SEARCY FINANCIAL SERVICES, INC.
INTEGRATED WEALTH MANAGEMENT SOLUTIONS

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Wealth Matters

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U.S. Government Bailouts Have A Mixed Record

The final cost of the U.S. government's still-evolving rescue plan for the nation's financial institutions may be impossible to tally. Beyond parceling out the $700 billion of the Troubled Asset Relief Program (TARP), the U.S. Treasury Department and the Federal Reserve are providing wide-ranging financing, loan guarantees, and foreclosure relief for homeowners. But whatever the price tag, and however much or little of its investment the government eventually recoups, the plan will ultimately be judged on whether it accomplished what it set out to do—avoid massive bank failures, thaw frozen credit markets, stabilize home prices, and just generally pull the nation out of its economic tailspin.

Those are ambitious goals, but this is hardly the first time the government has attempted to save threatened industries or companies. ProPublica, a public interest news organization, recently compiled a list of 15 U.S. bailouts that begins with the 1970 rescue of the Penn Central Railroad and continues through today's multiple efforts. Though some initiatives managed to stabilize important American institutions, the overall record has been decidedly mixed.

Typically, the government steps in only after its hand has been forced. In the case of Penn Central, for example, the railroad was nearly bankrupt when it asked for help from the Federal Reserve, arguing that support was vital because the railroad transported goods essential for national defense. But Congress balked and Penn Central, which had placed large bets on real estate and other non-railroad investments, declared bankruptcy to avoid repaying debts owed to numerous commercial banks. Fearing a chain reaction of bank failures, the Fed in 1971 provided almost $700 million in loan guarantees. In 1976, the U.S. merged Penn Central with five other rail carriers into Conrail, a national freight railroad company, and later sold the company to private investors. All told, the government spent almost $20 billion to keep Conrail running, then recouped about $4 billion on the sale.

Other transportation industries have needed their own bailouts. Defense contractor Lockheed, which made military aircraft, wanted to produce commercial jets as well, but problems with its first passenger plane left the company in dire financial straits. In August 1971, Congress passed the Emergency Loan Guarantee Act, and to save 60,000 jobs in California and avoid a threat to national defense, the government guaranteed $250 million in financing (more than $1.3 billion in 2008 dollars). Lockheed repaid the loans by 1976, according to ProPublica, and the

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Around the Office...

Pleased to announce...

We are pleased to announce that Searcy Financial Services has made the 2010 *Wealth Manager Magazine* "Top Wealth Managers" list. The list included a background check of six years of ADV-reported assets and over 47 questions to evaluate our services. It is a privilege to have been recognized as a leader in our field.

New Arrival...

The latest addition to the Maldonado family is Caleb Gabriel Maldonado. Born July 26, 2009 to proud parents Jessica and René, baby Caleb weighed 7 pounds and was 19.5 inches long. Grandpa Mike is joyous over his new grandson and proud to be a grandfather of six wonderful kids.

Community Involvement...

Our company will be sponsoring and participating in the Martini Alley bowling challenge on November 5th to benefit the St. Joseph Institute for the Deaf.

Mike will be donating his time this fall to teach our "Winds of Change" course for the Turning Point Center of Hope. This course gives individuals a chance to learn about money management and life planning, assess their own situations, and take control of their finances.

Mike has been named Vice President of the Leawood Rotary Club. This is a

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The Numbers Behind The Global Crisis

The International Monetary Fund has revised its economic outlook downward, based on increasing data suggesting the global economic slowdown will persist through most of 2009.

In its most recent World Economic Outlook report, the IMF projects world growth will fall to ½% in 2009, the most anemic rate since World War II. The new forecast marks 1¾ percentage point decrease from the IMF's November projections.

