



Horton Financial Services, LLC

Insights about choices
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Financial Choices

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Economic Outlook for 2006

The U. S. economy growth was less in 2005 than in 2004. The economic outlook for this year is a mixed bag of scenarios, depending upon whom you ask. Oil prices are still high, serving certain sectors of the economy well and others poorly. Hurricane recovery is still a lead story in the economy. Some are saying \$200 billion will not be enough. That region, from the Florida Panhandle to the Texas Gulf Coast is attracting far more than cleanup endeavors. While many have re-located, many others are re-building.

All of the frenzy is attracting new projects that might have been built elsewhere. Look for many new multiple-housing units to be constructed across the entire stretch of the embattled coastland. The gross domestic product from the clean-up, re-building and new building endeavors have created a sub-economy that is very vibrant, attracting investment dollars and a huge mortgage hotspot.

"Behind every cloud is a silver lining", so they say. And, "every adversity has the seed of an equivalent or greater success." These upbeat phrases might not sit well with the families of some 2,000 that lost their lives, but "time marches on" with or without us. Look to the past to learn, but look to the future to grow.

Any able-bodied person willing to perform manual labor can find a job in the clean-up. Supervisors are in even greater demand. Clerical positions are abundant, and environmental specialists can almost name their price.

Across the United States, construction defied the forecasts of a slowing housing market with a 14.5% increase in January over December of 2005, according to the Commerce Department. The slowdown that had been forecast had a lot to do with the mortgage rates. We all know that short-term rates have risen about 425 basis points in the last three years, but long-term mortgage rates, although increasing, are slower to respond.

When the news publishes an article about the rising mortgage rates, it is often only 2/100ths of one percent. On a one-thousand dollar mortgage payment, this would be two dollars per month. Long-term mortgage rates are about 100 basis points higher than one year ago. On a \$100,000 mortgage, the monthly payment will now be about \$63 more per month this year over last year's rate. Mortgage rates are still very good. The consumers and the construction industry recognize those facts and have continued to buy and build new homes, although as a whole the housing market is reported to be cooling off.

2005 was said to be a lackluster year, but there are some positive footnotes to that statement. Inflation has been mostly stable. Interest rates increased slowly, so inflation has not really been a factor, despite high energy prices. Lessons of the past apparently have helped the Federal Reserve in engineering the economy toward greater balance.

The European markets out-paced the U.S. in 2005 even though the U. S. economy is stronger than the European economy. The paradox was largely created by the extraordinary performance of individual European stocks, rather than the whole macroeconomic sphere. The hottest foreign market in 2005 was Japan with 30% increase in equities. The Chinese growth was slower than expected at about 8.5%. A diversified portfolio should probably have some foreign investments in it.

2006 is expected by leading economists to have positive growth in the U. S. economy, albeit single-digit growth. It should be a pretty good year.



Raymond C. Horton, Sr.
Editor & Publisher

The "*Financial Choices*" bi-monthly newsletter is dedicated to the idea of making good choices, financial or otherwise, and is distributed to our firm's clients, professional peers, potential networking professionals, and potential clients to inform and to strengthen relationships, present and future.

In This Issue:

Page One:

- Economic Outlook
- Financial Choices
- Close to the Vest

Page Two:

- By the way...
- Capital
- Did You Know?
- Opinion
- Clutter

Page Three:

- Be a Leader
- Hot Ideas
- Medicaid Myths

Page Four:

- Our Practice
- This 'n That
- Past Issues
- Sources

Close to the vest

Many of our clients are looking for safety in their investments. They also want a good return on their money. Often those two elements are incongruent.

Within a given client's tolerance for risk and reward, we strive to achieve a portfolio of risks that are lower than the potential or expected gains. We keep this concept as a focus. It is simple to say; more difficult to do with consistency over a long period of time. But when we do, these clients think we hung the moon. The truth is "past performance is no guarantee of future results".

For "close to the vest" clients, we use a variety of annuities, fixed-income securities, and conservative, asset-allocated mutual funds.

By the way...

An “Irrevocable Trust” sounds onerous and unbending, but it is possible to design such a legal instrument with flexibility to effectively deal with possible changes in the future within the confines of the trust instrument. There are a couple of key things about doing this. First of all, the attorney needs to be one with a specialty in estate planning. Secondly, the flexibility needs to be drafted into the document from the inception.

Capital

Another thing that has happened in our economy is that the average person now has greater access to the stock market, primarily through the Internet and with so-called discount brokers. Remember, “you get what you pay for”. There was a time when only the sophisticated, or well-healed individual could invest easily in the capital market. That said, more money is pouring into the stock market because of the ease of so doing.

