



Letters to the Editor

March 3, 2009

The following letter is in response to our article last week, [The Case for the All-Bond Portfolio](#). See Hildy and Stan Richelson's response to this letter [here](#).

Dear Editor,

Sure, an all bond portfolio works great when you initiate it during a period of double-digit nominal interest rates. The table below demonstrates that long-term Treasury bonds have meaningfully outperformed both the S&P 500 and the Wilshire 5000 for each of the periods listed (thru 2/23/2009).

Returns Since:	Wilshire 5000		S&P 500		LT Treasury		AVG Equity Premium	
	Annual-ized	Total	Annual-ized	Total	Annual-ized	Total	Annual-ized	Total
Jan 1 1980	9.84%	1542.46%	10.10%	1652.94%	10.30%	1740.11%	-0.33%	-8.18%
Jan 1 1981	9.08%	1153.93%	9.38%	1247.47%	10.82%	1802.64%	-1.59%	-33.39%
Jan 1 1982	9.58%	1198.89%	9.95%	1312.06%	11.27%	1812.78%	-1.51%	-30.74%
Jan 1 1983	9.25%	1009.93%	9.53%	1079.48%	10.25%	1281.35%	-0.86%	-18.47%
Jan 1 1984	8.72%	817.98%	9.04%	880.81%	10.62%	1264.39%	-1.74%	-32.82%
							-1.21%	-24.72%

But what about today? Thirty-year Treasuries yield just 3.5%, while the average S&P 500 company has a return on equity of better than 8% (even in a depressed economy). The equity premium will reappear at some point. Otherwise our economy is kaput!

The Richelsons are typical rear-view mirror investors.

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In addition, we received several inquiries regarding the Richelson's suggestion of using tax-exempt municipal bonds in retirement accounts, such as IRAs and 401(k) plans. They stated: "We are starting to put municipal bonds into retirement accounts, because they are often more attractive than other "safe" bonds. We recently did this for a 68 year old client. When this client makes a distribution from his IRA, he will be happy to have a muni bond providing tax-free income."

Below is the Richelson's response:

The distribution of a muni bond from an IRA is a taxable transaction and results in ordinary income equal to the value of the muni bond on the date of the distribution. There is no question about that conclusion.

However, once the muni bond is in the hands of the individual recipient, future coupon interest income is tax free. I know of no authority in the Internal Revenue Code that would change tax free income from a muni issuer into taxable income because the muni bond was at one time in an IRA.

The distribution of the muni bond from the IRA is an in-kind distribution, and this introduces some complexity in cost basis tracking.

Lastly, one of our questions in the original version of this article contained an error. We stated that dividend yields recently went below bond yields for the first time since 1958. It was the reverse (bond yields went below stock yields). This was corrected on-line on the date of publication, February 24, 2009.

The following letter is in response to our article, [Can Andrew Lo Legitimize Technical Analysis?](#), which appeared on January 27, 2009.

Dear Editor,

It seems that every few weeks an article such as this comes along. At first, I thought I'd just put my very public track record up for review but frankly I am tired of that exercise.

Why don't we let the NYSE and NASD do the talking for us?



On February 8, 2005, the NASD submitted a rule filing with the Securities and Exchange Commission to accept the CMT 1 and 2 (Chartered Market Technician) as an alternative to the series 86 exam required of financial analysts. The New York Stock Exchange filed their ruling on January 31, 2005.

You are welcome to read the press release [here](#).

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