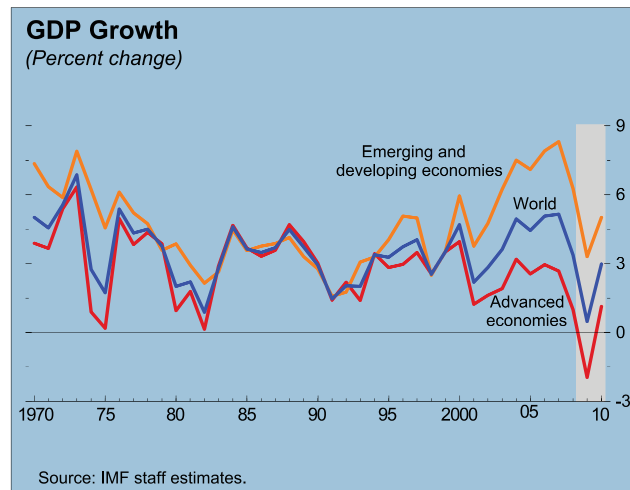
"Despite wide-ranging policy actions, financial strains remain acute, pulling down the real economy. A sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged," the report says.

The IMF predicts that government stimulus policies will help the global economy recover in 2010, with growth of 3%. But the authors caution that "the outlook is highly uncertain."

The IMF now expects output from the world's advanced economies to fall 2% in 2009, which would be the first annual contraction since World War II. At the same time, the recent rapid growth among developing economies will slow dramatically this year, from 6¼% to 3¼%, predicts the IMF, citing falling demand for exports and financing, plummeting commodities prices, and tight credit.

The IMF also revised its forecast of commodity prices downward, projecting lower prices for oil, metals, and food in 2009. Such price declines will further hamper growth among economies that depend on commodities exports.

On the positive side, sluggish demand for goods and services worldwide has combined with falling commodity prices to lessen the threat of inflation. The IMF is now predicting record low growth in consumer prices of just ¼% in 2009 among advanced economies, and a dramatic slowing of inflation among emerging economies from 9½% in 2008 to 5¾% this year.



The greatest danger to the world economy, according to the IMF, lies in the potential continuation of a "pernicious feedback loop." If government policies fail to restore confidence in the markets, asset values will continue to plummet, decreasing household wealth and cutting consumer demand, which in turn will fuel further drops in global output and trade, starting the cycle all over again.

"The scale and scope of the current financial crisis have taken the global economy into uncharted waters," the IMF says. "The main risk is that unless stronger financial strains and uncertainties are forcefully addressed, the pernicious feedback loop between real activity and financial markets will intensify, leading to even more toxic effects on global growth."

On the other hand, the report says, if global financial conditions improve quickly in response to government actions, it would restore consumer and business confidence, alleviating the credit crunch and jump-starting global growth. ●

Court Decision Limits Trusts' Deductible Fees

The U.S. Supreme Court recently handed down a high-profile ruling involving the heirs of a family fortune (Knight, Trustee of William L. Rudkin Testamentary Trust v. IRS, S. Ct. Dkt. No. 06-1286, 1/16/08). In the case, the high court applied the "2% floor" for deducting miscellaneous expenses to the investment advisory fees incurred by a trust. The unanimous decision changes the rules and could increase the tax bills of other affluent families.

Normally, individuals are able to deduct miscellaneous expenses, such as investment advisory fees and other investment-related costs, only to the extent the annual total exceeds 2% of the taxpayers' adjusted gross income (AGI). So if you have an AGI of $150,000 and pay $2,500 of miscellaneous expenses, you're out of luck, because 2% of your income—the 2% floor—is $3,000, $500 higher than your expenses.

The rules vary slightly for trusts and estates, but the basic premise is the same. A trust or estate may deduct only the portion of its miscellaneous expenses that goes beyond the 2%-of-income threshold. But there has been an important if rather technical exception: When fees are for administering a trust or estate—and would not have occurred had the assets been held in another kind of entity—the 2% floor doesn't apply, and the fees are fully deductible.

