



Brandywine  
Financial  
Group, Inc.  
An SEC Registered Investment Advisor

# Brandywine's Daily Plan-It

FEBRUARY 2009

## SPECIAL POINTS OF INTEREST:

- 2009 perspectives
- Pursue Gains in the Stock Market
- Measuring Value
- Retirement Income

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## Doing Fine in '09?

Although 75% of Americans surveyed in the first quarter of 2008 thought the economic situation was "poor" at the time, 60% thought economic conditions in 2009 would be "good."<sup>1</sup> Considering the market volatility over the past few months, will we see an improvement in 2009 economic conditions? What will this situation mean for you and your money?

### Housing

The housing sector has taken a significant tumble recently. Although some economists forecast another year of falling home prices, the decline is projected to be less than half that of 2008.<sup>2</sup> Former Federal Reserve Chairman Alan Greenspan speculated that home prices may start to stabilize or touch bottom sometime in the first half of 2009, but could continue to fall through 2009 and beyond.<sup>3</sup>

### Interest Rates and Inflation

On October 29, 2008, the Federal Reserve lowered the federal funds rate from 1.5% to 1% and expressed a weaker economic outlook related to worries over the financial and credit-market crisis. The Federal Open Market Committee

said it "expects inflation to moderate in coming quarters to levels consistent with price stability....Nevertheless, downside risks to growth remain."<sup>4</sup>

Before the rate cut, some economists believed that the Fed would have to raise interest rates in the first six months of 2009.<sup>5</sup>

In a retirement poll conducted early last year, before their retirement accounts and stock investments plummeted, many Americans already had a gloomy outlook on the long-term future. In fact, only 29% of respondents were "very confident" about saving enough to live comfortably in retirement; just 44% thought they would be able to retire when they want to.<sup>6</sup>

When examining prospects for the near future, it is important to consider your long-term financial goals. Economies and markets fluctuate constantly. It can be tempting for investors to make decisions based on short-term fluctuations without fully considering the long-term consequences.

Call today to discuss ways to potentially capitalize on financial opportunities in 2009 while keeping sight of your long-term strategy.

- 1, 6) CNNMoney, March 21, 2008
- 2, 5) Wall Street Journal Economic Forecasting Survey, September 2008
- 3) *The Wall Street Journal*, August 13, 2008
- 4) Federal Reserve, 2008

### Myopic Optimism?

When Americans were asked in a national poll about their ability to maintain their standard of living...

**45%** were "very confident" that they could maintain their standard of living in 2009.

Yet only

**34%** were "very confident" that they could maintain it over the next 10 years.

Source: CNNMoney, March 21, 2008

## Variables You Can Count On

A majority of Americans aged 55 to 80 have fears about investment risks that are undermining their confidence to invest in the stock market.<sup>1</sup> But with traditional pension plans becoming more rare and Social Security's future in question, many Americans may need to pursue stock market gains in order to avoid a retirement income shortfall.

One way to pursue gains in the stock market while also limiting downside risks is through the use of living benefit guarantees that are offered with some variable annuities (for an additional cost).

### Living Benefits

A variable annuity is a long-term financial vehicle designed for retirement purposes. The contract holder makes one or more payments to an insurance company in exchange for the promise of an income stream or lump-sum payment to be made at a future date. During the accumulation period, the insurance company invests some of the payments in subaccounts selected by the contract holder that pursue investment gains in various asset classes, including stocks. Because it is possible for these investment subaccounts to lose money, some variable annuities offer living benefit guarantees at an additional cost to help guard against specific

losses. These benefits can ensure that the contract will reach a minimum value, provide a minimum income amount, or provide an income for a specified period in the event that the subaccounts underperform.

There are contract limitations, fees, and charges associated with variable annuities, which can include mortality and expense risk charges, sales and surrender charges, administrative fees, and charges for optional benefits. Withdrawals reduce annuity contract benefits and values. Variable annuities are not guaranteed by the FDIC or any other government agency; they are not deposits of, nor are they guaranteed or endorsed by, any bank or savings association.

