Argus Financial Consultants

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Hello Everyone,

Spring is here! With the nice weather comes tax day and spring cleaning! If you come across old tax returns or prior year statements while in the midst of spring cleaning feel free to bring them into our office and use our shredding service. We partner with a local shredding company, Shred Docs, who safely destroys all paperwork and then recycles everything to help save thousands of trees every year. Our office hours are from 8-5. Do not hesitate to stop by to visit while efficiently clearing your house from clutter. If you have any questions on what types of statements to keep please contact us or prepare to bring them to your next appointment.

If you are inspired to read more financial information, visit our Learning Center at www.EyeOnArgus.com.

Please feel free to suggest topics by sending your suggestion to Joy at joy@eyeonargus.com.

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ARGUS FINANCIAL CONSULTANTS

Excellence is Defined by the Success of Our Clients

Spring 2009

The Progress Perspective

"(Human flight in a machine) might be evolved by the combined and continuous efforts of mathematicians in from one million to ten million years."

—from an article in The New York Times, October 9, 1903

"We started assembly today."

—from the diary of Orville Wright, October 9, 1903

The world is still emerging from a financial panic and an economic seizure which has few parallels in history, and none in our lifetimes. A global debt bubble metastasized in the single-family home market, and manifested as a whole new generation of mind-bogglingly complex mortgage derivatives, which turned out to be, in Warren Buffett's memorable phrase, "financial weapons of mass destruction." In response to the functional insolvency of the banking system and the total cessation of the credit function, Western governments plunged into deficits of historic proportions. No one can currently imagine how the accretion of public debt can be reversed, and hyperinflation scenarios grow like weeds in the blogosphere as gold makes new record highs (if only in nominal terms).

Even as global economic activity and equity markets continue their remarkable recoveries, this is The Great Gettin'-Up Morning of catastrophism. Equities had essentially no return in the ten years through 2009, and surely the future looks at least equally bleak. Such is the self-hypnosis of extrapolation. Such is the pathology of pessimism.

As the forgoing quotes from the very same day in 1903 suggest, pessimism always misses the key point in human development: not just the continuing miracle of technological progress, but its second derivative—the change in the rate of change.

Powered human flight offers an almost perfect paradigm for this phenomenon. On their fourth and final flight on that historic day in December 1903, the Wrights flew 852 feet in 59 seconds. In 1923, two men flew 2500 miles across the United States nonstop, from Roosevelt Field on Long Island to San Diego. Lindbergh's transatlantic solo flight came in the spring of 1927. Heinkel perfected a turbojet engine in 1939. Yeager rocketed through the sound barrier in 1947, and Crossfield reached Mach 2 in 1953. Sputnik orbited the earth in 1957, and a man walked on the moon in 1969. Any way you graph this progress, you must be struck most forcibly by its exponent.

At any given moment, progress always appears to us linear, when it is in fact always exponential. Thus, there may very well be as much progress in the hard sciences, in information technol-

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ogy and in medicine in the next ten years as took place in all of human history to this point. It is just this progress—and its profound implications for economic growth and returns on equity capital—that the pessimists miss. But they would have to, because otherwise they could not persist in their pessimism.

Innovation compounds apace. Equities may have provided no net return for the ten years through 2009; this is grist for the pessimists' mill. They conveniently ignore the fact that this decade followed the greatest ten years in the history of equities. They even more studiously ignore the fact that, even as equity prices did less than nothing in the most recent decade, the dividend of the S&P 500 doubled. But even this is beside the point, which is that Moore's Law rolled over five times during this allegedly "lost" decade, such that computing power which cost a dollar at the beginning of 2000 costs three cents today.

And thereby hangs yet another tale—of flight, of technology, and of the unquenchable human spirit.

On April 13, those of us who reverence the event celebrate—and heaven knows, that's the right verb—the fortieth anniversary of the night the Apollo 13 spacecraft, with three astronauts on board, blew up. On that night, I suggest we gather our families and friends, and watch Ron Howard's magisterial film ***Apollo 13***.

Aside from the drama itself, look for the moment—about halfway through the film—when the world's foremost space scientists and technologists begin working the problem of how to get those three heroes home alive ***using slide rules***. Because at that point, NASA's mainframe computer is essentially fried; they have asked it for so many calculations that it can no longer respond in time to save the astronauts.

As you watch these scenes, take out your BlackBerry, iPhone, or similar device. And know that the computer embedded in it is a million times smaller, a million times cheaper, and a thousand times more powerful than all the computing power that was available to NASA the night the Apollo 13 blew up.

Over the next quarter century or so—well within the life expectancies of today's retiring baby boomer couple—this billionfold increase in computing power per dollar will happen again. As it does, information technology will solve all our most vexing problems, including but certainly not limited to energy, the environment, poverty and disease.

Innovation compounds apace. Moore's Law rolled over five times during this allegedly "lost" decade, such that computing power which cost a dollar ten years ago costs three cents today.

We realists—a term I prefer to "optimists," though they are in fact synonymous—will invest patiently and persistently in this progress. By doing so, we may enjoy long retirements full of dignity and independence, even as we endow legacies to those we love and must leave behind in the world.

Pessimists will miss it, increasing the chances that they may run out of money in retirement and die destitute and dependent upon their children—all in the illusory quest for "safety."

Welcome to 2010. Just one man's opinion, of course, and no one else is responsible for it. But: I think it's at least possible that this is the first year of the worst decade to be a pessimist in all of human history.

