
- If I die, will my spouse receive benefits?
- Is it funded or unfunded?

Pension benefits go unclaimed

How to investigate your benefit from current, former employer

In most cases, just as Social Security sends an annual statement of your service time and expected benefits, corporate plans do the same. **The issue we find challenging is most plans send only an annual benefit statement and with the average American living in his residence only seven years, he can easily lose track of his status as a pension beneficiary.**

For those workers with great wisdom (have been in the workforce for some time) and those who have worked at a company for many years, you may have been the beneficiary of a pension and not even known it. We have found that reporting to participants on their pension benefits tends to

get worse the farther we go back in an employee's working years.

If you are uncertain as to a benefit from a current or, more importantly, former employer and worked

for more than approximately three years, we recommend the following steps. This is especially true if you were employed by a large, mature,

For those workers with great wisdom (have been in the workforce for some time) and those who have worked at a company for many years, you may have been the beneficiary of a pension and not even known it.

This is usually met with a request for identification of your Social Security number, address and possibly your termi-

nation date. (If you are currently employed at the company at issue, then this call should be directed toward your current HR department and should be easy and relatively simple.)

Review any exit documents you may have retained after leaving the company for any language that may lead you to believe you have a benefit.

Review any exit documents you may have retained after leaving the company for any language that may lead you to believe you have a benefit. This language is often buried in the documents and says something like "You have a benefit that will be available at a certain age, i.e. 65.)

Try calling the company's HR department and asking them if you are a beneficiary.

If you have had no success with our first two recommendations, yet still feel you may have a benefit, check the Pension Benefit Guarantees website at <http://search.pbgc.gov/mp/>. This list is for terminated plans that have beneficiaries that the PBGC has been unable to find.

Commencement date for benefits

Confusion often arises when determining the commencement date for fixed income benefits. Our definition of fixed income benefits are the irreversible election of a benefit for the beneficiary's life and his or her co-beneficiary. Every situation is different and our discussion is not meant as a recommendation to be-

Every situation is different and our discussion is not meant as a recommendation to begin your pension benefits without further analysis.

gin your pension benefits without further analysis.

Key benefits for pension beneficiary's to review before electing permanent benefits are as follows:

Beneficiary death benefit: Generally under current interest rate environments we like full survivor benefit or 100% spousal benefits in the event of the primary beneficiary's death. This is not always the case, and careful analysis is necessary to confirm

this election.

Cost of living adjustment: This term is used to describe the increasing annual benefit associated with an inflation adjustment which is most commonly tied to CPI (Consumer Price Index).

Commencement date: *This is the most important decision you will make concerning permanent benefits.* Every situation is different and careful analysis is necessary. *K*

Who is the regulator for pensions?

For 2009, the maximum guaranteed amount is \$4,500 per month (\$54,000 per year) for workers who begin receiving payments from PBGC at age 65.

The Pension Benefit Guarantee Corporation, a government body that many individuals have become aware of due to the failure of some plans, has this explanation:

"PBGC is a federal corporation created by the Employee Retirement Income Security Act of 1974. It currently protects the pensions of nearly 44 million American workers and

retirees in more than 29,000 private single-employer and multi-employer defined benefit pension plans. PBGC receives no funds from general tax revenues. Operations are financed by insurance premiums set by Congress and paid by sponsors of defined benefit plans, investment income, assets from pension plans trusted by PBGC and recoveries from the com-

panies formerly responsible for the plans."

This government entity is the main regulator of pension plans and can be found on the web at <http://www.pbgc.gov/>.

As of September, 2007 the PBGC has a deficit of \$13.1 billion, down from a deficit of \$23.3 billion in September, 2004. *K*

Pension options

Pension strategies: leave or invest?

Ok, so you are one of the lucky ones who has a pension, and better yet, your estimated benefit will be \$75,000 at retirement. After discovering this information, you also discover you have the option to roll your pension balance into an IRA. Should you do this?

The answer is easier than the explanation, but in a word, it depends. Through our research, we find pension funds offer clients a 3-5% estimated return. For this example, let's assume

after calculating the return, it is estimated that the company is going to give you a 3% return. (For younger beneficiaries, this decision is frequently yes.)

If you feel you can invest the funds and earn more than 3%, then it makes sense to roll the funds into an IRA and invest the funds. But remember, these are long term funds, set aside to provide a benefit for the rest of your life, so be sure to treat them this way.



Diversifying your pension

To make things slightly more complicated, let's assume after completing the estimated return of the pension, it is 9%. In this example, it may make more sense to let the company keep the funds and take the benefit, with of course one caveat.

