

## 2009 Mid Year Performance Review for Baby Boomer Portfolio

About a year ago we started our Baby Boomer Portfolio, BBP. This Special Report will provide a performance analysis of our returns; revisit the purpose and goals of BBP.

The [United States Census Bureau](#) defines the demographic birth boom as between 1946 and 1964. Approximately 76 million babies were born between those years.

Many are close to retirement now and are focused on retirement planning and investing. The BBP'S focus is to help baby boomers with their investment plans for retirement.

The average brokerage account value at the major brokerage firms (Merrill Lynch, Morgan Stanley, and UBS) is around \$400,000. They also have a discount broker with the average size of around \$80,000. That means the average retail investor that has a brokerage account as a bout \$500,000 in investable assets. This service is for baby boomers with this account size in mind. We will get the BBP to about \$100,000. This means if we recommend 300 shares of a company, your portfolio should own 1,500 shares.

Here is what we wrote last May when we introduced the BBP:

*I am, of course, a baby boomer and there are several other baby boomers on the **SuperStock Investor** staff; and one of the things we all share is the goal of planning and setting goals for a comfortable retirement. An important component of our planning is the investment component.*

*We want to provide investment recommendations and advice to our subscribers who are baby boomers similar to what we will be doing: Our goal is to provide a portfolio of recommendations that will provide a total return that could double in three to five years.*

*These strategies would be appropriate for retirees and investors looking to build the conservative, serious portion of their portfolio with stocks that are solid, can provide appreciation and can throw off cash flow.*

*The strategies for the portfolio will include:*

- *Recommend companies that have good prospects for growth and are financially sound.*
- *Sell short put options on stock that we're interested in owning. This can lower the cost basis of the companies we're interested in. If the stock is not put to us, we can keep the option premium.*
- *Recommend companies that have a history of raising their dividends. Ideally we are looking for stocks that may be paying 3% now, but longer term, they could be paying 7% to 10% based on today's price... companies you can own into retirement.*

• *Stocks spend a lot of their time consolidating and going sideways. During consolidations we will write options against our positions to lower our cost basis lower the volatility of the portfolio and also enhance our total returns.*

Here is the link to the May Issue:

<http://www.superstockinvestor.com/page/ssi/issues/2008-05.pdf>

Fortunately we have achieved the objectives of our portfolio: generating cash flow and a total return that could double our investment dollars in three to five years.

First let's look at the performance for the major markets for the first half of 2009:

MAJOR INDEXES	
DJIA	-3.80%
SPX	1.80%
NASDAQ	16.40%

The Dow Jones Industrial Average was down -3.8% and the S & P 500 squeaked out a small gain. As we wrote about in our June Issue, we explained that investors were taking on more risk. In the Issue we talked about how emerging markets were doing very well. Here in the States, investors bid up prices of riskier NASDAQ stocks.

Here is the link to review the June Issue.

<http://www.superstockinvestor.com/page/ssi/issues/2009-06.pdf>

The BBP beat the DJIA, SPX. The BBP for the first half of 2009 had a total return of 10.21% and bested both the S & P and DJIA substantially. Below is an update of the portfolio with all the details for a complete analysis.

Stock Symbol	Price Bought	COST BASIS W/OPTN WRTNG	Date Bought	12/31/2008 PX / BUY PX	12/31/08 VALUE	SOLD OPT	09 COST BASIS	DVDND	6/30/2008 PX	\$ AMOUNT	DOLLAR PROFIT + DIV.
ADP	42.00	34.66	JULY	39.94	3994	464	3530	66	35	\$3,500.00	36.00
KMB	62.70	51.90	MAY	52.74	10548	610	9938	120	50	\$10,000.00	182.00
GE	22.97	26.96	JUNE	16.2	4860	182	4678	51	12	\$3,600.00	-1027.00
CVX	84.35	67.20	AUG	73.97	7397	1025	6372	130	66.25	\$6,625.00	383.00
HON	40.90	35.48	SEP	32.83	3283	415	2868	60.5	31.4	\$3,140.00	332.50
JNJ	56.15	53.48	OCT	59.83	11966	180	11786	95	56.8	\$11,360.00	-331.00
EFA	43.37	41.27	DEC	43.37	4337	195	4142	94.52	43	\$4,300.00	252.52
<b>TOTALS</b>					<b>\$46,385</b>	<b>\$3,071.00</b>	<b>\$43,314</b>	<b>\$617.02</b>		<b>\$42,525.00</b>	<b>-171.98</b>
<b>TOTAL</b>											
<b>PORTFOLIO VALUE 12/31/8</b>										<b>\$46,385.00</b>	
<b>OPTION WRITING PREMIUMS (LONG &amp; SHORT-TERM POSITIONS)</b>										<b>\$3,071.00</b>	
<b>APPRECIATION/DEPRECIATION</b>										<b>-\$789.00</b>	
<b>SHORT TERM PROFITS</b>										<b>\$1,839.00</b>	
<b>LONG-TERM PROFITS</b>										<b>\$0.00</b>	
<b>DIVIDENDS SHORT &amp; LONG-TERM POSITIONS</b>										<b>\$617.02</b>	
<b>TOTAL SHORT-TERM PROFITS, OPTION WRITING PREMIUMS, APPRECIATION (DEPRECIATION)</b>										<b>\$4,738.02</b>	
<b>TOTAL RETURN 1st HALF 2009 (\$4,738.02 divided by GEA PORTFOLIO PURCHASE VALUE \$46,385)</b>										<b>10.21%</b>	
<b>CASH FLOW</b>											
	OPTION PREMIUMS									<b>\$3,071.00</b>	
	DIVIDENDS									<b>\$617.02</b>	
	SUBTOTAL									<b>\$3,688.02</b>	<b>7.95%</b>
	SHORT TERM PROFITS									<b>1,839.00</b>	
	<b>TOTAL CASH FLOW</b>									<b>\$5,527.02</b>	<b>11.92%</b>

