



# DETERBECK WEALTH MANAGEMENT

A Division of DWM Financial Group, Inc.

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Issue 11

## Sherpa Snapshots

*"Preparing you for the  
financial road ahead"*

-Consumer Spending-

### Food Brands Compete to Stretch a Dollar



In our current economic climate, consumers are eager to save money. The grocery store is yet another place where shoppers are looking for a bargain. Since reports of consumers dining out less, big brand-name companies are trying to capitalize on the opportunity to market the value of packaged foods. But shoppers are trading full-priced, brand-name foods for cheaper private labels and store brands. Don't count out the big names just yet though. Advertisers and marketers are making some pretty persuasive arguments about their fare.

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Oscar Meyer Deli Fresh Meats proclaim, "deli fresh but without the deli counter price." Lean Cuisine frozen foods says, "We believe in food that is good for you and good for your wallet." Chips Ahoy cookies and Capri Sun juice drinks have teamed up for an ad that says you can serve two snacks "for about a dollar." Kraft and Nestle make those products and are among the growing ranks of marketers trying to entice consumers to buy their products.

The Frito-Lay division of PepsiCO is also trying to market value by adding 20% more product to selected bags of snacks like Cheetos, Fritos and Tostitos without increasing the price.

The main points these various companies are trying to get across to consumers is that the good things in life don't have to cost a lot, and you can get more for your money. The big name-brands don't want to lose market share. So they need to focus in on what the consumer wants, and the consumer wants value.

In the world of beers, sales of so-called economy brews, including Busch, Miller High Life and Pabst Brewing Co.'s Pabst Blue Ribbon, are rising faster than the nation's beer sales overall, and are helping industry giants Anheuser-Busch InBev NV and MillerCoors LLC weather the economic downturn. Though less profitable, these brews are helping Anheuser offset slower sales growth for its larger brands.

This year through April 19, U.S. retailers' sales of domestic "subpremium" brands of beer were up 2.6% by volume and 8% by value from a year earlier, according to market-research firm Information Resources Inc. The data exclude sales at bars, restaurants and Wal-Mart Stores Inc. outlets.

By contrast, the U.S. beer industry's total volume rose just 0.5%. Sales of "premium" beers, such as Bud Light and Miller Lite, which account for about half the industry's total sales, fell 1.4%.

For shoppers, the math is simple. While prices vary, Busch Light or MillerCoors's Keystone Light generally cost around \$14 a case, about \$5 less than a case of Bud Light or Coors Light.



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**If you're in the Charleston area:  
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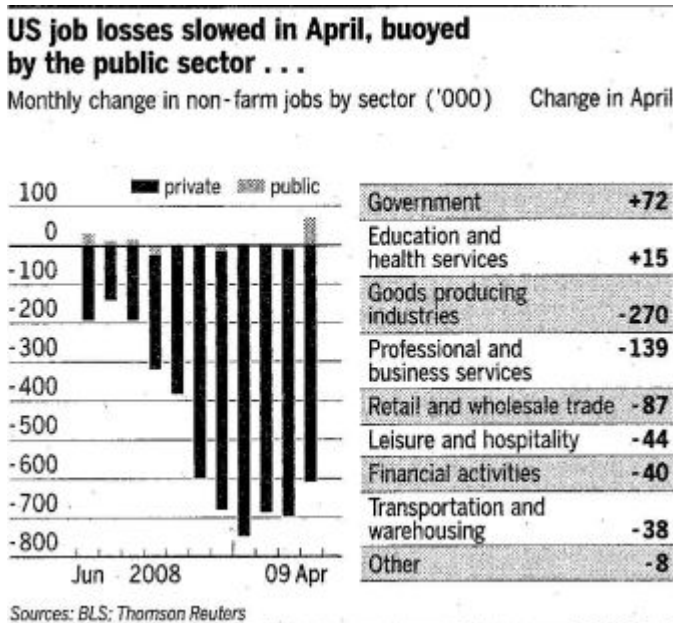


For additional information in The New York Times' May 11th article [click here](#)

**-Jobs-**

**Private Sector Leads Jobs Gloom**

According to the Labor Department, the U. S Economy shed 539,000 jobs in April, better than the 600,000 anticipated, with unemployment climbing to 8.9%, its highest mark since 1983. A burst of hiring from the federal government helped stem the tide during the month, but the pace of job losses in the manufacturing payrolls also slowed. Recent reports have shown manufacturing and services industries shrinking more slowly.



Every private sector industry lost jobs last month with the sole exception of healthcare, which seems recession-proof. Unemployment is on the rise and will likely continue to increase for several months. Recovery, even when it comes, is likely to be insufficient to add enough jobs to compensate for the underlying growth in the work force. There has been some renewed hope that jobs can be found. Enthusiasm over April's decline in job losses was a little misleading because of the fact that it was partly due to the addition of about 60,000 government workers for the 2010 census. And, while the loss is less than February and March, the results can't relayisysically be considered "good news."

For additional information in The Financial Times' May 9th article [click here](#)

**-Bailout-**

**U.S. Banks' Not So Stressful Test**



OK. We've all heard the results. Ten

of the largest banks don't need to raise any capital and nine others need to raise \$75 billion. So, should we all take a sigh of relief and breakout the champagne? Not so quick.

As you recall, the stress tests were designed to examine individual banks' ability to withstand future losses and by so doing help alleviate the near-panic that many investors felt earlier this year. Treasury Secretary Geithner and Federal Reserve Chairman Ben Bernanke had two goals in mind with the tests; dispel the uncertainty that hangs over banks and assure everyone that if the things get worse, the U.S. economy and its banks will survive.

