

## Boenning Morning Comment

*This report is prepared for us by Tower Bridge Advisors*

May 28, 2010

Stocks had their best session in a month but we have seen these one day wonders before. To be convincing the rally has to be followed by a solid session today. That's the two-day rule. We'll see. But yesterday's session did look better than most of the recent feeble rallies. It was broad, it ended at its high, and it follows a very active and choppy group of trading sessions that made little overall progress up or down. The market has been oversold waiting for a catalyst to move back up. Maybe yesterday's action will be that spark. If the rally was for real, my best guess is that we can retrace at least half of the recent decline.

In the meantime, I want to digress today and make a point regarding senior citizens. Simply said, administration policies are absolutely adverse to seniors. Let me explain in rather simple terms. Retirees over 65 live off of income from three sources, Social Security, pensions or other retirement plans, and savings. Social Security is in stress through no fault of the current administration. The ultimate solution, which will probably require a crisis to happen, will be to means test benefits or delay the age when benefits begin. That in itself won't hurt most seniors today and those in a sufficiently high income bracket probably won't suffer greatly if benefits are withheld as a result of means testing. So let's move on and consider the next component, savings. They are mostly invested in cash, money funds, CDs, short term high grade bonds and blue chip stocks. We all know where interest rates are. They are near zero. And they are there for three reasons. The stated reason is to stimulate low cost borrowing but given the steady drop in money supply and decline in new loans, low rates aren't the necessary catalyst for lending today. The second reason for low rates is to create a steep yield curve that helps to bail out the banks from the mess they got themselves into during the recession. In other words, seniors and those of us who save are earning less so that banks can earn more. Last, while not a direct cause of low rates, note that the Federal government itself benefits greatly paying a tiny fraction on its debt versus what it would be forced to pay in normal times. Do the math. \$12 trillion in debt times just 1% is \$120 billion. A normal 3% borrowing rate would cost the Federal government \$360 billion. Thus, while the fiscal math doesn't dictate Fed interest rate policy, certainly it isn't harmful to the Federal budget that interest rates are near zero.

Low rates aren't the only cause of pain for seniors. Look at what is happening to investments in blue chip stocks. Current tax rates are 15% on capital gains and dividends. Starting January 1, the maximum rates go to 20% for capital gains and 39.6% for dividends. Move forward 3 years and you can tack on another 2.9% courtesy of the new health insurance reform law. In other words, without any changes, taxes on dividends may almost triple in a few years.

Estate taxes are next. They are now zero. Next year they go to 55% and the deductible falls from \$3.5 million to just \$1 million.

In fairness, the Obama administration earlier this year advocated much lower rates for both dividend and estate taxes but that was before budget deficits ballooned and before the European sovereign debt crisis blew up. While some still insist that tax reform is on the agenda, there has been virtually no movement to date.

Finally IRA withdrawals are taxable at ordinary income rates. The new Roth IRAs seek to deal with that issue but only if one pays taxes up front upon conversion.

A family without a pension with \$500,000 in cash, CDs and stocks stands to make something over \$25,000 from Social Security. In normal times, they might earn another 3% or more in interest and dividends. That could add another \$15,000 or 60%. But in today's environment, 1% after tax is a more logical return. \$30,000 is only 75% of \$40,000.

Administration policy isn't really intended to be evil to seniors. It is aimed at the "investor" class on the theory that investors are richer than most and can afford a higher tax burden. But most seniors are savers and a large percentage certainly can't be considered rich by anyone's definition. What we are seeing is a true unintended consequence. It is a bit like the alternative minimum tax, aimed at the ultra-rich but ending up becoming a toxic poison to the middle class and to Americans living in high tax states or their own homes.

Seniors vote in large numbers but don't actively complain. They need to speak out. There is no need for seniors to be subsidizing the banks, the government and our deficit. They have paid their fair share and deserve better. Tax policy for 2011 and beyond is not yet set in stone. A big mid-term election is just months away. By doing nothing, our elected officials are about to deliver to all of us the largest tax increase in U.S. history. Seniors will suffer a disproportionate burden. It's time they were heard. If they don't state their own case, no one is going to do it for them.

Today John Fogerty is 65. Gladys Knight is 66.

James M. Meyer, CFA 610-260-2220

Additional information is available upon request.

\* - Boenning and Scattergood may act as principal in buying this stock from or selling it to the public.

# - The author of this report or accounts under his management at Tower Bridge Advisors owns this security.

Additional information on companies in this report is available on request. This report is not a complete analysis of every material fact representing company, industry or security mentioned herein. This firm or its officers, stockholders, employees and clients, in the normal course of business, may have or acquire a position including options, if any, in the securities mentioned. This communication shall not be deemed to constitute an offer, or solicitation on our part with respect to the sale or purchase of any securities. The information above has been obtained from sources believed reliable, but is not necessarily complete and is not guaranteed. This report is prepared for general information only.

It does not have regard to the specific investment objectives, financial situation or the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed in this report and should understand that statements regarding future prospects may not be realized. Opinions are subject to change without notice.