



# Condor Capital

## Investment Management

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### Condor Capital

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Micap issues perform best throughout the quarter

The Fed ends the quarter keeping interest rates fixed

Emerging markets see a fractional loss

#### *In this issue:*

Condor Capital Reviews 2nd Quarter 2008

The Pros and Cons of Self-Insuring Long-Term Care

Tips for Selling Your Home in an Uncertain Market

Ask the Experts

## Condor Capital Reviews 2nd Quarter 2008

The financial markets continued to remain under pressure during the second quarter of 2008, as a host of factors, including higher oil prices, inflation, unemployment, and further deterioration in the credit and housing markets, combined to send major indices lower. While JPMorgan's takeover of Bear Stearns late in the prior quarter provided investors with some optimism over the first few weeks of the second quarter, June proved to be a tough month for stocks across the board. Gross Domestic Product still grew in the quarter, albeit fractionally, though surging oil prices garnered many of the quarter's top headlines. Up over 35% in the quarter, oil breached an all-time high of \$140 and consequently pushed retail gasoline prices higher.

The S&P 500 Index, a widely-used benchmark for the U.S. stock market, finished the quarter with a 2.7% decline. Meanwhile, the Dow Jones Industrials Average, historically a close performer to the S&P 500, finished down 6.8%. Small-cap issues, as measured by the Russell 2000 Index, added 0.6% and outperformed their large-cap brethren. However, considering the Russell Midcap Index's 2.7% gain, mid-cap issues performed best during the quarter. Across the market capitalization spectrum, growth-oriented securities handily outperformed their value-leaning counterparts.

After the Federal Open Market Committee cut its target rate by a total of 200 basis points at three separate meetings in the first quarter, it cut by another 25 basis points at its April meeting. While doing so, the members voiced the need to balance economic growth against the threat of inflation. Unsurprisingly, then, the Fed made no change to its target rate by keeping it at 2.00% at its last meeting on June 25th.

While short-term rates under the Fed's watch were relatively low, the overall bond market provided little solace to investors seeking

refuge from the high degree of volatility associated with stocks. Longer-term yields were pushed higher as the bond market expected inflation to persist and the Fed to eventually raise rates as a result. The broad-based Lehman Brothers Aggregate Bond Index finished the quarter down 1.0%, a reversal from last quarter's 2.2% gain. However, while junk bonds declined sharply on fears of a recession in the first quarter, investors' appetite for risk increased early in the second quarter as equities staged a rally. While giving back some of their gains in June, high-yield issues generally finished in positive territory during the period.

As the U.S. dollar finally showed signs of resiliency, and international investors lost a key tailwind for their holdings, the MSCI EAFE Index fell 1.9%. Although performance differed across the globe, a key source of weakness was Western European banks. Meanwhile, emerging market stocks declined too, though not as much as their developed counterparts. Gains made by commodity-exporting countries were mostly offset by losses from consumer nations. The MSCI Emerging Markets Index finished the quarter with a fractional loss of 0.9%.

*Outlook:* Although there were many different factors working to put considerable strain on our economy, it continued to defy expectations and actually grew slightly in the second quarter. While most would argue that fundamentals have not materially changed, the tax rebate checks that the IRS sent in May and June certainly worked to give the languishing economy a shot in the arm. With this significant gesture, as well as other actions undertaken by the Federal Reserve and the national government, the economy should be able to eventually return to its trend rate of growth. We continue to recommend that investors meet any volatility with prudent asset allocation and a longer-term outlook for their portfolios.

*One Source...  
... Many Solutions*

## The Pros and Cons of Self-Insuring Long-Term Care



**The cost of long-term care can be expensive. In 2007, the national average for the cost of care in a nursing home exceeded \$66,000 per year. In addition, about 70% of people over age 65 require some long-term care services, with the likelihood of needing such care increasing with age.**

*Source: National Clearinghouse for Long-Term Care Information, 2007*



Thinking about the potential impact of long-term care often involves considering whether to buy long-term care (LTC) insurance or to self-insure. Sometimes your options are limited. For example, poor health or old age may make the cost of LTC insurance too expensive for you, or you may be denied coverage altogether. Medicaid may not be an alternative either if your income and assets exceed minimum qualification limits. In this case, self-insuring may be your only option. But if you are able to choose between LTC insurance and self-insuring, here are some issues to consider.

### Why might you self-insure?

There are many reasons why people choose to self-insure rather than buy LTC insurance, presuming these options are available. Often, people will choose to self-insure because they think they have enough income and assets to pay for whatever long-term care they'll need, or they decide not to plan for long-term care because they think they'll never need it during their lives. However, there are both advantages and disadvantages to self-insuring.

### Advantages of self-insuring

*You have greater flexibility in how you use your financial resources.* Even if you choose to allocate income or savings to potential long-term care costs by self-insuring, those assets will still be available to use for other purposes such as retirement, business ventures, or education funding.

