

For the Week of August 23, 2010

## THE MARKETS

Mortgage applications rose 13 percent for the week ended Aug. 14 as consumers took advantage of low interest rates. A 17 percent increase in refinancing loans made up for lost ground in home purchases. Disappointing reports on jobs and regional manufacturing fed continuing concern that the economic recovery has slowed, according to Reuters. The Dow and S&P fell for the second consecutive week, while the NASDAQ managed a slight gain. For the week, the Dow lost 0.74 percent to close at 10,213.62. The S&P fell 0.65 percent to finish at 1,071.69, and the NASDAQ rose 0.29 percent to end the week at 2,179.76.

Returns Through 8/20/10	1 Week	YTD	1 Year	3 Year	5 Year
Dow Jones Industrials	-0.74	-0.27	12.25	-5.31	2.01
NASDAQ Composite	0.29	-3.94	9.58	-4.58	0.41
S&P 500	-0.65	-2.66	8.55	-7.42	-0.48
BarCap US Agg Bond (TR)	0.25	7.33	9.20	7.67	6.05
MSCI EAFE	-1.24	-7.67	1.08	-9.16	1.08

Source: Morningstar.com. \*Past performance is no guarantee of future results. Indexes are unmanaged and cannot be invested into directly. Three- and five-year returns are annualized. The S&P, excluding "1 Week" returns, is a reflection of return to an investor, by reinvesting dividends after the deduction of withholding tax.

**They Earn, They Pay, They Spend** – To rank in the top 5 percent of earners in the U.S. required an adjusted gross income level of \$160,000 or higher (data from 2007 tax returns). This group paid 61 percent of all federal income tax for the year and is estimated to account for 37 percent of all spending by consumers (Source: IRS, Moody's, BTN Research).

**More Cash, Less Card** – Revolving credit, which includes credit card debt, fell in June 2010, its 21st consecutive monthly decline. This total peaked in September 2008 and has fallen every month since then. The \$826.5 billion of revolving credit nationwide as of June 30, 2010, has fallen back to almost the same level (\$826.7 billion) that existed in the country as of Nov. 30, 2005 (Source: Federal Reserve, BTN Research).

**In The Year 2037** – Social Security announced on Aug. 6, 2010, that the trust fund backing the payment of Social Security benefits would be zero in 2037 and that the payment of benefits would drop to 75 percent of their originally promised levels through the year 2084 (Source: Social Security Administration, BTN Research).

## **WEEKLY FOCUS – Emergency Cash Good Idea at Every Age**

A basic tenet of managing your finances is to have a cash reserve equal to three to six months of your basic fixed expenses – mortgage or rent, insurance premiums, car payment, etc. – as well as variable expenses such as food and gas, in the event that you lose your job, become ill or injured, or experience any other crisis that interrupts your ability to earn your salary.

When you retire, your need for a cash reserve continues but the reason changes. Your income in retirement comes from assets you accumulated during those earning years, from Social Security (depending on your age), and possibly from a pension. So while you don't have to worry about job loss disrupting your income stream, you may need cash to cover unexpected expenses such as car or home repairs and health needs that may not be covered by Medicare or your insurance, such as dental work, vision care, hearing aids or medical tests.

If your retirement income depends heavily on your own accumulated assets, your investment takes into consideration the need for growth that keeps pace with inflation. That can be a double whammy in an emergency – you may not be able to liquidate the amount of assets you need quickly, and you may be forced to liquidate investments during a market downturn, getting less for them and creating a larger gap to recover when the market rebounds.

Having a cash reserve – or the flexibility of instruments like a credit card or home equity line against which you can draw cash – plus paring expenses during an emergency can help you avoid withdrawals from your portfolio to meet unexpected costs during retirement. Your cash reserve needs can also change over time. If you or a loved one has had a change in circumstance that requires you to reconsider your emergency funds, please call our office to discuss potential options.

### **BONNETT WEALTH MANAGEMENT**

**11930 Arbor Street, Suite 201, Omaha, NE 68144-2998**

**(402) 556-8858 ♦ (800) 956-8858 ♦ (888) 766-7488 Fax**

**[www.bonnettwm.com](http://www.bonnettwm.com)**

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\* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. The Dow Jones Industrial Average is a price-weighted index of 30 actively traded blue-chip stocks. 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. The Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE Index) is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 20 European and Pacific Basin countries and includes reinvestment of all dividends. Barclays Capital Aggregate Bond Index is an unmanaged index comprised of U.S. investment-grade, fixed-rate bond market securities, including government, government agency, corporate and mortgage-backed securities between one and 10 years.  
Written by Securities America. SAI# 306436