A pension return of 9% sounds too good to be true and may turn out to have some type of problem in the future guaranteeing. A trick that would help guarantee your benefits might be to roll part of the pension over into an IRA, lowering your benefit to the

Pension Benefit Guarantee maximum of \$54,000 (see related article "Who is the regulator of pensions?") thereby moving your base benefit below the guaranteed level and taking personal control of the rest.



A word about non-qualified pension plans

One type of pension that investors should be aware of the risks are called "non-qualified" or "unfunded" pension plans. These are generally plans that have greater risk.

Many non-qualified plans are subject to the full faith and credit of the underlying company. This is not the case with the pensions we have mentioned before. These non-

qualified plans are lost in the case of a default to a creditor or even sometimes in a change of control. If you have a non-qualified pension plan, certainly keep track of it, and make

sure you know the balances and benefits but for planning purposes, do not depend 100% on it being there as this is a riskier type of plan.



Three economists comment at CFA Conference

Our thoughts on each: the good, bad, ugly

In a play on one of the old western movies, "The Good, The Bad and The Ugly," there were three most impacting presentations from the CFA Institute Conference in Florida. These came from Liz Saunders, Chief Market Strategist for Charles Schwab; Nouriel Roubini, current professor at NYU and Russell Napier, author of **Anatomy of a Bear.**



**Liz Saunders,
"The Good"**

Liz Saunders,
Chief Market

Strategist for Charles Schwab, was by far the most bullish of all the presenters. We have labeled her "The Good."

Liz believes it is possible we are out of the recession as of May, 2009. She certainly acknowledges the possibility of an event that may slow the recovery but

We are more positive that housing is gaining traction but we still have work to do.

thinks there is a good possibility we have economically bottomed and are on our way to a recovery. Some of her key points are:

Analyst expectations are now within reason. (Donald wrote about this extensively in the blog and we are 100% in agreement with Liz on this point.)

LEI (Leading Economic Indicators) are getting better. (We agree.)

Cash on the sidelines will move into the capital markets. (We are skeptical of this, but again acknowledge that much money has been pulled from the capital markets at the exact incorrect time.)

Housing Market may be getting close to a bottom. (We are more positive that housing is gaining traction but we still have work to do.)

Inventories are declining. (Interestingly, this is a recurring theme

over various presenters. We agree that inventories -

We agree that inventories - broadly for our country - are down but we are not as sure on the recovery based just on this point.

broadly for our country - are down but we are not as sure on the recovery based just on this point.) Liz was asked if she feared inflation in the pending quarters. While somewhat worried, she acknowledged the importance of a withdrawal of expenditures in the future to counter the great spending the government is doing today, rightly so in her, and our opinion, to keep inflation in check. Again, for these reasons, we label Liz "The Good."



**Nouriel Roubini,
"The Bad"**

Nouriel Roubini, a well know economist, National Bureau of Economic Research staff member, London based Center for Economic Policy Research staff member, former IMF economist and current professor at NYU earned our stamp of "The (see Discussion, Page 6)

The good, bad, ugly

Discussion continues on end of recession, inflation, deflation, stimulus, market

(continued from Page 5)

Bad” due to his extremely bearish posture. Due to his popularity, it is easy to follow Mr. Roubini’s comments as they are well publicized and almost always draw headlines. Here are a few:

The U.S. economy will come out of the recession in the first or second quarter of 2010. (We tend to be slightly more optimistic than Mr. Roubini.)

Deflation will be the main problem for the remainder of 2009. (Possibly, but we think stabilization may occur sooner rather than later.)

Inflation will be our next big challenge. (We agree.)

Mr. Roubini, in a January, 2009 conference in Switzerland, stated that he felt the U.S. would be in a recession for at least the next two years and possibly into 2012. We state this only to show his change in posture, which is certainly reasonable given new facts but shows even Mr.

Roubini’s bearish views becoming more positive.



Russell Napier, “The Ugly”

Russell

Napier, former Attorney, researcher and author of

Anatomy of a Bear, earned our “Ugly” label, not because of his looks but rather due to his market call.

Mr. Napier began his presentation by telling us not to worry because the market will go up over 50% over the next several years but we will soon see a very strong bear market taking the S&P 500 to a low of 400. The recent low set in March was 666 on the S&P 500, making his call another 50% lower than that recent low.

Mr. Napier had several reasons for the dramatic market moves, a few summarized here:

The stimulus will eventually lead to inflation.

(We agree and think this is a high possibility.)

The market bottom in March, while extreme, was not extreme enough.