*Long-term care insurance premiums may become too expensive.* Often, people buy LTC insurance during their working years, but find that their income decreases in retirement or policy premiums increase, making LTC insurance hard to pay for. If you own LTC insurance, or you're thinking about buying it, try to estimate what your income will be in retirement and whether you'll be able to afford the premiums, especially if they increase. If you think the premiums might be too costly, as an alternative, consider setting up an LTC savings account into which you can contribute as much as you can afford. This account may not provide the funds that an LTC policy could, but it can help pay for LTC expenses if they occur, and you won't be financially strapped with premium payments you can't afford.

*You have more control over your care.* Many policies provide only limited benefits--often

with additional restrictions and conditions--that may end up covering only a small percentage, or even none, of your long-term care costs. For example, a policy may provide limited benefits for in-home care, even though most people would prefer to receive care at home. If you do need long-term care, using your own assets may give you more control over the type of care you get, where you receive the care, and who provides the care to you, without the restrictions or limits of some LTC insurance policies.

### Disadvantages of self-insuring

If you never need long-term care, then, in hindsight, self-insuring is almost always the right choice. But what if you do need long-term care? How long will you need that care and how much will it cost? These uncertainties lead to some of the disadvantages of self-insuring.

*Long-term care expenses can deplete your assets and income, leaving little or nothing for your spouse or dependents.* Paying for some of your care with LTC insurance may allow you to conserve more of your savings and income for your spouse or dependents.

*You may need to depend on family members to provide your care.* Some people gamble that they'll never incur long-term care expenses. If they're wrong, their options may be very limited. If they can't qualify for Medicaid, their assets and income may be enough to pay for some of the care, but not all of it. Consequently, they often rely on family to provide some if not most of their long-term care. Long-term care insurance may cover some of the costs of skilled or custodial services and nursing home care, relieving your family of some of these caregiving responsibilities.

*Self-insuring could increase your taxes.* Depending on the type of assets you have, paying for long-term care from your savings could increase your income taxes. Withdrawals from certain retirement plans such as IRAs or 401(k)s are usually subject to ordinary income taxes, so taking sizable withdrawals from them to pay for long-term care expenses might increase your income taxes significantly. On the other hand, if your LTC insurance is tax qualified (as most policies are), then benefits paid from the policy for care are generally not subject to income taxes.

## Tips for Selling Your Home in an Uncertain Market

Will the combination of lower mortgage interest rates, higher inventory, and falling prices send buyers to open houses in droves this summer? No one knows for sure, but here are some ways you can increase the odds that your home will be sold at the best possible price before the leaves fall.

### Price your home to sell, not sit

Pricing your home correctly is extremely important. Although it's tempting to "test the market" by setting a high asking price, this may turn off prospective buyers, or result in lowball offers, and your home may continue to sit on the market. A better alternative? Ask a real estate agent to do a comparative market analysis to help determine a realistic asking price, taking into consideration how much similar properties have recently sold for, and the average number of days homes have been on the market. It's especially hard to pinpoint the right asking price in areas where sales are slow and prices are falling, so remain ready to adjust your asking price later if necessary.

Sellers are often afraid of shortchanging themselves by setting their asking price too low, but a lower asking price may actually generate more interest, potentially leading to a much higher sale price if buyers submit competing offers. Even if no bidding war is triggered, you may end up selling your home quickly, an advantage if you've already found another home to purchase.

### Advertise, advertise, advertise

Whether you're selling your home yourself or using a real estate agent, advertising is key, especially when there are many homes on the market. Make sure that any sales materials you or your agent prepare emphasize the features that might convince someone to choose your home over another. Target the right audience, too. For example, if your home is right for a growing family, why not highlight the flexible floor plan, the child-friendly neighborhood, and the large yard?

Buyers today expect to begin their search for a new home without ever leaving home, and online advertising has become an indispensable tool for marketing real estate. According to the National Association of Realtors®, 74% of people who used the Internet to search for a new home eventually drove by or viewed a home that they saw online, so make sure that

your home is prominently featured on a real estate website. And remember, a picture is worth a thousand words. Buyers will look more closely at homes with numerous high-quality photos, and may bypass homes with none. For maximum exposure, consider adding a virtual tour that shows off your home's best features, even if it costs a little bit more to do so.

### Sweeten the deal

To really make your home stand apart from the competition, consider offering incentives such as cash back at closing, payment of homeowners association dues, a home warranty, or even a gift card to a local furniture store. Incentives may help increase the number of home showings and encourage potential buyers to choose your home over another.