After closer evaluation of the process, the Wall Street Journal's Peter Eavis gives the tests a grade of B-. Principally, he felt that the government was overly optimistic in two major areas; commercial real estate and overall leverage. In calculating worst-case scenarios, the government assumed that commercial real estate might decline another 8.5%. This sector is just starting to fall apart and defaults may move sharply higher as borrowers struggle to refinance. Some predict a decline of 20% or more in this sector over the next couple of years.

The other factor is leverage. The Treasury and the Federal Reserve wants these major banks to have at least 4% "Tier 1" capital (common stock and preferred stock). In other words, they can have debt equal to 96% of risk-weighted assets. This is also called 25 to 1 leverage. Apparently, the government feels the banks can "grow" their way out of the mess through earnings.

Before 2004, the general rule was that investment banks could not exceed a 12 to 1 leverage. So, 25 to 1 seems awfully risky for the unpredictable environment we are in. Furthermore, if values of commercial real estate or other assets decline more than estimated, then the 4% capital can reduce to zero very quickly. Let's keep the cork in the champagne for now.

For Additional information in The Wall Street Journal's May 8th article [click here](#)

### **-Taxes-**

#### **Roth Conversion Strategy- Review the Full Family Benefit(s)**

Nobody likes to pay income taxes. But, as we've pointed out earlier, paying income tax on converting a traditional IRA to a Roth has been compared to "paying tax on the seed and the tree will grow tax-free



forever". With conversions available to all taxpayers in 2010 and income taxes undoubtedly increasing, Roth conversions should be considered. And, one new approach is to have the children pay the bills for Mom and/or Dad.

For example, Jane, a 75 year old widow, has a \$100,000 IRA. She has ample net worth and doesn't need money from the IRA. However, she is required to take annual withdrawals. In short, the IRA is of little practical use for Jane. Her sole beneficiary, Kim, is a 40 year old successful attorney with an income well into the six figures.

But, as a Roth account, it could have significant value to Kim. Jane could convert the IRA to a Roth and, in her 15% tax bracket, incur a tax of \$15,000. Kim would pay the tax. Jane's Roth IRA would no longer require annual withdrawals and it would grow until Jane's death. If Jane lived to age 87 and the account grew 6% per year, the Roth would be worth approximately \$200,000 at Jane's death.

Then, for the remainder of Kim's life, she could take tax-free withdrawals from the inherited Roth. This could amount to \$550,000, again assuming a 6% return, all tax-free to Kim. Of course, depending on Kim's personal situation, she might even ask her mother to name the grandchildren as contingent beneficiaries and potentially stretch the tax-free Roth money for an extra twenty or thirty more years.

For those elderly IRA holders who need the money to live on, clients might consider giving or lending their parents enough money to pay the taxes on the Roth conversion and to provide them income so they don't need to tap into the converted Roth for living expenses. Of course, this all needs to be documented with appropriate interest rates on loans.

Certainly, every family situation is unique and typically more complicated than the simple examples shown above. However, Roth IRAs are one of the most powerful estate planning tools for any family. Therefore, consideration of their use should be made analyzing full potential benefits to the entire family and, of course, full potential costs.

For more information, Ed Slott's IRA Advisor newsletter May 2009

**-Market Update-**

**What's Hot - and Not** How different investments did last week.

INVESTMENT	PERFORMANCE	
	Last week	52-week
Crude oil	10.2%	-53.5%
REIT stocks	9.6	-44.7
Emerging-markets stocks	9.4	-39.0
Global stocks	6.7	-36.7
S&P 500-stock index	5.9	-33.1
Commodity futures	5.9	-44.2
Russell 2000 (small stocks)	5.1	-28.9
European stocks	4.6	-35.5
Dow Jones Industrial Average	4.4	-32.7
U.S. corporate junk bonds	3.9	-11.0
Gold	3.0	3.4
Emerging-markets bonds	3.0	-1.6
U.S. investment-grade bonds	1.5	-4.7
Nasdaq Composite Index	1.2	-28.9
U.S. dollar, trade weighted	-2.1%	11.2

Notes on data: European stocks: Dow Jones Stoxx Index; emerging-markets-stocks: MSCI price index for free markets; corporate-bond prices: Merrill Lynch Global Bond Indexes; U.S. dollar and U.S. Treasuries: J.P. Morgan; REIT stocks: Dow Jones Equity REIT Total Return Index; emerging-markets bonds: J.P. Morgan EMBI-plus price index, in U.S.-dollar terms; commodity futures: Dow Jones-UBS Commodity Index; global stocks: Dow Jones World Stock Index

Sources: WSJ Market Data Group; Dow Jones Indexes; Reuters; Merrill Lynch

**-DWM Pushing to Reduce Paper-**



All of our clients should have received our recent memo on saving paper and reducing the amount we all create. Our goal is to have most communication with our clients and associates to be handled electronically.

Therefore, we are consolidating our two newsletters. Sherpa Insight has been providing monthly investment and financial planning insights in a hard copy version since August 2001. Sherpa Snapshots, our electronic newsletter designed to track the pulse of the economy, has been published since March 3, 2009. Starting May 19th, we will be consolidating the two publications and issuing them bi-weekly in an electronic

format only. So, no issue May 26th.

But, if you would like, please feel free to go out and hug a tree that day. We thank you and the earth and future generations thank you as well.

## We appreciate your feedback!

Let us know what you think...

Send feedback and suggestions to: [danielle@dwmfnclgroup.com](mailto:danielle@dwmfnclgroup.com)

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