Withdrawals of annuity earnings are taxed as ordinary income and may be subject to surrender charges plus a 10% federal income tax penalty if made prior to age 59½. Any guarantees are contingent on the claims-paying ability of the issuing company. Because variable annuity subaccounts fluctuate with changes in market conditions, the principal may be worth more or less than the original amount invested when the annuity is surrendered.

*Variable annuities are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other*

*information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

1) NAVA, 2007



**59%**  
of Americans said that the risk of losing money over the next 5–10 years is a very important factor in their decision about how much to invest in the stock market.

Source: NAVA, 2007

# Essential Fundamental Analysis

## Basic Methods for Measuring Value Are Important But Often Overlooked

“I never attempt to make money on the stock market,” Warren Buffett once said. “I buy on the assumption that they could close the market the next day and not reopen it for five years.”<sup>1</sup>

Buffett, the richest man in the world, might be considered the poster child for fundamental analysis.<sup>2</sup> He’s on one side of an old debate about the usefulness of relying mostly on company-specific financial data to determine stock values. The other side of the debate insists that fundamentals are already reflected in a stock’s price and that technical analysis, which is studying how a stock performs in the market, is a better way to find winning opportunities.

It is of little consequence that the debate will probably never be settled. Many investors incorporate both fundamental and technical analysis in their decision making. The fact is that the financial markets rely heavily on fundamental analysis in order to set prices and make decisions to buy or sell. It’s a good idea to understand this essential aspect of stock valuation, even if only to gain a better perspective on the universe of stock valuation techniques.

### In Good Company

Fundamental analysis is a technique that attempts to establish a stock’s value based on information that is

fundamental to the company. This information includes the company’s earnings, dividends, and other variables that a publicly traded company must make public.

**Earnings** are almost always the dominant factor in a stock’s price. After all, what other reason does a corporation have to exist but to earn money? A company’s ability to earn money says much about what its dividends or capital growth might look like in the future. Earnings are sliced and diced in many ways and form a basis for other valuation measures such as *price/earnings ratio* and *earnings per share*.

in one year divided by the stock price. The *dividend payout ratio* measures the percentage of earnings that are paid as dividends.

**Book value** represents net worth, or what would be left if the company were to close its doors and use its assets to pay its liabilities. Book value also figures into the *price/book ratio*, which is the stock price divided by the book value per share. This represents the value of the business over and above the value of its assets. Fundamental analysis is an important part of stock valuation, but it’s usually just the beginning. Choosing invest-

ments that are appropriate for your portfolio typically requires careful research that includes a range of variables, including your time horizon, risk tolerance, and personal circumstances and goals. The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

- 1) Brainyquote
- 2) *Forbes*, March 5, 2008



$\frac{\text{Net earnings}}{\text{Outstanding shares}}$	= Earnings per share
$\frac{\text{Price per share}}{\text{Earnings per share}}$	= Price/earnings ratio
$\frac{\text{Annual dividends per share}}{\text{Stock price}}$	= Dividend yield
$\frac{\text{Annual dividends per share}}{\text{Annual earnings per share}}$	= Dividend payout ratio
$\text{Total assets} - \text{total liabilities}$	= Book value
$\frac{\text{Price per share}}{\text{Book value per share}}$	= Price/book ratio

**Dividend** activity is important because it says a lot about what the company is doing with its earnings. *Dividend yield* is the sum of dividends paid per share

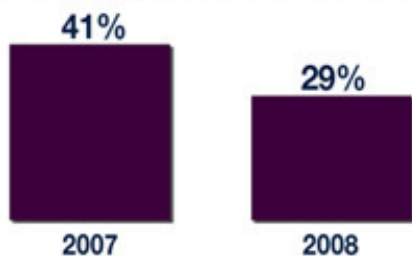
# Retirement Is No Reason for a Portfolio to Stop Working

**No doubt you are aware that your future retirement income depends on the savings and contributions you made during your working years. But it may surprise you to learn that the investment returns produced over time by your retirement portfolio will play an even larger role in funding your retirement.**

New research has revealed that nearly 90% of retirement income results from investment returns that are generated after the funds are socked away.<sup>1</sup> Knowing this certainly doesn't lessen the importance of saving and investing for retirement, but it highlights the need to remain diligent when it comes to managing and monitoring your investments during the retirement years.

