## In This Issue






Wenning Investments, LLC

# Wenning Advice

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## Commercial Real Estate Bears Watching

Just when you thought it was over.

We've been saying for some time that there are still plenty of problems with the economy and that the stock market recovery could come under pressure.

So what's the next problem to worry about? Commercial real estate.

Commercial real estate in the U.S. is worth about $6.5 trillion and is financed by about $3.1 trillion in debt, according to Money Morning.

The delinquency rate for commercial debt in March was 1.8%. That's tiny compared with the record 7.88% delinquency rate for the fourth quarter of 2008, according to the Mortgage Banker's Association, but it's still double what it had been in September 2008.

And some are predicting that it will get as bad as it did in the early 1990s, which saw a cumulative loss rate of about 9%. Much of the commercial mortgage debt is held by banks, many of which are in no shape to take another hit on their balance sheets.

Commercial real estate is down, in part, because many businesses are laying off or closing. Adding to the problem, though, many loans were structured to include increases in future rental rates.

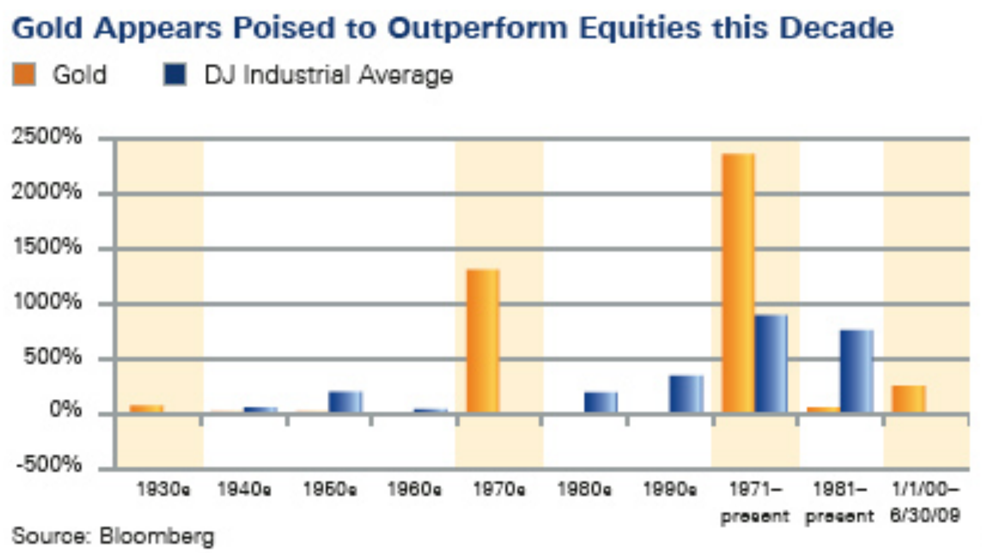
In addition, industrial property has an 11.4% vacancy rate that is expected to reach 12.6% this year. While $400 billion worth of commercial real estate mortgages will be payable this year, today's tougher loan underwriting standards and declining property values will make it difficult for many property owners to refinance.

So how should investors react? For starters, continued caution is advised before investing too heavily in the financial sector. While there has been some good news, such as Goldman Sachs' recent earnings report, there are still plenty of toxic assets on the books and the commercial sector's problems are just one more reason to remain wary.

The truly pessimistic may also consider short-selling real estate investment trusts, either directly or through exchange-traded funds (ETFs) that short-sell REITs.

However, it is important to be aware that, unlike private real estate funds, public REITs have raised nearly $15 billion in new equity this year, which will increase their buying power and help them avoid loan defaults. They should emerge stronger as the commercial real estate market begins to recover.

## Gold May Be A Hot Commodity




*Gold vs. Stocks. Gold tends to perform better when stocks perform poorly.*

Everyone's investment needs are different, but in many cases it makes sense to invest a small percentage of your assets in gold.

The more diversified your portfolio is, the less risk you'll have. That is especially true for investments that have a "negative correlation," meaning that they typically move in opposite directions.

Gold has a high negative correlation to stocks and many other investments. In fact, it often performs best during bear markets. During the 1970s, gold outperformed stocks by 1,200% and during the current decade, through the first half of 2009, it has outperformed equities by close to 300%, according to Larry Adam, chief investment strategist for Deutsche Bank's Private Wealth Management.

In fact, Adam points out that an ounce of gold and a share of Google were each selling for about $400 in November 2005, but recently an ounce of gold was worth twice the price of a share of Google.

Some may recommend against investing in gold because it is even more volatile than stocks and because it may already be considered to be overpriced. However, keeping gold's negative price correlation in mind, it can act as an effective hedge against disruptive events, including not only bear markets, but political unrest and high rates of inflation.

While gold has already appreciated in value significantly, factors that could lead to additional appreciation include:

- A high level of government spending, which could be inflationary.
- A potential increase in consumer demand for gold, based on the rapid development of markets in China and India.
- A weaker dollar, since gold acts as a hedge when the dollar is weak.
- Low interest rates, which keep down bond yields and make it easier for gold to outperform bonds.

## Q&A

**Should I take advantage of the new Roth IRA conversion rules?**

Until now, many of our readers have been unable to take advantage of Roth IRAs, which are often preferable to traditional IRAs because they can grow tax-free indefinitely.

Starting next year, though, the $100,000 income limit for converting traditional IRAs to Roth IRAs will be eliminated. Owners of traditional IRAs, including SEP-IRAs and SIMPLE-IRAs, should especially consider converting next year for several reasons:

- If you convert in 2010, resulting income taxes can be spread over two years. This is a one-time opportunity. For years after 2010, taxes will be due during the year in which the conversion is completed.

- Convert in 2010 and you will be able to pay taxes at today's lower rates. Tax cuts approved by Congress in 2001 are scheduled to expire in 2011, resulting in an automatic tax increase. Someone paying taxes at a 25 percent rate today, will be paying at a rate of 28 percent; the 28 percent rate will increase to 31 percent, the 33 percent rate will increase to 36 percent and the 35 percent rate will revert to 39.6 percent.

- In addition, many believe tax rates will rise further to pay for new government programs, such as the economic stimulus package and possibly healthcare reform.

- If your portfolio gains in value, the base on which taxes are due will be higher if you wait to convert. If your assets increase in value, you will have to pay taxes on any gains when you convert.

- The younger you are when you convert to Roth IRAs, the longer the timeline during which those assets can grow tax free. In fact, conversion to Roth IRAs may not be worthwhile if you are retired or close to retirement.

- The rules may change. Because Congress will be looking for new sources of revenue, Roth IRAs could become a less attractive means of reducing taxes.

Before converting, be certain to consult with a tax advisor to determine the tax implications, as conversion may put you in a higher tax bracket.

## Learning From Your Investing Mistakes

Whether we're going out to dinner at a new restaurant or investing in a stock, it is human nature to sometimes expect more than we're likely to get.

It's important to look at every investment in context. Some investments are expected to earn more than others, but they also carry more risk. So be realistic and keep in mind that not all investments are alike.

**Mistake #9: Setting Unrealistic Expectations.** Don't make judgments about one aspect of your portfolio based on the performance of a completely different investment. An investment that fails to live up to expectations today may be your best investment in the future; likewise, today's high-flying stock may be a money loser for you in the future.

The purpose of a diversified portfolio is to minimize the risk from any single investment. Various asset classes should perform differently. For example, don't expect your bond returns to be in line with returns from international markets.

Compare each asset class to its associated benchmark and focus on your total return.

## Keep in Touch

Have an idea for a future issue of *Wenning Advice*? Are you interested in active investing or would you like to refer a friend who may be interested?

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