

MaxOut Savings Show Report

With Ted Geoca

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MaxOut Savings Advisors, LLC

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SAVE AGGRESSIVELY AND INVEST CONSERVATIVELY!!!

Is Your Money Market Safe?

Athens: First Hand
Greece or Bank Bailout?
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Outlook

Our recent trip to Athens was enlightening in many respects. It gave me a chance to look at the problems in Greece first hand. In many ways it was surprising. The entitlements that have gotten Greece in trouble are the same that exist in most major cities in the United States: runaway spending, high taxes and retirement plans that let people retire at an early age. Greece is the United States fifteen years or less in the future unless we learn to control our spending. The surprising thing is if you go to the protests as I did, you will find them to be full of students and some retirees. I had expected communist banners everywhere; what I found was something that more resembled a Tea Party rally. The people throwing stones are a very small group. My sons went out to view the protests one night and reported back that they walked right up to the center sign-up area and had spoken to some of the kids! The Greek people are being asked to make huge sacrifices. We heard that the Greek government was planning to set a maximum wage of 500 euros per month (about \$750) for students graduating from college; this is why all the students are protesting. Throughout the country people are being asked to delay retirement. I spoke with one 70 year old that was asked to delay retirement another year. Salaries are being cut for the second time in two years as Greece struggles to restructure.

The root of a good bit of the problems in Greece was that the Greek drachma was converted to the euro at too high of a conversion rate when Greece joined the European Union. When this was done, it set the salaries and pensions of the Greek people at an artificially high rate that could not be sustained. The problems were compounded by a socialist agenda that has dominated Greece for years. I think it will be very hard to maintain the austerity programs without a restructuring of the Greek debt. The danger here is the Greek people could push back on the austerity programs and force a default of Greek debt.

The standard of living in Greece, or for that matter much of Europe is materially below the level of the United States. Gasoline was over \$9.50 per gallon! To put that into

perspective it would cost over \$240 to fill my suburban. The roads, once outside of Athens were empty. Though I will say they have much better driving habits on the freeway and will pull over to the slow lane to let you pass. This is something many drivers on I-10 going to San Antonio seem to have forgotten! Everything is more expensive over there, in part due to a 21% VAT tax. A VAT tax is basically a sales tax that is hidden in the price of the product. What is very clear is that if we move the United States over to the European model of high taxes, regulation and clean energy, the American people's standard of living is in for a big decline. The average European middle class person lives like those who are considered poor do in the United States.

We had a wonderful time in Greece that was highlighted by a visit to the village that my grandfather emigrated from in the early 1900s. It was no easy task to get there. We were warned that "bears and wolves" were a danger and according to some in the car we were about to go off a cliff. In the end we made it to the old village that was up the mountain from the new village that was built after World War II. The church was the only thing that had been rebuilt. It was amazing to see where the family had come from. My great grandfather who also came to the United States had a brother that went to Romania to work in the oil boom there. They heard nothing from him after the communists took over. You really start to realize how lucky we are to live in the United States.

Who is really getting a Bailout?

We have heard quite a bit about the bailout of Greece by the ECB and the rest of Europe. Make no mistake about it, this is not about a bailout of Greece, it is a bailout of European banks. The European banks have taken big losses from real estate loans in Europe and the United States. There is a fear that if Greece defaults, then Ireland and Portugal are not far behind and this could lead to failures at some Belgium, French and German banks. Most economists have come out and said that Greece must restructure its debt because they cannot afford it. However, in addition to write-offs at European banks, Wall Street firms could have losses in the tens of billions of dollars on Credit Default Swaps (CDS) they have written. There is a fear that if Greece defaults it will create another Lehman style global slowdown. Therefore, we would be cautious of owning European bank debt in general. There in lays a problem.....

Is Your Money Market Safe?

Recently Jim Grant pointed out that the largest five money market funds, Fidelity Cash Reserves (FDRXX), Vanguard Reserve Prime (VMRXX), Fidelity Institutional Money Market Portfolio (FNSXX), Fidelity Institutional Prime Money Market Portfolio (FIPXX) and BlackRock Liquidity TempFund (TMPXX) held an average of 41% of their assets in European banks short-term debt. In addition, according to Barron's, Fitch Ratings service stated in a report last week that the top 10 money market funds with assets of \$755 billion had half of their assets in European bank liabilities. Our own work at MaxOut Savings Advisors last week found that some money market funds had over 60% of their assets in European investments. These are all United States money market funds!