### Enhance your home's appeal

How many times have you seen a home for sale that has obvious shortcomings--overgrown shrubs, peeling paint, or a jarring color scheme, for example? That's a home that may languish on the market while other similar homes sell quickly, because the owners are unaware that the appearance or condition of their home is the reason it isn't selling. Take a close and impartial look at your home, or better yet, ask your real estate agent to do so. Potential buyers may be noticing something that you're not. Often, completing simple tasks such as painting, cleaning, and getting rid of clutter can make your home more appealing to buyers. If your home needs updating, prioritize areas that are the most important and visible, such as the front of your home, the kitchen, and the bathrooms.

### Don't curb your enthusiasm

One hazard of having a home on the market for a while is that your enthusiasm may wane over time. Buyer interest often peaks quickly (within the first few weeks after your home is listed), and it's easy to get discouraged if you don't receive any acceptable offers. But if you really want to sell your home, it's up to you to keep the momentum going. Schedule another open house, keep your home in good repair, and look for new ways to advertise. If your home hasn't sold within a reasonable time, you may have to reevaluate your asking price or even your decision to sell, but before you throw in the towel, make sure that you've done all that you can to attract qualified buyers.



### *Is it a beautiful day in your neighborhood?*

*An often-used phrase in the real estate industry is that "real estate is local." Though the news may be full of stories about nationwide housing trends, what's really important is what's going on in your area. A real estate agent can help you identify local housing patterns, such as which homes are selling (and for what price), so that you can maximize your chances of success.*



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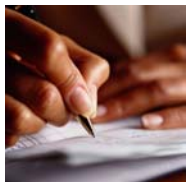
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## Ask the Experts



### Can I roll over funds from my 401(k) to a Roth IRA?

Yes, beginning in 2008, you can make a rollover from a 401(k) plan (or other qualified employer plan, 403(b) plan, or governmental

457(b) plan) to a Roth IRA, as long as you meet certain requirements.

First, you must be entitled to a distribution from your plan. Generally, you can access your account when you terminate your employment. But, in some cases, you may also be able to make in-service withdrawals of your or your employer's contributions (for example, at age 59½). The terms of your plan control, so talk with your plan administrator or review your plan's summary plan description (SPD).

Second, your distribution must be an "eligible rollover distribution." In general, this is any distribution you receive from the plan that isn't a hardship withdrawal, certain periodic payments, or a required minimum distribution.

Third, you must meet income guidelines. You can roll over funds from a 401(k) plan to a Roth IRA only if your modified adjusted gross

income is \$100,000 or less (this dollar limit applies whether your tax filing status is single or married filing jointly). If you're married filing separately, you can't make a rollover at all. (These limitations will be repealed in 2010.)

You must include in gross income any amount that would have been taxed if the distribution had been paid to you, and not rolled over. But that's the price you have to pay to be able to receive tax-free qualified distributions from your Roth IRA in the future.

In most cases you should elect a direct rollover, where your 401(k) plan transfers the funds directly to your IRA. If instead the plan pays you, you'll have 60 days to complete the rollover, but your 401(k) plan will be required to withhold 20% of the taxable portion of your distribution.

**Note:** If you have funds in a Roth 401(k) or Roth 403(b) account, different rules apply. If you receive an eligible rollover distribution, you can generally make a tax-free rollover (direct or 60-day) of those funds to a Roth IRA without restriction.

### I inherited my spouse's traditional IRA. Now what?

When you inherit your spouse's traditional IRA, you have a number of options.

**Option 1:** You can roll the proceeds of the inherited IRA over to your own traditional IRA. This can be a new IRA, or one you already own.

**Option 2:** You can treat the inherited IRA as your own by designating yourself as the owner of the IRA. If you're the sole beneficiary, you'll also be deemed to have elected to treat the inherited IRA as your own if you make any contributions to the IRA, or if you fail to take required minimum distributions (RMDs) as the IRA beneficiary.

With both options 1 and 2, because you own the IRA, you'll name the beneficiary who'll receive the funds after your death. You'll need to start taking RMDs by April 1 of the year following the year you turn 70½. Because you own the IRA, distributions prior to age 59½ will be subject to income tax plus a 10% early distribution penalty, unless an exception applies.

**Option 3:** You can remain the beneficiary of the inherited IRA. Because you're the beneficiary and not the IRA owner, any distributions you receive from the IRA will be subject to income tax, but will be exempt from the 10% early distribution penalty. This might be a good choice if you'll need to access the IRA funds before you turn 59½. In general, you won't need to start taking RMDs until the end of the year your spouse would have turned 70½ (or, if later, the end of the year following the year your spouse died).

**Option 4:** You can roll the taxable portion of the distribution over to an employer retirement plan (for example, a 401(k), 403(b), or governmental 457(b) plan) that accepts rollovers.

**Option 5:** You can withdraw the funds. You'll have to include the taxable portion of the distribution in gross income (the 10% penalty won't apply).