With the creation of additional capital, more of it is available to those who seek capital for various projects and developments. Usually, large sums of money are available only to those who have proven themselves “capital-worthy”. A capital-worthy entity or person is one with a track record of earnings, ability to repay capital, and a vision that can be sold to investors. “Venture Capital” specialists will often require a stake in the project or development if they believe in it enough to invest their money in it. The VC specialist gets involved where the track record and ability to repay are often limited, but the borrower has a great business plan. The management of capital is different than managing a regular paycheck or a budget. Capital will often trump other limitations.

Did You Know?

- The chance of birthing triplets is one in 555?
- Dogs sleep an average of fourteen hours per day?
- Inactivity and obesity contribute to diabetes, joint pain, sleep disturbances, heart disease, strokes and cancer? (Tufts University)
- Life insurance is for the living. It is a “love” purchase, whether it is personal or business?
- There is no way to repair DNA that has been damaged by prolonged exposure to the sun?
- “If you find yourself in a hole, you should stop digging?” Will Rogers
- Some supplemental, non-qualified retirement plans can be discretionary?
- The number of deaths in the U.S. is falling against an ever-increasing population?
- U.S. traffic fatalities increased in 2005? Total number of deaths from all causes actually decreased in 2004?
- There are billions of galaxies?
- A 112 year-old female in the U. S. has a life expectancy of one year under the government’s new table for 2006?
- Rates on thirty-year home mortgages are the currently the highest in two and one-half years?
- The U.S. trade deficit is at an all time high, ending 2005 at 725.8 billion dollars?
- Professionally managed investments typically out-perform those of individuals going it alone?
- Americans spend \$5,200 annually per person for health care, twice as much as Great Britain?
- The British are far healthier than Americans?
- The Democrat-controlled Congress under Lyndon Johnson took Social Security from the “trust” fund to the “general” fund?

OPINION**This opinion is not “news”; just the editor’s imagination.**

All of us have had friends and family that have had to take chemotherapy treatment for some strain of cancer. I am told the treatment kills good blood cells as well as bad ones. Obviously, this sounds like a mixed blessing.

The most miraculous recoveries that I have heard about came from prayer. Devine intervention reportedly has helped many sufferers. Next to prayer came a total change in nutritional habits. It seems changing from the ordinary foods we eat to only those organically grown, especially fruits and vegetables, have significantly impacted the dread disease in positive ways. Others have “juiced”. Carrots, spinach and dark grapes are the favorites for many that liquefy the ingredients to drink, up to five times per day. Many are trying to stay away from any kind of processed food, especially meats.

I envision a day when medical science will precisely reveal any disease at all on an easily accessible basis for everyone. As we execute a complete computer diagnosis, the doctors will be able to perform a similar function on the human body that will pinpoint where the problem lies while also formulating the cure or treatment. Further, the treatment will only kill the bad things in us without harming the good things.

CLUTTER

Clutter does far more than look messy. It messes with your mind, resulting in a less efficient you. It gets in the way of thinking clearly about your work and objectives. Sometimes, it actually sublimely changes your objectives. What can you do about it? Here are some suggestions:

- **Set aside a regular time to de-clutter. Get in a routine.**
- **Assign everything a home or place to be. Containerize.**
- **Go through things you will need the night before.**
- **Use technology. Organize your schedule on computer.**
- **Create a “task” box using index cards, or better yet, use a “task” list on your computer. Keep a “To Do” list.**
- **Communicate schedules to avoid conflicts.**
- **Keep things near where you use them.**

Be a Leader

- Have a vision for the future. Hang that carrot out in front of you.
- Write down your goals and discuss them with those close to you.
- Stay focused upon your objectives and get others to help you.
- Develop strategies for achievement of goals.
- Set priorities of the most important things and work on those.
- Plan your work and work your plan. Eliminate procrastination.
- Understand that details do matter. That is where the devil lives.
- Let others know how valuable they are and they will follow you.
- Nip problems in the bud. Deal with them fairly and quickly.
- Know that "change" is inevitable, and recognize when you must.
- Rearrange resources to support your needs more efficiently.
- Embrace new ideas. Check them out. Will they work for you?
- Become a problem-solver and opportunities will come your way.
- Communicate consistently. Do not work in a vacuum.
- Access tools, resources and training for yourself and associates.
- Do not attempt to do everything yourself. Delegate to others.
- Get away from it all. Set aside time for reflection. Regenerate.
- Think big and think of the big picture to keep things in focus.

Hot Ideas !

The hot idea for this issue is "**tax-deferral**". As a general rule, whenever you can defer taxes, you probably should, with a notable exemption. (Roth IRA) Here's why:

By deferring taxes on money that is earning interest, one is also reaping the interest earned on the portion that would have normally been paid in taxes. This is actually a triple-dip on current taxes. First, you aren't paying any taxes on your principal currently. Second, you are earning interest on the tax portion, which is also tax-deferred. Third, if it is a traditionally tax deductible item, such as an IRA, you received a tax write-off on the contribution.

