



Investor Bulletin Market Comments & Investment Ideas

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Commentary on the Times

We think Wall Street has begun to recover from its worst performance since the Great Depression. While there is no certainty that the market has reached bottom, there are tentative signs of recovery. For example bank closings, home sales, and consumer spending declines have all lessened.

History teaches us that troubling economic times are followed by more prosperous times. Hopefully we will learn some important lessons as we work our way out of this recession, so that during the next down cycle we do not make the same mistakes again.

As a result of the events of the past couple of years, there will be long-term changes in the behavior of each and every one of us. The first change will probably be a reversal of promised employee entitlements, especially retirement and health care benefits for both corporate and government employees. My opinion is that management, in both the private and public sectors, agreed to benefits which are causing financial problems today. In an effort to assist employees not only while employed but during their retirement years, extensive and expensive benefits were awarded long-term employees. In a classic case of unintended consequences, the results of these long-term and on-going benefits threatens to bankrupt the employer. To illustrate my point, please read the two articles listed below.

WHEN CITY HALL GOES BROKE

(Source: http://www.forbes.com/forbes/2009/0216/078a_print.html)

Scott Woolley 02.16.09

The last straw for the finances of Vallejo, Calif. came early last year when 18 cops and firefighters unexpectedly retired early. Under their contracts the city of 120,000 was immediately forced to pay them a total of \$3.4 million. Already straining under an unpaid \$219 million tab for pensions and health care, the city did something that may soon sound all too familiar: It filed for bankruptcy. When government employees lobby for lavish pensions, it's typically under the notion that once granted the benefits can never be cut. A course in constitutional law would teach them that the Tenth Amendment limits federal officials' ability to order around local governments--a prescription that applies to U.S. Bankruptcy Court judges. Under Chapter 9 of the bankruptcy code, cities can propose their own reorganization plans and void union contracts without fear that they will ever be forced to liquidate assets. Chapter 9 filings have been rare in the past. New York City drew up Chapter 9 papers in 1975 and only backed away when its unions agreed to concessions. Orange County, Calif. filed in 1994 after a derivatives debacle. With municipal governments under unusual stress, 2009 may see a spate of new filings, or threatened filings. If so, public pensions are likely to be lumped in with general obligations and everyone may be forced to live with less than 100 cents on the dollar. One observer who expects as much: Vallejo's bankruptcy attorney, Marc Levinson. "Many municipalities are in deep trouble," he says. "What we don't know is how many will file Chapter 9."

IFFY MUNIES

(Source: BUSINESSWEEK | APRIL 20, 2009)

Never before have so many come under a credit cloud at once. Bond-rating powerhouse Moody's Investors Service on Apr. 2 slapped a negative outlook on all 52,000 cities, counties, and school districts that make up the muni market. Moody's says "few if any local governments will be entirely immune" to the widespread economic downturn. The firm adds that while tax income is dropping and borrowing options are limited, demand for services is rising. Moody's move means that many ratings could be downgraded in the coming months, raising tax rates localities must pay.

**A turtle is crossing the road when he's mugged by two snails.
When the police show up, they ask him what happened.
The shaken turtle replies: "I don't know. It all happened so fast."**

(Source: readersdigest.com 6/09)

COMPOSITE BOND RATES—YIELD TO MATURITY*

As of June 4, 2009

Maturity	U.S. Treasury Yield	Certificates of Deposit	AA+ Corporate Bonds	Municipal Bonds
6 months	.25	1.44		
1 year	.44	1.80		
2 years	.93	2.03	2.38	1.00
5 years	2.48	2.66	4.04	2.05
10 years	3.63		4.83	3.29

ROTH IRAS:

THE 2010 CONVERSION IS COMING*

Under current IRS tax rules, you cannot convert a traditional IRA into a Roth IRA if your AGI (adjusted gross income) is greater than \$100,000 a year. In 2010, income limits on conversions will be eliminated. A few things to consider:

- If your adjusted gross income is less than \$100,000, you don't have to wait until 2010 to convert. The reality is that, most likely, the value of your IRA is below its high. Now might be an excellent time to convert, since you will be saving money on the taxes due on the lower account value.
- The tax basis of the conversion will be the value of the account at the time of conversion.
- If you convert your IRA in 2010, taxes due are not payable until 2011, and you will have two years to pay the taxes. The IRS has granted the option of paying 50% in 2011 and 50% of the taxes due in 2012. **This is only good for 2010 conversions.** After 2010, taxes will be due and payable in the year following conversion (e.g.- convert your IRA in 2011, and taxes must be paid in 2012.)
- Please note that, although the conversion limit of \$100,000 is lifted, income restrictions on contributions have not been repealed. You may be able to convert your IRA in 2010 but not be able to make a contribution to your Roth IRA.
- The 2010 conversion applies to old 401(k)s or other retirement plans from previous employers, as well as traditional IRAs.
- Check with your tax advisor before completing a conversion.

I sincerely believe... that banking establishments are more dangerous than standing armies, and that the principle of spending money to be paid by posterity, under the name of funding, is but swindling futurity on a large scale.
-Thomas Jefferson, 1816

The most successful investor was Noah. He floated stock, while everything around him went into liquidation.

INVESTMENT IDEAS

Williams Companies Inc. (WMB) produces, processes, and transports natural gas, and operates gas pipelines mainly in the Rocky Mountains and Central region of the country. WMB also is involved in the treating, processing, and marketing of natural gas. Current price \$16.94 (06/03/09). Dividend .44/year. Once the economy revives, and alternative energy sources encouraged, we believe WMB will benefit from a surging natural gas market. Two year target \$21.35.

Exposure to global investing should not be overlooked in a comprehensive investment plan. To take advantage of growth opportunities outside the U.S., a mutual fund representing companies in a region or world-wide would be an excellent addition to an investment portfolio.

Some of the stocks recommended in past issues of our newsletter that we are still holding include: Sirius XM Radio Inc. (SIRI), The Phoenix Companies, Inc. (PNX), and Energy Conversion Devices (ENER). All three have been battered in the market, but I believe are poised for a comeback. Give me a call and we can discuss my views in detail.—Kevin

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We invite reader feedback via email to invest@kornco.com

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*Rates shown are composite samplings and may not be reflective of actual bonds available. The preceding list is based on information derived from sources deemed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis of the security, company, or industry involved. Mutual funds, annuities, and other investment securities, including stocks, are not FDIC insured, and are subject to investment risks, including possible loss of principal amount invested. Under no circumstances shall this information constitute an offer to sell or a solicitation of an offer to buy any security. Nor shall there be any sale of the securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification of such securities and brokerage staff under the securities laws of such jurisdiction. We are not accountants or attorneys; see them for specific legal and tax advice. Bond information is subject to change and availability. Some bonds are sold by prospectus only; therefore, contact us for a prospectus and more information. Additional information available on request.