

# Financial *notes*

## INSIGHTS TO ORCHESTRATE FINANCIAL INDEPENDENCE

FROM THE OFFICE OF DR. SCOTT STRATTON, CERTIFIED FINANCIAL PLANNER (TM)

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Dear Scott,

As we sort through the aftermath of 2008, we're looking carefully at the risks that remain ahead for 2009. The government is taking massive and unprecedented steps to set the economy back onto the track of growth and prosperity, but we will have to be patient to see the results of this stimulus. As individual investors, we need to make sure we know where we stand financially, and that we have our own house in good order.

### Corporate Bonds

*Why we're buying short-term investment grade bonds.*

During the past year, asset values have dropped across the board: stocks, real estate, commodities, and bonds are all priced lower today. Some of this was due to heavy selling from institutional investors, such as hedge funds, who were forced to reduce the leverage in their portfolios. Back in 2007, we were not buying individual bonds because the yields weren't attractive. The "spread" - the difference between the corporate yield and treasuries - was too low to justify the additional risk.



Fast forward to 2009 and these spreads have widened and now we have higher yields on corporates, and extremely low yields on treasuries. So, we are buying short-term bonds, primarily those with maturities in 2010 to 2012. We have stuck with investment grade bonds: those with a rating of BBB or higher. In this space, we have been able to buy bonds with a Yield to Maturity of 7 percent all the way up to 10 and 12 percent a year. These bonds are priced at a discount, perhaps 90 cents on the dollar, and we recommend holding the bonds to maturity.

These are very attractive rates of return, rates that rival the historical return of stocks. To get a 6-10% return in a stock, a lot of things have to happen right: earnings growth, strong economy, timing of

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*The best compliment you can give me is the referral of a friend or family member!*

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## THIS MONTH, SCOTT IS...

I'm looking forward to visiting my parents during the weekend of February 20-23. If you need anything in my absence, please contact Steve Gundy at extension 233.

your purchase, etc. With a bond, the threshold to achieve the YTM is low: as long as the company stays in business and doesn't default, you are getting the return you bought upfront. Bonds are not risk-free and you have to do your homework on the strength of the underlying company. But they do offer a compelling return at a time when there is a lot of volatility in the stock market.



To learn more about bonds, visit the [Investing in Bonds](#) website.

## Gift Tax Exclusion Increased to \$13,000

For 2009, the gift tax exclusion increased from \$12,000 to \$13,000. For individuals who may be subject to the estate tax, it may make sense to gradually reduce your estate by making full use of the annual exclusion. You can use the gift tax exclusion to fund an Irrevocable Life Insurance Trust (ILIT), fund a 529 college savings account, gift shares of your Corporation or Family Limited Partnership, gift appreciated securities, or transfer cash. Feel free to contact me for details.

## The Variable Life Problem

Life insurance is an important way to protect your family from the financial loss that would occur if something were to happen to you. There are several basic types of life insurance: term, whole life, universal life, and variable universal life. These are very different types of products, and yet many people who have life insurance don't understand the difference and don't know what type of policy they own.



Variable Universal Life (VUL) invests your premiums into mutual fund-like subaccounts. VUL combines the death benefit of life insurance with the ability to have a tax-deferred and creditor-protected investment account. Plus, a VUL policy is supposed to cost less than a whole life (WL) or universal life policy (UL).

Sounds great, right? Well, the reason why VUL is supposed to cost less is because the stock market sub-accounts were projected to perform better than the boring bonds that make the foundation of WL or UL policies. Today in 2009, we've just come off a 37% drop in the S&P 500 index. The average annual return over 10 years is negative 2%. (Source: Morningstar.com, 1/27/09.)

If your VUL subaccounts fail to meet the assumed rate of return,

your policy could become underfunded and lapse. That means you could lose the death benefit you have been paying for many years, unless you make a significant deposit or increase your premiums. Some insurance agents have been proactive about letting policyholders know about this shortfall before it occurs. Unfortunately, I believe that many VUL owners have no idea there could be a problem.

If you have a VUL policy, please call me at 214-276-0808 for a life insurance review. We will request an "in-force ledger" to determine if your policy may be underfunded. As a CFP(R) practitioner and independent insurance agent, I have never written a VUL policy, although there may be some cases where it could make sense. I prefer term insurance for most clients, or universal life for estate planning purposes. I think life insurance is too important to gamble it in the stock market.

*It is the heart that makes a man rich.  
He is rich according to what he is,  
not according to what he has.*

**HENRY WARD BEECHER**

As always, please feel free to call me anytime with any questions or concerns. I'm here to help! Thank you for your business.

Sincerely,

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