Safer Money Market Funds

Most money market funds now are paying very little interest. At the present time, European banks are in big trouble if the Greece crisis spreads. Now is not the time to own European bank debt. We have taken actions to limit our clients' exposure to this problem. If you are in a money market fund, one way to avoid European bank exposure is to purchase a tax free money market fund. *Tax free money markets*, by definition, can only own United States municipal securities that are tax free. US government money markets also have less exposure to Europe. *US government money market funds* also have a safer risk profile. Although they could have some exposure in the "repo" market of US securities, this should be a safer method to own money market funds. You can also build your own money market fund by purchasing very short term corporate bonds. T-Bills are another way to avoid European exposure. You can purchase 30-90 day T-bills from your bank or broker. T-Bills currently yield very little because they are such a good safe alternative to money markets. If you have a choice, tax-free money market and US government money markets are a better alternative until the European bank problems are solved. Now is not the time to be taking risks with your short term investment funds.

CRB Commodity Research Bureau commodity chart



“China Commodity” Correction

We can see from the above CRB chart that commodities are currently in a correction that began almost to the day of the start of the correction in the stock market. As we wrote in

our last MaxOut Savings Report, we are bearish on the commodities that China is using disproportionately to their GDP. China's economy is about 9.4% of worldwide GDP. They use almost 40% or more of the following commodities: iron ore, steel, cement, aluminum, lead, copper, and coal. We call these "China commodities". These commodities could correct substantially if China's economy slows as we expect. China uses 10.3% of the world's oil much closer to overall GDP levels; this is bullish for oil because oil demand should not drop much on a China slowdown. Agricultural commodities are correcting but should stay elevated because of worldwide demand and drought conditions. The commodity correction still has a way to go; we are most bearish on the "China commodities", especially if China's economic growth continues to slow.

Outlook

The stock market continues to be in a correction that began in May of this year. We are seeing economies slow down in Japan, Europe, China and the United States, now is the time to be cautious. The markets are oversold and due for a bounce. However we expect the markets to work lower over time. We believe many companies will have trouble making their earnings numbers in the second half of the year because of a weakening economy worldwide. As we have written about and discussed on the MaxOut Savings Show we continue to like the following stock sectors: medical, drug, stable demand, food and precious metals. We continue to like blue chip multinational companies that pay good dividends and have strong cash flow. We would avoid consumer cyclicals, materials and emerging markets at this stage of the market cycle. One of the main concerns is weakness in "China commodities". Gold and gold stocks should begin to out-perform in the second half of the year. We are still seeing too many countries mired in debt with runaway spending. Their only way out will soon become depreciating their currency. We expect the euro to decline against the dollar as the euro crisis worsens and Europe turns more to quantitative easing. This will be bullish for gold.

When considering bonds and bond funds, they should be shorter term in nature averaging 5 years or less. As we have discussed we would under-weight European bonds. We would avoid high yield bonds as they are overpriced and perform poorly in an economic slowdown. Cash or money markets should be maintained at higher than normal levels; care should be taken with money funds to avoid European bank exposure in the sector. US government and tax free money markets have less risk as do T-Bills. Risk management should continue to be a priority when managing your retirement assets in the present investing environment. Remember when the great investing opportunities appear you want to have the cash to buy them.

MaxOut Savings Advisors: Actively Managing Risk

In these volatile times, investing your retirement funds can be difficult and time consuming. Is your advisor looking at risk and actively managing your retirement? Hiring the MaxOut Savings Advisors team to manage your money or IRA rollover is a great first step toward a successful retirement. MaxOut Savings Advisors is an SEC registered, fee-only investment advisor based in Houston, Texas. Ted Geoca has over

twenty years of investment experience managing clients' retirement assets. We invest in stocks, bonds and mutual funds for our clients using a value analysis strategy that we have developed over the last couple decades. **We look at risk as well as return to actively manage your investments and maximize your returns through today's changing markets.** We use Fidelity Investments as the custodian for our clients' assets. If you would like MaxOut Savings Advisors to manage your retirement investments using our value methodology, I would be happy to meet with you. To schedule an appointment please give us a call at 713-627-0400 or email me at ted@maxoutsavings.com.

Do you have an account at Fidelity?

Do you already have an account at Fidelity Investments? With decades of experience the MaxOut Savings Advisors Team can actively manage the assets for you at Fidelity. We will make the investment decisions for you and you can monitor your account from Fidelity's website. We use the same value based investment strategies we talk about on the MaxOut Savings Show. In most cases, you can sign a simple form to add us as the advisor on your account and we can use your existing Fidelity account number.

Considering an IRA Rollover?

If you are retiring soon or considering an IRA rollover, let the MaxOut Savings Advisors Team handle your IRA rollover. We can help you take advantage of the NUA tax break if you have low cost basis stock in your company plan. We will sit down with you, discuss your financial situation and needs, and develop a plan tailored specifically for you. We will show you how we manage our accounts using our value analysis strategy to grow the investments and reduce risk.

Remember Save Aggressively and Invest Conservatively!

Ted K Geoca

President

MaxOut Savings Advisors, LLC

Houston, Texas

ted@maxoutsavings.com

www.maxoutsavings.com

Kellan Caldwell

Doug Saam

713-627-0400

Remember to catch:

The ***MaxOut Savings Show with Ted Geoca*** on Saturday at 11:00am on KNTH 1070AM!

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