This is far from the first time courts have been asked to rule on whether investment advisory fees paid to a trust qualify for this exception. Now, the Supreme Court has had the final say, in a case relating to a trust initially established by Henry Rudkin, patriarch of the Pepperidge Farm pastry company.

The trust handling the Rudkin estate deducted more than $22,000 in investment advisory fees, with

A Little Bond Logic Yields Insights

In recent months the Federal Reserve has been cutting down interest rates to near zero in an attempt to help jump-start the economy. But what goes down must come up, so you can expect this trend will eventually be reversed and interest rates will begin to climb again.

If you're wondering how these developments affect bonds you already own, it's a good question. Even experienced investors can find it a challenge to grasp how bond markets really work. However, there is logic behind the ups and downs.

Bond Basics. Put simply, a bond is an IOU. Governments and businesses issue bonds to raise cash for various purposes. The markets use several descriptors to identify a bond: the issuer's name, the bond's face (or par) value, the rate of interest paid to the bondholder, and the maturity date (on which the issuer repays the principal). Because bonds trade on the open market, their prices fluctuate—and that is where things can get complicated.

How Interest Rates Affect Bond Prices. While many factors may push the price of a bond above or below its face value, perhaps the most direct impact comes from changes in interest rates. As interest rates rise—or threaten to rise—bond prices tend to fall, and vice versa.

Imagine you own a bond that pays 5% interest. After a Federal Reserve rate hike, newly-issued bonds offer a 6% rate. To someone in the market for bonds, the new rate seems much better. Lower demand for the 5% bond translates into lower prices. Conversely, if the prevailing rate falls to 4%, your bond suddenly becomes more attractive, and should command a higher price. (Note, these figures are hypothetical.)

Price vs. Yield. However, markets generally refer to bond values not by price, but by yield—the annual interest divided by the current price. If your 5% bond has a face value of $10,000, you receive $500 a year in interest. If the bond sells "at par"—the face value—the yield would be 5% ($500 divided by $10,000). But if the bond's price dips to $8,000, the yield would be 6.25% ($500 divided by $8,000).

Therefore, as price falls, yield rises, and vice versa. Think of it this way: if you buy a $10,000 bond at $8,000, your investment will "yield" more, in the form of interest payments that, in percentage terms, reflect a better return on your investment. (That's known as current yield. Another measure, yield to maturity, gauges the total return you would receive by holding the bond to maturity.)

So, once again:

- As interest rates rise—or threaten to rise—bond prices tend to fall, and vice versa.
- As prices fall, yields rise, and vice versa.

That means:

- As interest rates rise—or threaten to rise—bond yields tend to rise, and vice versa.

These movements bring the yields of existing bonds into line with those of new issues.

Exploring the Yield Curve. To understand this concept, start with the fact that long-term bonds tend to have higher yields than short- or intermediate-term bonds. That's because long-term bonds carry more risk—more can happen to affect the price during the longer term of the bond—and investors expect a higher yield for that extra risk.

The yield curve plots the current yields of bonds of various maturities on a graph. A normal curve shows a rise in yields as terms get longer. With a steep curve, long-term yields are substantially higher than short-term yields, while a flat curve shows short- and long-term yields that are more or less equal. An inverted curve happens when short-term yields are higher than long-term yields.

The yield curve is important because it may reflect investor sentiment or expectations. For instance, a steep curve indicates investors are bidding up the price (and therefore driving down the yield) of short-term rates. That could mean they expect interest rates to rise. They want to hold short-term bonds that will mature quickly, so they can reinvest at a higher rate.

What About Inflation? Why does the bond market often fall on good economic news? The fear is that strong economic growth could trigger inflation—which means bond investors would be repaid (both principal and interest) in cheaper dollars. Positive economic news can also lead investors toward stocks and away from bonds, which are often considered "safer" investments to turn to when times are tough.

