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Market's up but economy's waffling

Sometimes it seems as if there's a major disconnect between the stock market and the rest of the economy. Unemployment is approaching 10%, yet stocks just turned in their best monthly performance in two decades.

July was a fabulous month for investors and we're happy to celebrate it. But it certainly doesn't mean that our economy is back on track and roaring to go.

As we search for those longed-for "green shoots," the signs of economic vitality, it's important to keep our eyes open and our expectations in check.

The stock market is one of the **leading** economic indicators, which means it points in the direction of the future. It's telling us something about what investors expect to happen, not about what's actually happening now. Other "leading" signs to

watch include an increase in building permits or new orders for manufacturers or a decrease in the number of people filing new claims for unemployment.

In the early stages of recovery, the unemployment rate keeps climbing, partly because even recovering companies don't want to be too quick to take on new hires and increase their overhead. That makes unemployment a **lagging** indicator, pointing to the past. Labor costs are another laggard.

When lots of people are looking for jobs and many of those who have them are taking pay cuts, labor costs aren't likely to go up.

These and other economic indicators do not move in unison. Some will always be pointing up and others down, which means interpreting them takes more than number crunching. That's why economists disagree.

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Signs point the way, but which to follow?

Indicators give us clues about the economy's direction. Here's how a few pointed in June:

Leading

- + Stock prices
- + Building permits
- +/- New manufacturing orders
- + Initial jobless claims

Lagging

- Duration of unemployment
 - Labor costs
- Inventories compared to sales
- Consumer debt compared to income

Generous gifting doesn't have to be a taxing experience

The gift tax has to be one of the most widely misunderstood taxes affecting individuals.

Many people think if they give away more than the annual exclusion amount, they have to pay gift taxes. Only rarely is that actually true. Here's the scoop on gift giving:

You can give away up to \$13,000 per year per person before ever having to file a gift tax return (Form 709). You and your spouse can give away up to \$26,000. That means if you've got two kids and they're both married, you can give away \$104,000 every year

before crossing the threshold. If you give from a joint account (or you live in a community property state), you don't even have to file a form. If you give from one person's account, once the amount crosses \$13,000, you have to file a form with the other spouse signing, agreeing to split the gift.

Then we get to the part that confuses people. Just because you have to file a form doesn't mean you have to pay tax. The tax comes in once you have given away more than \$1-million in your lifetime in potentially taxable

(more than \$13,000 a year) gifts. So suppose you as a single person buy a \$300,000 house for your daughter and give her the deed free and clear. Will you have to file a gift tax form? Yes. Will you have to pay a tax? Not unless you've previously given away more than \$713,000 in taxable gifts.

There are even circumstances in which you can give away more than \$13,000 per person per year. Here are three:

- Unlimited payment of medical expenses directly to providers.
- Unlimited payment

of tuition directly to a university.

- Up to \$65,000 in contributions to a 529 college savings plan (\$130,000 for a couple), essentially using five years' worth of gift tax annual exclusions.

One thing to keep in mind is that the gift tax and the estate tax are integrated. Making taxable gifts during your lifetime reduces the estate tax exemption at your death. Currently estate taxes apply to estates of more than \$3.5-million. If you have an estate approaching that size or larger, consult with your tax adviser before making any large gifts.

July 2009 Benchmark Returns				
	July	3 mos	YTD	1 year
Large-Cap Benchmarks				
S&P 500	7.56%	13.81%	10.97%	-19.96%
DJ US Total Full Cap	7.80%	13.82%	13.20%	-19.67%
Russell 1000	7.63%	13.87%	12.28%	-20.17%
Russell 1000 Growth	7.10%	13.67%	19.45%	-17.57%
Russell 1000 Value	8.19%	14.03%	5.08%	-22.94%
Mid-Cap Benchmarks				
Russell Mid Cap	8.85%	13.97%	19.69%	-22.22%
Russell Mid Cap Growth	7.89%	13.99%	25.81%	-21.87%
Russell Mid Cap Value	9.81%	13.80%	13.32%	-22.81%
Small-Cap Benchmarks				
Russell 2000	9.63%	14.60%	12.53%	-20.72%
Russell 2000 Growth	7.75%	15.55%	19.99%	-20.86%
Russell 2000 Value	11.56%	13.62%	5.79%	-20.67%
Other Benchmarks				
NASDAQ Composite	7.86%	15.49%	26.18%	-14.05%
MSCI EAFE	9.05%	20.20%	15.19%	-25.09%
MSCI Emerging Markets	10.87%	27.36%	48.85%	-18.99%
DJ US Select REIT	10.42%	9.29%	-4.09%	-41.35%
DJ-UBS Commodities Index	3.23%	14.44%	8.00%	-38.03%
BarCap US Aggregate Bond	1.61%	2.93%	3.54%	7.85%
Credit Suisse High-Yield	6.07%	15.85%	34.93%	2.15%
Citigroup World Govt Bond Index	1.78%	5.28%	0.25%	5.62%
S&P National Municipal Bond Index	1.87%	1.67%	7.87%	4.84%
Citi 3-month T-bill	0.01%	0.04%	0.11%	0.65%

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We remain hopeful for a recovery in the second half of this year. The fact that the statistics will be measured against the depressed numbers of the recession should lift both the indicators and our spirits. However, corporate earnings have a long way to go to really recover and they can't do it on cost cutting alone. Consumer spending is likely to remain anemic. While "cash for clunkers" helps car dealers, it also diverts money away from retailers, so growth probably will continue to be modest.

