



# RESOLUTE PASSAGES

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## Where's the Double-dip?

It is the waning days of fall, and the leaves are piling up on the ground. There has been a lot of news piling up onto the stock market too, and it has been driving the market higher. We all know the market looks ahead, but whatever happened to the "double-dip" where the economy was supposed to cause the market to tumble?

One important measure of the economy is the jobs report from the Labor Department. A key reason for forecasting the double-dip was the employment data, which showed the economy losing jobs after stimulus efforts ended in May. Surely we were headed for a double-dip according to the economists, and the market dropped.

The data we have seen in the headlines would be called a "head fake" in sports terminology. The economic data is subject to revision, and we have repeatedly seen unexpected data revisions to the upside. These monthly revisions, with hindsight, changed what looked like an economy in reverse, to an economy with the strength to show consistent, but not stellar, job growth. As each month has gone by since August, we have seen upward revisions to the previously reported numbers of people employed.

A famous tongue-in-cheek quote states that "Forecasting is difficult, especially if it is about the future". We would say: Especially if we need to rely on data that will be revised! The traders in the market quickly began to see the real picture emerging, one where the economy was not contracting. This is one of the reasons why the market turned around in September, and has now exceeded its previous high point of the year.

As financial planners, we "look under the hood" of the headlines. We cannot predict the future. What we can do is understand what is going on, and see how today's events might impact financial plans, investment portfolios, and your goals. We look forward to our discussions with you in the new year.

*Bob, Tom, and Chuck*



## Charting the Course

NAPFA, our industry association representing fee-only advisors, has been working tirelessly with consumer groups to formulate client-friendly regulations for financial services. Currently, the SEC is conducting its Congressionally mandated study to determine how financial services should be regulated.

The following is an excerpt of the NAPFA Comment Letter to the SEC:

"We suggest to the Commission some specific rules which would serve to reduce consumer confusions and promote trust in those who adhere to the fiduciary standard of conduct:

The terms "financial advisor," "wealth manager" and similar terms be reserved for use by fiduciary advisors.

The term "fee-only" should be reserved for those that meet the definition as set forth by the CFP Board.

The term "fee-based" -when used by dual registrants charging both fees and commissions, is inherently misleading and should be prohibited."

*(ed: Dually registered individuals are advising clients in one breath, and possibly selling products in the next. Firstly, the advisor delivers advice under registration as a Registered Investment Advisor, where the advice is delivered in the client's best interest. Then, the advisor acts as a Registered broker, where the sale of product and receipt of commissions, by law, has no requirement to be in the client's best interest. How is the client to know this?)*



## Noteworthy



\* **Tom** has been busier than usual, this time due to tax changes that are expected to happen beginning in 2011. One area that could affect almost everyone is the tax rate on capital gains. For most people, the current IRS rates are 15% on Long-Term capital gains. Thus far, Congress has let this rate expire, and it will increase to 20% on January 1. Regarding changes to Federal Estate taxes, **Bob and Tom** have been working together with attorneys and CPAs to react to the changes occurring in the new year.

\* The new Dodd-Frank financial reform legislation has added several tasks that have been worked on by **Chuck**. The details are beginning to emerge as to additional steps that are involved. Resolute Financial is one of 4,200 firms nationwide that will be overseen by state auditors, rather than the over-subscribed staff at the SEC. Advisory firms such as ours still have many unanswered questions. A new Form ADV will be required by March 2011, which we will provide to all clients.

\* This fall all of us have been busy with the Morningstar software, for Quarterly and Annual portfolio reporting. **Bob** has been leading our efforts. One of our goals has been to customize the output so that the key information is not buried inside an avalanche of details. We thank the "beta site testers" who have provided feedback, helping us to continually improve the reports.

## Investor's Blackboard

One way of evaluating equity investments is to look at Total Return, which is price appreciation plus dividends received. Dividends can make an important contribution to returns, and they are particularly attractive when compared to today's interest rates which are near zero.

During a recent NAPFA conference, we had a chance to speak with a fund manager who specializes in dividend-paying companies in the Asia-Pacific region. He gave an interesting talk about dividends as they apply to companies in this region.

We asked about the cultural norms in Asia for company dividend payments, and the ability of companies to maintain or increase dividends. He made some interesting observations. One noticeable difference in Asia is that companies are less likely to use their cash for stock buy-backs, as they prefer dividends.

Dividend payments from Asian companies serve the same purposes as in the US, in that management keeps a focus on cash flow in order to have cash to make the payments. Dividends also give minority shareholders an equal claim to the earnings of a company, in accordance with their ownership, thus keeping large family shareholders focused on being good stewards of the companies they control.

Another reason for being attracted to foreign dividend-paying stocks is that the payments validate the accounting statements of the company. If cash is paid out in dividends, it is more likely to have been from real profits earned by good performance, rather than from fuzzy accounting earnings massaged by management.

## Passing Thoughts

What is the mindset of this year's class of college freshmen? Beloit College posts a humorous annual listing of "cultural touchstones" that shape the lives of students entering this fall.

This year's list notes that incoming students have never seen a carousel of Kodachrome slides, and students feel that email is too slow.

[www.beloit.edu/mindset](http://www.beloit.edu/mindset).



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