Interest rates will begin rising over the next several years, forming a headwind for equity investors. (We agree.)

Bonds are not a good investment today but will be in the future as rates rise. (We agree 100%.)

Oddly enough, Mr. Napier’s comments most aligned with ours with the exception of the S&P 500 low call. After studying Mr. Napier’s book, one of the most interesting facts is the continued maximum negative news, psychology and interest toward the capital markets at or very near the bottom of the market cycle. Many stories are written about the destruction but investors are interested in creation and should take heed when these headlines reach maximum tolerance.

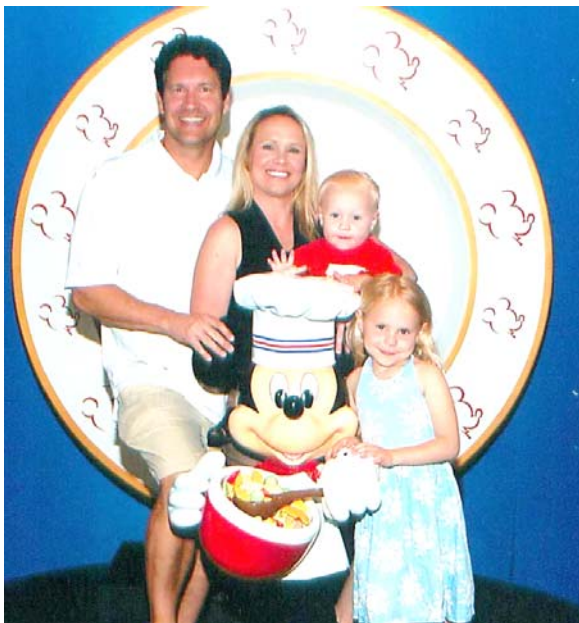
Oddly enough, Mr. Napier’s comments most aligned with ours...

Bet you didn't know... *John* and *Donald*

As a follow up to the overwhelming response of our "day in the life" article of John and Don in last quarter's newsletter, we thought we would give you a bit more personal - and sometimes entertaining - information about ourselves.

Bet you didn't know this about John:

- In his teenage years, he ran a lawn mowing business.
- One summer, he spent time behind the garbage truck picking up trash as a temporary city worker.
- As a walk-on, he attended college for three years on a golf scholarship.
- He graduated from college in 1989.
- With only a phone and a very large phone book of unsuspecting clients, he started his investment career at a large financial institution.
- He earned the CFP designation in 1994.
- And he earned the CFA Charter in 2003.
- He is a cat person.
- He loves the outdoors.
- And, he is a closet computer geek.
- On July 1, 2009, he took over the CFA Presidency for a one year term for the Dallas Fort Worth Society.



Bet you didn't know this about Donald:

- Donald was born in Boston, MA.
- He is a die-hard Red Sox Fan
- When he was 10 years old, he moved to Waxahachie, Texas, because his father took a job with the Superconducting Super Collider.
 - He worked for three different companies in one building when he was in high school.
 - He has worked for J.K. Financial since he was 18 years old.
 - He graduated from the University of Texas at Austin.
 - In 2007, he earned the CFA Charter.
 - He went to Greece for his honeymoon.
 - He loves to run.
 - He has a brother serving in the U.S. Air Force.
 - His parents still live in Waxahachie.
 - His wife is about to begin her second year in law school.
 - They just celebrated their three year wedding anniversary.

*Lawn
mowing
business,
Red Sox
Fan,
Outdoors,
Running,
President*





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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

Office news:

We are updating our blog with great regularity and appreciate all of the regular viewers. For those of you who have not checked it out, take a look at www.street-cents.com. We are pleased with the site.

Investment Policy Statements or Mission Statements for our investment funds now need a signature. If you do not remember signing one, be on the watch as we will be mailing you one before the end of summer.

Parting thoughts:

On April 14th, 2009 John's Mom passed, suddenly, and unexpectedly. For those of you who are learning this as you read, we apologize. For those of you who have sent your condolences, they are much appreciated. Dad and the family are doing well.

We hope you have enjoyed our **Red**, White and **Blue**, USA Independence theme and give a special thanks to our new editor, Kathy Colvin.

Enjoy your summer and remember to take time to spend with the special people in your life.

Sites to visit

- www.pbgc.gov
- www.usa.gov
- www.economy.com

Dates:

Labor Day is Sept. 7, falling on a Monday, markets closed.

Opening day of NFL season, Sept. 10

14th Annual J.K. Financial, Inc. Holiday Party, Dec. 13, Sunday afternoon (Dallas Athletic Club)