The advantage of tax-deferral is more evident when one looks at some examples. Let's assume you contribute \$5,000 per year in a tax deductible plan for twenty years while deferring all the tax on the buildup. Further assume you can earn 7.2%. Compare this to doing the same thing in a tax-as-you-go instrument. It will look something like this in a 27% tax bracket:

<u>Tax-as-you-go</u>		<u>Tax deferred</u>
\$ 54,574	10 years	\$ 74,759
99,853	15 years	136,785
163,954	20 years	224,595

10 MEDICAID MYTHS

You probably know that Medicaid will pay for your long term nursing home care if you meet certain limitations on income and assets. But, most people misunderstand the Medicaid eligibility rules. This series, "10 Medicaid Myths," discusses the most common misconceptions.

Medicaid Myth # 9

"If I apply for Medicaid I'll have to sell my house."

This does have a ring of truth to it. Usually your home is not counted against you and you don't have to sell it, at least so long as you have a reasonable possibility of returning home or it is occupied by your spouse or a dependent. The government wants you to have a place to return to if you recover and can leave the nursing home.

However, in some cases Louisiana will file a Medicaid lien on your home at your death and will recover everything it paid on your behalf before your children will receive anything from the house. A lien cannot be filed if the house is occupied by your spouse.

There are also other creative techniques for protecting the home from a Medicaid lien. Some of these cause the loss of the homestead exemption for property tax purposes, but others don't. Talk to a qualified elder law attorney.

For more details and a free booklet on Medicaid Planning in Louisiana, and/or Estate Planning in Louisiana, please call my office and ask to speak to one of my staff, or just email your request to me.

Compliments of:

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About Our Practice

For forty more than years, we have been helping people solve financial problems. The slogan of Horton Financial Services is "**Meeting Financial Challenges Every Day!**"

Our firm is paid for distributing insurance and investment products, and the benefit of our counsel, but the nature of our business is "**planning**", working with each client, one at a time, to help them achieve certain financial objectives.

We have never focused upon our personal income, but upon doing the right thing for the client, always considering the income a by-product of our service.

We have impacted over 3,000 lives in a positive way over the years, and continue to grow our business, typically upon referrals from existing satisfied clients, investors and contract holders.

Our pledge to you is that we will always strive to do the right thing for you, and to merit your trust and confidence.

Raymond C. Horton, Sr.

THIS 'N THAT

- **It** is true! A new study by the Center on Budget and Policy Priorities and the Economic Policy Institute, both liberal-leaning think tanks, found that the poorest of our Country's citizens have increased their income by 19% over the past 20 years. On the other hand, the richest persons income increased by 59% over the same period. "The rich get richer and the poor get poorer" in relative terms.
- **The** number of deaths from Cancer fell during 2003 for the first time in seventy years. This marks what the medical community is calling a "turning point" with the dreaded disease. The improvements are attributed to fewer persons smoking, better tumor detection and better treatment. Although it was a small decrease, from 557,271 to 556,902, it nevertheless is an important milestone as our population increases.
- **The** trucking industry carries seventy percent of our Nation's freight, and recently reported a growth in revenues of more than 10% to over 168 billion dollars per year, says the Census Bureau and the American Trucking Associations, Inc.
- **A** groundbreaking story from Gannett News tells about the results of a nine-year study by Harvard Medical School on the effects of senior spouses when one of them becomes ill. The sad story reveals the health of senior married couples is interconnected. When the health of one fails, the risk of the other spouse becoming ill or dying within thirty days rises dramatically.
- **More** persons are working today. The U. S. unemployment rate is 4.7%. Full employment is said to be when only 4% are not working, typically by choice or incapability.
- **The** Consumer Price Index is around 104, higher than it has been in a while. This means that consumers have faith in the economy. It is not, however, the best gauge of inflation. The leading indicator of inflation is the Producer Price Index. The PPI is a family of indexes that measures the average change in the selling prices received by domestic producers of goods and services. It measures tens of thousands of items and each changes somewhat from month to month. On the whole this index is showing no great current alarm about inflation.

Past Issues

Past issues of "**Financial Choices**" can be seen on our website, "www.HortonFinancial.com".

Sources include:

- The National Underwriter Company
- Wall Street Journal
- Fox Financial News
- The Shreveport Times
- Dow Jones
- National Assn of Ins. & Fin. Advisors
- American Health Insurance Assn.
- The Associated Press
- Million Dollar Round Table
- Society of Financial Services Pros.
- Reuters News Service
- Center for Disease Control
- Employee Benefit Research Institute
- Fortune
- Worth
- Carillon Investments, Inc.
- Advisor Today
- Bureau of Labor Statistics
- ABC, NBC, CBS, CNBC, CNN, Fox News
- Financial Times
- Financial Planning Association
- American College
- Good Housekeeping
- Editorial knowledge