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Washington and Wall Street

By Scott Smith

I have been feeling so safe and secure lately... with the comfort of knowing our elected officials are turning their king Solomon like wisdom towards all of the big and evil banks and corporations on Wall Street. I am sure that when the Goldman Sachs executives were marched into the Congressional chambers for their public whippings, it was just the first sign of more inquisitions to come. I guess we can all sleep well now, knowing our Congressmen and Congresswomen are watching over us.

To be clear...if any corporate executives or captains of industry have broken the law or done anything un-ethical...they should be held accountable and made an example of.

However, I thought that just for fairness sake, it might also be appropriate to highlight a few things that our Congress has done over the years that have been germane to the witch hunt. Our Government greatly influences the economy and our financial markets in many ways, not only through the laws and regulations they enact, but also in more direct ways such as increasing or decreasing money supply, actions of the Federal Reserve, and indirectly through government sponsored entities like Fannie Mae and Freddy Mac. To do a complete inventory of these actions would be impossible, but I wanted to point out a few of the more relevant ones here, and I have also provided some links if you care to look more deeply into these items yourselves.

First let's give the big picture view of what

happened to our economy in 2008. 08 was a debt crisis. Basically "toxic assets" which consisted largely of mortgage backed securities, were packaged, leveraged, bought, sold and eventually permeated many "too big to fail" entities, and even some foreign governments, and when the prospect of these assets defaulting became a scary reality, all hell broke loose. That's a gross oversimplification, but still very accurate.

So how could this have happened? Well, the mantra coming from Washington and many media outlets is that it was the big, greedy CEO's and executives of Wall Street that "made this happen". That could very well be. They certainly were at the heart of everything that went down. But let's take a look at some other historical facts as well.

After the market crash of the 30's that launched the Great Depression, our Congress took action. The Banking Act of 1933, (also known as the Glass Steagall Act) was passed, which effectively separated banking and Wall Street. Under Glass Steagall the concept of "mortgage backed securities" didn't exist. When a bank made a mortgage loan, that bank held it to maturity. That all changed though on November 12, 1999, with the passing of the Graham-Leach-Bliley Act. This act was passed by huge majorities of both parties and signed into law by President Clinton, repealing Glass Steagall and opening the door for the "securitization", buying, selling and trading of private mortgages. It also opened the door for banking, securities firms and insurance companies to enter each others back yards through holding companies, where

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different affiliated firms offer different groups of services but are all owned by one controlling company at the top. So, think "too big to fail" and the genesis of mortgage backed securities. Both of those terms have been rather familiar through this whole economic mess haven't they? When you see a member of Congress sitting on an investigative panel, pounding their fist and asking "how could this happen?" you may want to look up how that member voted on the Graham-Leach-Bliley Act. Here is a website if you would like to do that:

<http://www.govtrack.us/congress/vote.xpd?vote=s1999-354>

Still though, as long as mortgage lending was done responsibly this act would not by itself cause the problems of 2008. After all, as long as mortgages were being issued to credit worthy borrowers who could put 20% down, the risk of these loans becoming "toxic" was very low. But...that's not what happened. Long before 1999 a couple other things happened. In 1968, Fannie Mae was privatized and in 1970 Freddie Mac was created and started operating as Government Sponsored Entities, or GSE's, with implied government backing. The general purpose of these institutions was to help lower income individuals and families gain access to home financing. For the next 30 years Fannie and Freddie had a veritable monopoly over the secondary mortgage market. Around the same time, Congress started to focus more and more on not just enabling access to financing, but "encouraging" access to financing. An example of this would be the Community Redevelopment Act signed into law by President Carter in 1977.

http://en.wikipedia.org/wiki/Community_Reinvestment_Act

From there, some believe this Congressional culture of "encouragement" actually morphed into "pushing". To specifically prove this is probably impossible, but consider this...the prior administration tried multiple times from 2001 to 2008 to propose greater supervision and investigation into Fannie and Freddie's lending practices (17 attempts in 2008 alone), and each time it was blocked by the House Finance Committee or Senate Banking Committee in straight party line votes. All you need to do is Google this and you will find countless sound-bites hearing certain members of Congress explaining that any attempts to further regulate Fannie or Freddie would result in "fewer lower income families in homes." I admire the charitable spirit of this, but anyone who

has followed the economic meltdown knows that this caused a ton of the problems with those "toxic assets", and that Fannie and Freddie were at the heart of most of those loans.

So we know how companies could become "too big to fail", we know how the securitization of mortgage backed securities came to be, and we know where much of the funding for "no money down / no income verification" mortgages came from. How about one more little detail? Debt to Net Capital Ratio is an accounting tool that shows the proportion of a company's debt to its total capital, and is considered a measurement of strength and solvency. Since 1975 companies that trade securities for customers were required by the SEC to have a ratio no greater than 12 to 1. Simply put, that rule was there to protect you and me. However...in 2004 our friends at the Securities and Exchange Commission decided to change that rule for five specific firms...now allowing the ratio to go as high as 40 to 1. Who were those five firms? Bear Stearns, Lehman Brothers, Merrill Lynch, Goldman Sachs, and Morgan Stanley. Of those five...the first three are the ones that collapsed at the start of the 08 crash, and Goldman Sachs is now plastered all over the news. Yeah...how about that?