The portfolio essentially started the year at a value of \$46,385. The portfolio did lose some value, but option writing and dividends & short-term profits provided a total return of 10.21% for the first half of the year.

### Baby Boomer Stock Screening

To reiterate and expand on the type of companies we screen for, here are our criteria:

1. Conservative (financial strength, undervalued, large, seasoned management, diverse product line or service offerings).

As baby boomers grow older, we become more interested in capital preservation

2. Appreciation and growth potential – Does companies have to make business grow. I study research reports from first call, S & P, Argus, Barclays, Credit Suisse and business articles so we understand the company qualitatively.

3. Undervalued by several metrics. We look at price targets from BlueHawk, Yahoo and at least one Wall Street firm. We try to duplicate these price targets by using their assumptions from their research reports and see if their reasonable.

4. Dividend – See cash flow section
5. Can we write options against the stock? See cash flow section.
6. Build a position in the stock, add only on pullbacks. We want to own 300 to 500 shares of each position. We will use short puts to buy stocks.

The idea is to own undervalued stocks that can appreciate, but also generate cash flow from dividends and write options.

We will issue from time to time short-term, risky recommendations to provide a kick to our returns.

### **Cash Flow from Option Writing, Dividends, Short-Term Profits**

Specifically, option premiums provided \$3,071 in cash flow. If we add dividends the return from cash flow would be 7.95%.

### **Dividends**

Excerpt from our Baby Boomer Issue, link above:

*Recommend companies that have a history of raising their dividends. Ideally we are looking for stocks that may be paying 3% now, but longer term, they could be paying 7% to 10% based on today's price... companies you can own into retirement.*

In our April Issue, we revisited some of the stocks in the BBP and we focused on dividends. Here is an excerpt from the issue:

*Besides valuation and safety, we also focus on the stock's dividend. We want to make sure that the dividend is safe and can grow. If the dividend can grow and is safe, the stock should attract investors and the stock should appreciate.*

*Below is dividend information on the three stocks.*

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	AVG.
<b>KMB</b>	2.12	1.96	1.8	1.6	1.36	1.2	1.12	1.08	1.03	0.99	
<b>Payout Ratio</b>	52%	60%	54%	45%	41%	37%	37%	32%	33%	46%	
<b>Dividend Growth</b>		8%	9%	13%	18%	13%	7%	4%	5%	4%	9%
<b>ADP Div.</b>	1.06	0.71	0.61	0.54	0.48	0.45	0.4	0.34	0.3	0.26	
<b>Payout Ratio</b>	58%	38%	34%	35%	28%	26%	27%	26%	21%	26%	
<b>Dividend Growth</b>		49%	16%	13%	13%	7%	13%	18%	13%	15%	17%
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998	AVG.
<b>JNJ Div.</b>	1.62	1.46	1.28	1.1	0.93	0.8	0.7	0.62	0.55	0.49	
<b>Payout Ratio</b>	45%	39%	37%	39%	39%	37%	38%	36%	37%	43%	
<b>Dividend Growth</b>		11%	14%	16%	18%	16%	14%	13%	13%	12%	14%

*All three stocks have above average dividend growth and moderate payout ratios.*

*Below are the current dividend yields for each stock. The second yield is the estimated yield if the dividend continues its current growth for 10 years (we should expect the dividend growth to slow at some point).*

	<i>Current Yield</i>	<i>10 Years Estimate</i>
<b>ADP</b>	<b>3.6%</b>	<b>12.85%</b>
<b>JNJ</b>	<b>3.5%</b>	<b>12.00%</b>
<b>KMB</b>	<b>4.9%</b>	<b>9.77%</b>

To reiterate, here is what we look for regarding dividends:

- Safety, we want to make sure the payout is not too high. High payouts are vulnerable to cuts in weak economic environments such as now. 250 companies have cut their dividends so far this year, compared with 97 at the same time last year, and the highest number since 1958. General Electric is the only company in our portfolio that has cuts its dividend, so far.