In reality, of course, all markets are far more complex than this, and unusual market movements can confound even the most sophisticated analysts. Still, a little logic can make *"Inflation fears send bond yields higher"* a little easier to understand. ●

the trust administrator claiming that the 2% floor on miscellaneous expenses should not apply. But the IRS disagreed and imposed the 2% floor, reducing the trust's deduction to less than $5,000.

The Supreme Court determined that the costs incurred by trusts qualifying for the exception from the 2% floor are limited to expenses that *would not* commonly or customarily be incurred by individuals. That's different, the court ruled, from fees that individuals *could not* have to pay. As a result, the deductibility of most investment advisory fees paid by trusts is limited by the 2% floor.

This decision does leave the door open—just a crack—for a full deduction of certain unusual types of investment fees. But IRS regulations for deducting trust fees, drawn up before the Supreme Court ruling, will now have to be revised. Until that happens, estate administrators and attorneys will need to proceed with caution. ●

Bailouts Mixed Record

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U.S. actually made money on the deal, receiving $112 million in loan fees.

New York City and Chrysler Corp., in 1975 and 1980, respectively, also asked for and received federal bailouts. President Gerald Ford at first refused to help the insolvent city, but once New York had made efforts to save itself, he signed legislation that provided billions of dollars in loans and loan guarantees, all of which was eventually repaid. In 1979, Chrysler lost $1.1 billion and was on the verge of bankruptcy. Once again, Congress acted, and $1.5 billion in government loans, matched by commercial lending, saved the company. According to ProPublica, the U.S. netted more than $600 million on its bailout investments.

Several past bailouts involved financial institutions, including Franklin National Bank in 1974 and Continental Illinois National Bank and Trust Company in 1984. But by far the biggest previous rescue involved the savings and loan industry in 1989. In what was then the greatest collapse of financial companies since the Great Depression, more than 1,000 S&Ls failed. The Resolution Trust Corporation, formed as part of legislation passed in 1989, took over failed institutions and sold assets at an ultimate cost to taxpayers of $293 billion, according to ProPublica.

Current government efforts dwarf anything it has done before. Already, hundreds of billions of dollars have been spent to arrange for the sale of Bear Stearns, guarantee the solvency of Fannie Mae and Freddie Mac, rescue American International Group, Citigroup, and automakers General Motors and Chrysler, and inject capital into banks through TARP. It may take years to judge the success or failure—and add up the total cost—of this latest, greatest government bailout. ●

Around the Office...

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service organization dedicated to helping those less fortunate. Projects include mentoring high school students in Kansas City, KS as well as raising funds for various non-profit groups. If you are interested in membership in Rotary, please talk with Mike.

Marc Shaffer has volunteered his time (via the KC Financial Planning Association) to provide information to college students considering the financial planning field.

Generational Planning...

Marc Shaffer and Brenda Carrico recently attended an educational workshop discussing the benefits of generational planning. Discussing goals and values with your children can help them build healthy financial habits. If you would like to get involved in this process, give us a call and we'd be happy to help.

About Searcy Financial Services, Inc.

Searcy Financial Services, Inc. offers integrated wealth management solutions to individuals, small businesses, foundations and corporations. We can help you design and implement your perfect plan to help you achieve your dreams and vision for your life. Because we have over 30 years of experience, we know that we need other specialists to assist us in order to achieve optimum results for our clients. We have experience in coordinating the efforts of those specialists and monitoring the implementation of your master plan, even as the plan evolves. Some of the services we provide, include:

- **Business Planning, Personal Strategic Planning, and Personal Financial Planning**
- **Consulting Services, Situational Tax Planning, and Educational Seminars**
- **Portfolio Management, Asset Allocation Analysis, Investment Research and Selection**
- **Retirement Planning, Estate Planning, and College Funding Planning**
- **Liability Management, Insurance Analysis, and Life & Disability Insurance**
- **IRA, 401(k), 403(b), Pension and Profit Sharing Plan Establishment**

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