<http://www.nysun.com/business/ex-sec-official-blames-agency-for-blow-up/86130/>

So what is my point to all of this? My point is very simple. I guess it's the responsibility of our Congress to drag in the Wall Street executives and inquire what went wrong. But I wish that just once in a while they would stop long enough to look in the mirror themselves. 🌀

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Make Hay When the Skies are Falling!

By now, most of you have heard my discussion in which I prophesize on the future of our economy and the markets. Clearly, I don't have the secret crystal ball, but I think my forecast is based in logic and solid historical patterns of economics. Of course, even if you've not heard my ramblings, I'm sure you know how it all works out in the end, in spite of my New Years resolution to try and be more empathetic to the pessimists among us. If you've not heard this thesis, please contact me, and I'll be happy to enthrall you with my deep, insightful viewpoints.

In light of the historical volatility of the last few days (first week of May – remember -1000 points on the Dow in 30 minutes?), a question that I'm sure is on everyone's mind, is, are we at the cusp of another huge market decline? We've just finished up with the best year in the equity markets since the Great Depression, after the most vicious bear market since 1929 to 1932. The best way to address your concerns, is to revisit the root cause of all market activity. There are only two drivers of the markets. Everything else is merely noise!! Fear and Greed drive all market activity. Think of the last ten years and the new lexicology of bubbles and busts. Where are we on the fear/greed scale?

What strikes me as most amazing, is the immense and dense disbelief in the economic recovery. Every day, the economic data continues to reinforce the immutable fact that economic activity continues to improve, and consequently consumer confidence continues to improve. But what do we hear from the (entertainment) media? Nothing but unemployment\deficits\W recoveries\

Long Term Care Insurance

By Pam Moore

Long term care insurance can be complicated, no matter who you are especially if you have no one to answer your questions. Long Term Care insurance (LTC) is an insurance product which helps provide for the cost of long term care beyond a predetermined period of time. Long term care generally covers care not covered by health insurance, Medicare, or Medicaid. Many individuals call this a "nursing home policy." This statement may have been accurate many years ago but no longer applies today. Long term care insurance covers home care, assisted living, adult daycare, respite care, hospice care, Alzheimer's care facilities, as well as nursing home care. In addition, individuals who require long term care are generally not 'sick' in the traditional sense. Instead, they are unable to perform the basic activities of daily living which include: dressing, eating,

Greece\debt – you name it. It seems bomb shelters ala Cold War days are making a comeback.

The equity market went straight up from March to December 2009, yet investors liquidated \$35 **Billion** of equity funds, and used those proceeds, plus, to buy somewhere like \$420 **Billion** of bond funds!!!! That is unreal, and also suicidal. As the economy reflates, and rates rise, as they always do during economic expansions, bonds are going to take a hit. Long term treasuries paying 2% are going to be slaughtered. There was a study done by Jeremy Siegel in which he studied all the ten year periods since 1871. He found only 14 ten-year periods, including this one we've just lived through. In the decade following every one of the previous 13 negative periods, real returns in the equity markets nearly doubled the historical averages. Take away financial corporations, and American companies are more liquid than they've been since the early 1950s. The S&P 500 is currently selling for less than 15 times projected earnings estimates, and will probably be revised lower as companies continually report better than expected earnings.

The Chinese version of the word "crisis" is made up of two roots – "danger" and "opportunity". This is not unlike fear and greed. The "fear" being exhibited in the markets represents a huge "opportunity" to me at this time. The negativity that rules the day makes me an extremely happy camper.

If you have a balanced plan and you have the discipline to stick to your plan in days like this, you can turn danger into opportunity!

Semper Fi

bathing, toileting, continence, transferring which involves getting into and out of a bed or chair, and walking. Age is not a factor in determining long term care.

So, who needs long term care insurance? Here are a few interesting facts:

- ◆ The average ancient Greek lived until the ripe old age of 18 years.
- ◆ The median lifespan of a Puritan was 33 years
- ◆ The average American life expectancy today is 75 years for men and 84 for women.
- ◆ By 2030, one in five Americans will be a senior citizen. If you are a Baby Boomer, this includes you.
- ◆ In 1994, 7.3 million Americans needed long term care services. By 2000, this number grew to 9 million. By 2030, the current estimate is that 23+million Americans will need long term care coverage

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*Have A Fantastic Spring!
- Scott, Lori, Steve And
Jennifer*

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- ◆ Currently, those receiving long term care more than 80% are receiving this care at home, 5% are in skilled nursing facilities, and 12% are in assisted living care.

Those are all interesting facts, but why would I buy LTC insurance?

LTC insurance is a valuable product for many reasons. The primary reason is that it supports independence by providing the ability to pay for Home Care and Assisted Living. In other words, it gives people a choice. It also protects your loved ones from the burdens of care giving.

When should I buy LTC insurance?

The answer is simple, the sooner the better. The premiums increase in price as you go up in age. Once you purchase a policy, the premiums do not increase as a result of age or health. You can actually purchase this type of policy as early as the age of 40 years. So, if you can afford the premium for years to come, buy now, pay less, and protect yourself and your family. 🌀