



Weekly Commentary
February 4, 2008

The Markets

If there's an upside to a down market, it's that stock prices might get low enough to encourage strong companies to swoop in and make takeover offers. That's exactly what happened last Friday when Microsoft made a surprisingly aggressive bid for troubled Yahoo!

The news helped send the Dow Jones Industrial Average up 92 points for that day and up a dramatic 4.4 percent for the week.

Economic news was mixed last week with the nonfarm payroll numbers coming in below expectations while the Institute of Supply Management said its index of manufacturing activity rose more than expected in January, according to *The Wall Street Journal*. And just to make us all feel good, oil company Exxon Mobil announced last week that they set a record for the highest annual profit ever recorded in U.S. corporate history. They earned \$40.6 billion in net income in 2007. To put that in perspective, if Exxon Mobil distributed all their profit, each of the 109.9 million households in the U.S. could receive \$369. Imagine how many tanks of gas that would fill!

Returns through 2/1/08	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Dow Jones Industrials	4.4	-3.9	0.7	6.5	9.5	4.6
Nasdaq Composite	3.8	-9.0	-2.5	5.3	12.8	3.9
Standard & Poor's 500	4.9	-5.0	-3.7	5.5	10.2	3.4

Sources: Yahoo! Finance, Barrons. Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. Three-, 5-, and 10-year returns are annualized. Assumes dividends are not reinvested.

ACCORDING TO A RECENT INVESTMENT COMPANY INSTITUTE (ICI) REPORT,

The Role of IRAs in U.S. Households Saving for Retirement,” by mid-2007, Americans had \$4.6 trillion stashed in individual retirement accounts (IRAs). According to the report, that total represents more than one-quarter of U.S. total retirement market assets, compared with just 14 percent two decades ago. The report also notes that IRAs have risen in importance on households’ balance sheets. In June 2007, IRA assets accounted for 10 percent of all household financial assets, up from 3 percent two decades ago. Among the 40 percent of U.S. households reporting they have IRAs, about three-quarters also participate in employer-sponsored retirement plans. The report also found:

- Traditional IRAs are the most common type of IRA owned, followed by Roth IRAs and employer-sponsored IRAs. Specifically, 37.7 million households have traditional IRAs, 9.2 million have company-sponsored IRAs like SIMPLE IRAs, and 17.3 million have Roth IRAs.

- IRA growth has been fueled by assets rolled over from employer-sponsored retirement plans. Almost six out of 10 traditional IRA-owning households indicate their IRAs contain rollovers from an employer-sponsored retirement plan.
- IRA-owning households tend to preserve their IRA assets as long as possible. Less than one in five households with traditional IRAs took withdrawals in tax-year 2006. The most frequently cited reason for withdrawals was the legal requirement to begin taking minimum distributions at age 70 1/2.

And there's more good news: Most households owning traditional IRAs today have a strategy for managing income and assets in retirement. For example, eight out of ten traditional IRA-owning households indicate they have a plan, and among those with a plan, seven out of ten indicate their strategy is to preserve their IRA assets for as long as possible into retirement by not taking withdrawals prior to age 70 1/2.

IRA contribution limits are \$4,000 for 2007 (the deadline is April 15, 2008 for tax year 2007) and \$5,000 for 2008. However, if you are over age 50 you can sock away an extra \$1,000, a benefit the ICI report found only 5 percent of new IRA investors and 11 percent of those contributing to an existing IRA take advantage of.

THE INCREASE IN HEALTHCARE COSTS IS ALL OVER THE NEWS, but have employers reached the “tipping point” where they will stop offering health benefits? Not according to the Employee Benefits Research Institute (EBRI). A recent EBRI report found that employment-based health coverage has fallen, but not as sharply as headlines might suggest. For example, between 1994 and 2000, the percentage of workers with health benefits through an employer held steady at between 73 percent and 75 percent. Since 2000, the percentage of workers with health benefits has fallen to about 71 percent.

The report also notes that while employers still see a business case for offering health benefits to their workers and continue to invest in improving their health programs, most associations representing employers believe the existing employment-based system must be reformed. What's more, employers interviewed for this study agree that if one major employer were to drop health benefits, others would follow.

That's something to keep in mind with the annual Fidelity Investments survey of healthcare costs estimating the average retirement healthcare costs for a couple retiring at age 65 at \$215,000, up 7.5 percent from \$200,000 last year. This estimate assumes they will not have health coverage provided by a former employer and Fidelity stresses the figure is an average. Fidelity expects total healthcare costs will rise 7 percent a year for the foreseeable future.

Best regards,

The Advocate Group

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* The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks.

* The NASDAQ Composite Index is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.

*Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.

* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.

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