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DOUGLASBRADLEY LLC

Personal Financial Advisors

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DOUGLASBRADLEY'S MONEYWISE

Financial News and Insight from an Independent Advisor

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Spring Brings Flowers, A Market Rebound and Zombies

First, let's start with some positive news before we address some unpleasant economic realities. Through last Friday, the major stock market indexes have experienced their largest four-week gain (~20%) since 1933 with the Dow Jones Industrial briefly revisiting the 8000 level. We had been calling for this for a while, so it's nice to finally see it arrive.

We believe this rally is being driven by two primary factors:

- 1) the market had fallen too far, too fast (i.e., January's loss was the worst on record and February's was the second worst); and,
- 2) the government recently suspended reality by lifting the rules that require banks to price their assets at their actual market value (called "mark-to-market").

However, the US economy and stock markets will not begin to truly recover until the US government deals with our banking and foreclosure problems.

Instead of requiring banks to value their assets at their true market value so they can be sold to a waiting pool of private investors who are prepared to buy them, banks are once again allowed to price them using the very models that created the economic devastation in the first place. Wouldn't it be nice if we too were allowed to value our homes at any price we wanted? The banks' unwillingness to sell these assets at their true market value is tying up vast amounts of capital that would otherwise be lent for productive purposes.

You may have heard the term "zombie" banks floating around the media. "Zombie" banks are essentially bankrupt financial institutions that are kept alive by government intervention at the expense of taxpayers. This term has been most notably applied to Japan for their unwillingness to address their banking problems that began back in 1993 and continue through today.

The US government has been a long-time critic of Japanese banking leaders for their refusal to take the severe actions needed to close their bad banks. And yet, US leaders are actually following Japan's approach when faced with a similar crises (Sweden is recognized as a country that acted aggressively to solve their banking problems). This does not bode well for our future.

In an earlier MoneyWise, we correctly forecasted the depth of the foreclosure problem and its impact on the economy and the markets. In our opinion, it isn't over and investors need to continue to protect their account values.

By failing to address the problem of borrowers who owe more than their

houses are worth, the US Federal Reserve and Treasury are positioning the banks and the economy to suffer through a second wave of foreclosures. This is because we are about to begin a huge interest rate reset cycle for Alt-A mortgages (low or no requirement to document income) and option-ARM mortgages (teaser rates, with no required principal repayments). These resets are going to push a whole new group of marginal homeowners over the edge and into foreclosure.

The fact is that unless the US government makes the hard decisions to close ailing banks and come to the aid of failing homeowners, the current recession, job losses, poor corporate earnings, weak stock market, etc. will continue on much longer than necessary.

As it tries to protect the interests of Wall Street, the Government's inaction regarding the artificially-inflated "toxic" assets held on banks' balance sheets serves only to constrict lending and prolong our collective economic pain. The solutions to these problems will not be fair to those who did not borrow above their means or take excessive risks, but the alternative of doing nothing is worse for everyone.

2008 IRA Contribution Reminders

April 15 is right around the corner. If you're planning on making an IRA contribution for 2008, here's what you need to know.

- Under age 50, the maximum one person can contribute to all their IRAs is \$5,000.
- Age 50 or older, the maximum one person can contribute to all their IRAs is \$6,000.
- For Married Filing Joint taxpayers: The tax deduction for contributions to a Traditional IRA is reduced when your Adjusted Gross Income (last line on front of the 1040) exceeds \$85,000. Partial deductions are available through \$105,000 AGI.
- For Single taxpayers: The tax deduction for contributions to a Traditional IRA is reduced when your Adjusted Gross Income (last line on front of the 1040) exceeds \$53,000. Partial deductions are available through \$63,000 AGI.
- For Married Filing Joint taxpayers: Contributions to a Roth IRA are reduced when your Adjusted Gross Income (last line on front of the 1040) exceeds \$159,000. Partial contributions are allowed through \$169,000 AGI.
- For Single taxpayers: Contributions to a Roth IRA are reduced when your Adjusted Gross Income (last line on front of the 1040) exceeds \$101,000. Partial contributions are allowed through \$116,000 AGI.

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