## RETIREMENT CONFIDENCE WANES

In 2008, only 29% of American retirees were very confident that they would maintain a secure retirement, down significantly from 41% in 2007.



Source: Employee Benefit Research Institute, 2008

## Allocate Assets Wisely

An appropriate asset allocation strategy enables you to strive for portfolio growth while also working to help preserve principal and avoid

damaging losses. Investments should be allocated among the appropriate mix of asset classes (stocks, bonds, and cash equivalents) depending on your tolerance for risk and other personal factors. Experts also recommend diversifying within each asset class to further help manage risk. Asset allocation and diversification do not guarantee against loss; they are methods used to help manage investment risk.

## Revisit and Rebalance

Review your asset allocation periodically and consider how new financial needs should be addressed. Over time, your established asset allocation will be thrown out of whack as some market segments outperform others. Rebalancing your portfolio may lead to a more consistent return.

Obviously, retirement is no time for your portfolio to rest on its laurels. Call us to schedule a review of your investment strategy. Together we can address ways to help your portfolio work harder so you can pursue a more secure retirement.

1) *Journal of Financial Planning*, September 2008



# What's New at Brandywine

From  
Raymond's  
Desk

**Hope** is to desire with the expectation of attainment. It is having the ability to know that what is wanted is likely to happen.

**Optimism** is a perspective of life where one has the propensity to see the bright side of the world and has no doubt that any set of events in life will result in positive outcomes.

**July 16, 1997** – You are probably wondering what the importance of that date. As I write this addition to our “Daily Planet”, February 5, 2009 at 12:48pm, the Dow Jones Industrial Average is at 8,033.28. After doing some research, I found that the last time the Dow closed near this level was July 16, 1997 at 8,038.88. It was the *first* close above 8,000 in history. To the disappointment of many, our financial system has managed to erase 13 years of gains in a mere 14 months.

On the bright side...PE Ratios are at historically low levels for Equities and Interest Rates on Bonds in addition to CD's also being at record lows. These lows will eventually force investors to require higher returns on their assets. Consequently, investors will begin to look to the equity markets for solutions. If our new administration stops playing politics and starts worrying about our failing financial system, we will *hopefully* have a stimulus package in the coming weeks. I realize that the current news is all doom and gloom. There *is* much to be concerned about; however, we will eventually pull out of this recession and the Equity markets will move in advance of this in 6-9 months. That being said, *I am optimistic* that by the end of 2009 we will be at least 10%-20% above where we are currently in the equity markets and that our economy will begin to show true signs of healing.

Further, I *hope* that Congress can put aside their political agenda's, forget about what is in it for them and think of us, the American people, first.

*Hopeful, Optimism...Raymond*

From  
Justin's  
Desk

Recently, Justin has been experiencing health issues that have caused him to be away from the office. He will be out of the office for the next few weeks. Get well soon and the warmest regards to his family.

From  
Stephanie's  
Desk

February is a good time to show your appreciation for the ones you love. For my close family and friends this Valentines Day I am sharing an interesting book that I was recently introduced to, *The Mastery of Love* by Don Miguel Ruiz. It is a short and interesting read that gives a different perspective on love and how people live and define love. The book is based upon the Toltec teachings from the ancient city of pyramids outside of Mexico City known as Teotihuacan. The Toltec people were a community of scientists and artists who dedicated their lives to exploring and conserving the spiritual knowledge and practices of the ancient ones. The book was given to me by a friend and I feel that I should share it with others so that they too can find enjoyment and enlightenment from it. There are a few other interesting books by this author that I am looking forward to reading. Currently, I am working on *The Four Agreements*. Happy February!