New Rules Likely Making Credit Cards More Expensive

New rules designed to limit credit-card issuers from quietly raising interest rates and fees will undoubtedly help consumers become more aware of the terms and conditions on their credit cards. But the real news is that the Credit Card Accountability, Responsibility and Disclosure Act of 2009 (CARD) may actually be making credit cards more expensive to use.

The CARD Act placed strict limitations on how and when the credit-card companies can raise interest rates and fees, but the credit-card companies are pushing back — with higher rates and fees. All this is a good reminder that although credit cards are a convenient way to help manage your spending, it may be more important than ever to use them with caution.

Meet the New Rules

Under the CARD Act, which took effect in February, credit-card issuers:

- Must give a 45-day advance notice of an increase in interest rates, fees, or other significant charges.
- May not increase the interest rate for the first 12 months after an account is opened unless the card was offered with an introductory rate, which must last for at least six months.
- May raise rates on existing balances only when a payment is 60 days or more past due, when a promotional rate expires, when the consumer either completes or fails to complete a workout plan, or when a variable rate increases because of movement in the underlying index. If a rate hike is the result of a late payment, the lower rate must be reinstated after the consumer makes six months of on-time payments.
- May not charge an over-limit fee without first obtaining the cardholder's consent and disclosing the amount that will be charged for exceeding the credit limit.

Watch for Higher Rates and Fees

As you might expect, these new rules pose obstacles to profitability for credit-card issuers. Because they have known for some time that the restrictions were coming, many companies have already raised their interest rates and existing fees or have put new fees in place.

For example, one year before the CARD rules took effect, the average annual percentage rate on credit cards was 11.8%. Since then, the average APR has been climbing steadily, reaching 13.5% in the fourth quarter of 2009 and 14.2% the week before CARD took effect, the highest rate in five years. Subprime borrowers have seen an even steeper increase: the APR rose from 14.3% in the third quarter of 2009 to 25% the week before CARD took effect.[1]

The outlook for variable-rate cards is also daunting. The spread between the prime rate and the average APR is more than 10%, the widest in a decade. In 2007, the spread was a mere 4.8%.[2]

The prime rate is the federal funds rate plus 3%. Although the Federal Reserve is not expected to raise the fed funds rate soon, an increase is bound to occur eventually. When it does, interest rates in all variable-rate cards tied to the prime rate will also rise. Experts are expecting an average APR in the high teens by the end of 2010, possibly surpassing 20% in 2011.[3]

Annual credit-card fees, once on the verge of extinction, are also making a comeback. Roughly 35% of cards now carry an annual fee, the highest level of the decade.[4] Others are expected to join in, and several are imposing new fees for balance transfers and account inactivity. Also, keep an eye out for rising late charges, plus new fees for cash advances, paper statements, and foreign transactions.

How Will You React?

We've all known smokers who were inspired to stop when legislators piled on new tobacco taxes. In the same way, the CARD Act may motivate people who are dependent on their credit cards to finally kick the habit. However, most of us will still need to use credit cards. Just try renting a car or booking a commercial flight without one.

It's more important now than ever to keep a close eye on your statements. If your card issuer informs you of a pending rate increase, you'll have plenty of time to pay down your balance or close out the account. If your issuer decides to levy an annual fee, you may want to consider switching to a new card. Research shows that three out of four card users will either cancel or consolidate cards that impose an annual fee, and there's bound to be a company that sees an opportunity to pick up these new customers with a fee-free card.[5]

Perhaps more important is the need to reevaluate the role that credit cards play in your overall financial picture. Credit cards will probably always remain an important tool for consumers, but as they become more expensive, some users may want to consider other options for financing larger purchases.

1–5) *The Wall Street Journal,* February 21, 2010

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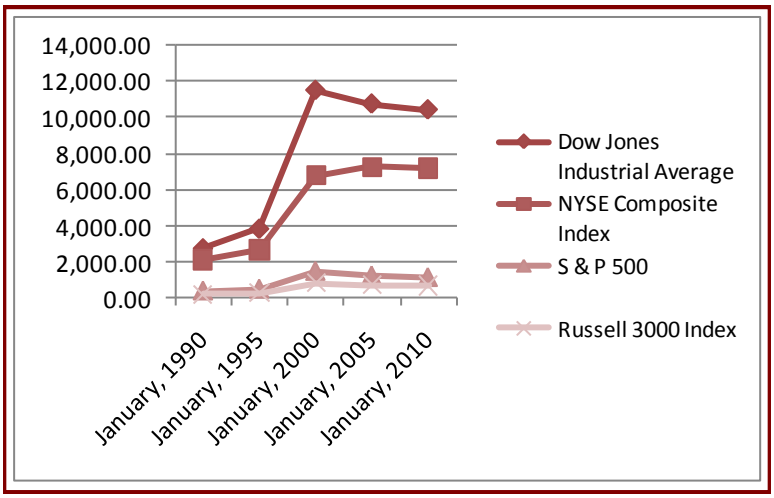
Argus Newsletter Spring 2010

Excellence is Defined by the Success of Our Clients

	January, 1990	January, 1995	January, 2000	January, 2005	January, 2010
Dow Jones Industrial Average	2,753.20	3,834.44	11,501.85	10,753.75	10,430.69
NYSE Composite Index	2,093.60	2,651.15	6,762.11	7,250.06	7,184.98
S & P 500	353.40	459.21	1,469.25	1,211.92	1,116.56
Russell 3000 Index	197.28	263.44	793.31	693.63	653.11



Past performance is not indicative of future results.
Indices are unmanaged and cannot be directly invested into.

Securities offered through LPL Financial, Member FINRA/SIPC.

"You make most of your money in a bear market; you just don't realize it at the time."

-Shelby Cullom Davis