We also look at the balance sheet to make sure it's healthy and can support a growing dividend.

- Growth, We also want to invest in companies that are growing. If the companies growing, the dividend can also have a good chance to grow. Here, analysis is focused on the income statement, management and strategies the company is pursuing to grow the business.

A low payout is also important again. Rather than too much money going to pay dividends, a good growing business will need retained earnings to grow the business.

As we wrote in March, it's important to invest in companies that have a history of increasing their dividend. Dividend increases may be slower over the next few years because of all the headwinds the economy faces.

As we excerpted above, if the dividend is 3.5% and growing 10% per year, that dividend could be closer to 7% in 10 years, and it can keep growing (not at 10% perpetually). A bond won't do that.

### Cash Flow from Short-Term Profits

We also did take some short-term profits, below are the details:

CLOSED										
Stock Symbol	Co. Dscrptn	Shares Qty.	Open Price	Opened Date Alert #	Cost Basis w/ Hedge s	Hedge Alert #s	Close Price	Date Closed Alert #	Total Return	Profit/ Loss Dollar Amount (Includes Dvdnd., Optns)
EEM	SHARES MSCI E.M.I.F	100	\$21.90	FEB	\$19.84	FEB, 35	\$25.00	4/17/09 Exercised	25.37%	\$506.00
MDR	MCDERMOTT INTNL, INC. (PANAMA)	100	\$7.80	NOV	\$6.05	NOV, 35,	\$18.28	5/13/09	202.15%	\$1,223.00
CPORE	SL SHRT CPO JUN \$25 PUT	1	1.1	MAY	\$1.10		EXP		USE EQUITY IN ACCOUNT	\$110.00
<b>TOTAL</b>										<b>\$1,839.00</b>

We generated \$1,839 in short-term profits. We will continue to issue a few short-term riskier recommendations to help with the total return of the Baby Boomer portfolio.

Since these are volatile markets, we will try to take advantage of the volatile, trading opportunities that these markets provide. It will be dividends, options and then short-term profits lastly that will provide the cash flow.

The total cash flow of the portfolio for the first half of 2009 is \$5,527.02. Cash flow return is approximately 11.92%. We are off to a great start. We're not sure if we could duplicate this effort. If we could cash flow return on investment would be around 20%.

Since option writing and selling short puts are the main source of our cash flow, we will continue to focus on these strategies.

We will write more about our short put strategy to buy stocks in future issues.

### Cash Flow Portfolio for Baby Boomers

Again, one of the main objectives of the portfolio is to generate enough cash from a portfolio to fund a retired couple's retirement.

Let's assume an investor had \$500,000 in these stocks (we realize seven positions is not a portfolio, and we intend to get the portfolio up to \$100,000 by the end of the year). That would be about ten times, or \$55,720 (\$5,527.02 times 10) for 6 months. If we can continue at the same pace for the rest of the year, that could be over \$100,000 cash flow from a \$500,000 portfolio. The portfolio has the potential to grow the cash flow because of the growing dividends.

This is exactly the aim of the Baby Boomer portfolio, safe growing cash flow.

### **Reduce Cost Basis**

Subscribers have the choice of using the cash flow if you're retired, or use the proceeds to lower the cost basis of the portfolio.

Notice column 7, SOLD OPT; we sold \$3,071 worth of options during the first half of 2009. We suggest using the money to reduce the cost basis of your positions. During the period we reduced our cost basis from \$46,385 to \$43,314. Remember this is just for the last six months. If you compare columns 2 and 3, you can see we have brought down the cost of all positions, e.g. we have consistently been selling calls against ADP for the last year and our original cost was \$42 and our cost adjusted basis due to option writing is down to \$34.66.

With option writing, we believe we can substantially bring down our cost basis over the next three to five years.

Remember this excerpt from above:

- *Stocks spend a lot of their time consolidating and going sideways. During consolidations we will write options against our positions to lower our cost basis lower the volatility of the portfolio and also enhance our total returns.*

We intend to sell options against our positions during consolidations and also after major moves.

Option premiums are high now because volatility is high and is an important variable in pricing option premiums. There are about three times higher than they were just a few years ago. Volatility is bound to go down, and so will the option premiums. When this happens cash flow from option premiums could be cut in half from current levels. Let's take advantage of them now when they're this high.

We will write more about our BBP and all its strategies to help you with your retirement goals and plans.