Enjoy the stock market run, but keep your eye on the leaders.

Watching the indicators

The *Wall Street Journal* tracks key economic data and archives government news releases on a host of indicators. Find them at <http://tiny.cc/tuN6C>.

If you prefer a shorthand version, you might look at the Conference Board's summary at <http://tiny.cc/iaHYq>.

Sue your school? Do your homework before enrolling


Job hunting hasn't worked out for Trina Thompson, so she decided to sue her alma mater. After all, she spent \$72,000 for tuition, so she ought to have a job. Maybe so, but she's probably about four years too late to be thinking about that.

We don't know whether Thompson has a legal case, but we do know many students would be a lot better off if they thought about the job and their post-college situation BEFORE they ever signed on the dotted line to enroll.


Read about the lawsuit at <http://tinyurl.com/mdp7uc>


Many private schools charge a lot of money for education of questionable value.


Here are some tips for picking a college (or vocational school program) that's likely to lead to a job:


 Call the registrar's office at your local public university and ask whether they accept credits from a college you are considering. If you think you might want


to transfer to a specific school or program, check there about transferability.

 Speak to recent students and graduates about their experiences both in the classroom and in finding a job afterward.

 Speak to people who work in the field you are considering and ask what they think of the school you are considering and its graduates. If they're lukewarm, ask about the schools they do recommend.

 Ask about internship opportunities. If there aren't any, that's a bad sign.

 Ask about pass rates on professional exams in the field you are considering.

 Review your finances and consider whether you can pay for the complete program without borrowing more than you are likely to earn your first year on the job.

Strapped borrowers get break on student loans

Repaying student loans just got easier for people with low or moderate incomes.

The new Income-Based Repayment program caps loan payments based on income. Participants in the program may be able to have any remaining balance forgiven after 25 years. Those with public service jobs, including teachers, government workers and many non-profit workers, may be eligible for forgiveness after 10 years of payments. Most federal loans to students are eligible for the program, but not those to parents.

Go to www.ibrinfo.org for more details.

Kids head to school; parents to the poorhouse

As the kids go back to school — and the biggest ones go off to college — parents feel the pinch in the wallet. Here are a few tips to help out:

Take inventory of what you already have. Do you really need to buy new uniforms and school supplies? Can you use what you already have?

Be cheap. Clip coupons. Watch for sales. Check eBay and www.craigslist.com. Browse dollar stores, thrift stores and used uniform sales.

Don't overbuy. It's not a deal to spend \$15 to buy 100 pens if you need only 20 and can get them for \$3.20.

Set limits on major line items in your budget, such as shoes or clothing. Make sure the kids

know that when the money's gone, there won't be any more where that came from.

Pack lunches. Buy large bags of snacks and repackage them in smaller plastic bags. Make your own snack packs of celery, carrot sticks and other raw veggies and send along a small plastic container of dip.

Shop for books online and buy used when feasible.

Watch shipping charges. If you need to spend a specific dollar amount to qualify for free shipping, check with other parents to see if they want to pool orders.

Think about the holidays when back-to-school items go on clearance. Some of them make great stocking stuffers.

To boost return on cash, expect to trade time, flexibility

Cash yields have dropped to abysmally low levels. Recently the seven-day average yield on money market mutual funds was 0.09%, according to Money Fund Report. Money market accounts at banks are paying a little better, but you need to be prepared to do some research and be willing to deal with the inconvenience of

moving your money.

Bankrate.com (www.bankrate.com) is one good source of information about higher-yielding accounts nationwide. Others include www.ratebrain.com and www.highyieldcheckingdeals.com. These Web sites provide the leads and the initial information. Then it's up to you to check out any bank you are

considering. Be sure to read the fine print because the high yield may not apply to your entire deposit. In addition, there may be restrictions, such as a requirement that you use your debit card a certain number of times each month in order to get the advertised yield. And, of course, you want to be sure that your account is FDIC-insured.

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Miss an issue?

Back issues of our monthly newsletter are available on our Web site, www.holifieldhuntley.com.

Read Helen's blog

www.helenhuntley.wordpress.com

Travel deals abound, but don't let the fine print trip you up

Got travel plans?

The downturn in the economy means lots of great deals are available. To find them, the Internet is your best resource. Start with travel sites such as Expedia.com and Travelocity.com, noting prices and details such as hotel star ratings. Then go directly to the Web sites of the hotels, airlines or rental car companies you've identified as good prospects. If you find a rate online that's better than the company's own Web site offers, call and see if the company will match it.

If you're flexible and a

little adventurous, consider sites such as Hotwire.com and Priceline.com. Helen recently used Priceline.com to book three-star hotel rooms for one-third and one-half the best price listed on the hotel's own Web site. The catch is that deep discount deals often carry severe penalties for changing your mind. At Hotwire and Priceline, you have to pay by credit card before you know the company involved. If you don't like what you get, you're out of luck. If you have any doubts about your travel plans, make the reservation directly

with the company involved.

When making airline reservations, be sure you understand the penalty for changes, which may be \$100 or more per ticket. The U.S. airline industry collected \$528-million in cancellation and change fees in the first quarter alone.

As you compare ticket prices, be sure to consider fees for checked luggage. One or two bags could boost your ticket price significantly, often \$25 to \$50. Add a third checked bag and you could bump up your total another \$100 or more.

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