



BOYER & CORPORON
WEALTH MANAGEMENT, LLC

Investment Commentary
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Health Care Reform

I had a couple of long flights this past month that afforded me the opportunity to read some of the Health Care Reform Bill that was proposed in the House of Representatives. I say I read "some" of it because it is 1,018 pages long and it is extremely difficult to read.

It should be easy to read because the writers of the Bill included the following item on page 39 of the Bill: *(2) PLAIN LANGUAGE.—In this subsection, the term "plain language" means language that the intended audience, including individuals with limited English proficiency, can readily understand and use because that language is clean, concise, well-organized, and follows other best practices of plain language writing.*

Ironically, that is one of the few paragraphs in the Bill that is written in plain language. Most of the rest of the Bill reads something like the following from page 178:

(c) RETURN REQUIREMENT.— Subsection (a) of section 6012 of such Code is amended by inserting after paragraph (9) the following new paragraph: "(10) Every individual to whom section 59B(a) applies and who fails to meet the requirements of section 59B(d) with respect to such individual

or any qualifying child (as defined in section 152(c)) of such individual."

Imagine trying to read 1,018 pages which are written like that. I was about halfway through the Bill when support behind it died. Congress went on break and it is still up in the air.

Seldom has there been a more emotional or divisive issue in this country. As such, statistics and stories related to this issue have become exaggerated, embellished upon and/or misrepresented. Town Hall meetings turned into shouting matches. The President has had to re-assure us repeatedly that the Bill does not call for "Death Panels".

President Obama has said we need health care reform to bring down the spiraling cost of health care. As an employer that provides health care insurance, I can attest that our premiums tend to increase over 10% every year.

There are many people who understand the health care industry better than I. However, it appears to me that the primary culprit in the rising cost of health care is us. We don't shop for health care. We don't question the cost. If we are buying a new car, we spend hours (or days) trying to get the best deal. If all we had to do was hand the car dealers a \$20 co-pay, we could all purchase a Mercedes. But with

health care, we don't care how much we are charged by our medical provider because our insurance company is going to take care of the bill.

Imagine pulling into a gas station, filling up your car and discovering it cost you \$2,000. You don't bother to look at the sign on the street telling you that gasoline cost \$99.99 per gallon but you don't care because someone else is paying for it. Of course you don't do that because someone else is NOT paying for it. You are. As a matter of fact, you might drive a few extra blocks because another gas station is selling gasoline for \$2.39 instead of \$2.49.

We don't do that with health care. I went to physical therapy for several weeks for my arm. I never shopped around even though there are quite a few providers of PT in my area. There wasn't a discussion of what my treatment was going to be nor was there a discussion of how much it would cost...how much it would cost per session and how much would be the total estimated cost until I was cured. I discovered after several weeks that I was being charged roughly \$260 per session (each one lasted about an hour). I don't know if this is high or low. My insurance company apparently thought it was high because they paid less than half of what I was charged. I think that is the game health care providers play with insurance companies. Charge a lot because you know insurance or Medicare is going to pay less than what you charge. And although I honestly believe the therapists were providing very competent therapy, the system has an inherent conflict of interest...it is in many health care providers' best interests (financially) to keep me as a patient as long as possible. A quick cure is a quick end to revenue.

We adopted a Health Savings Account at Boyer & Corporation Wealth Management to which each of us can contribute a percentage of each paycheck, kind of like a 401K. From this account, we can pay for health care-related costs. I recently picked up a prescription at Walgreen's and thought the cost was too high. I thought the cost was too high because I was paying for it out of my HSA account. It was MY MONEY and was not being paid for by the insurance company. For the first time in my life, I took the prescription and went to another pharmacy to compare prices (unfortunately, it was the same). The point is that, because it was MY MONEY, I didn't just settle for whatever they told me it cost.

One of the major features of the proposed health care bill is the "Public Option". It is supposed to be just that...an option. However, I think it will soon be the *only* option. I'm not saying this is a bad thing or a good thing...just reality. It has been stated that, if you are happy with your current insurance provider, you will be allowed to retain it. I think this is not likely to be the case. Why? Because of the following item from page 19 of the proposed health care bill which, if I read it correctly, prohibits excluding anyone due to pre-existing conditions:

SEC. 111. PROHIBITING PRE-EXISTING CONDITION EXCLUSIONS.

A qualified health benefits plan may not impose any pre-existing condition exclusion (as defined in section 2701(b)(1)(A) of the Public Health Service Act) or otherwise impose any limit or condition on the coverage under the plan with respect to an individual or dependent based on any health status-related factors (as defined in

section 2791(d)(9) of the Public Health Service Act) in relation to the individual or dependent.

A major criticism of private health care insurance is the practice of excluding people due to pre-existing conditions. We agree there is no justifiable defense of insurance companies who abuse this policy to deny coverage for conditions they should cover.

However, eliminating the policy basically puts all health insurance companies out of business. Think about it....why purchase automobile insurance if you can call your agent and obtain it immediately AFTER you have an accident? There is no point in paying for insurance if you can obtain it after-the-fact.

The Public Option will soon become the only option and everyone will have "insurance" although it won't really be "insurance"....it will just be health care.

I will try to stay informed on this very complicated subject.

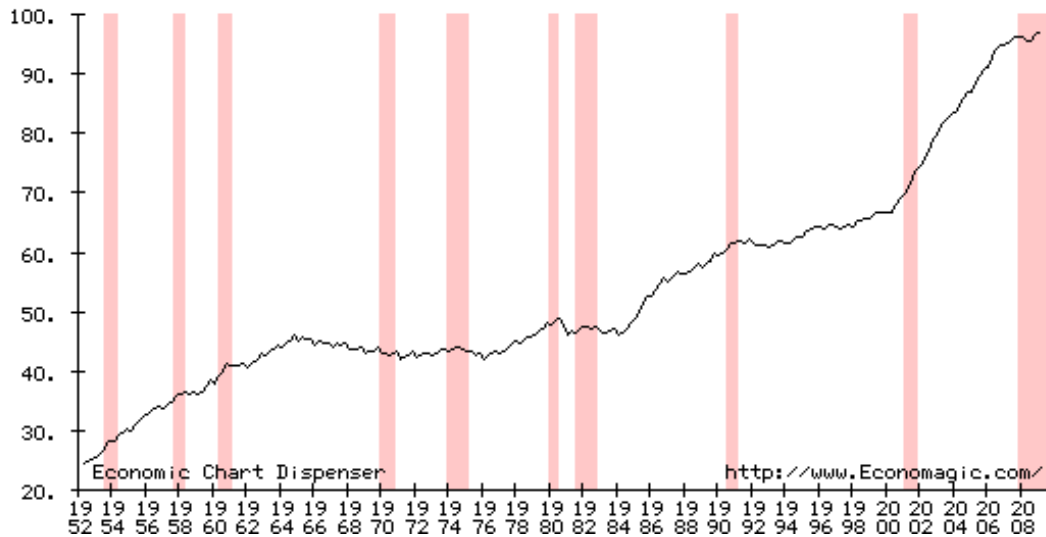
I attended a luncheon the other day where the speaker was an experienced and intelligent member of our industry. He showed many charts and graphs (probably too many for this luncheon) and attempted to make the case that this recession has bottomed and there are many reasons to believe our economy is on its way to recovery. He may be right. The worst may be over and we may be on our way to recovery. There are certainly some signs that we have seen the worst and that we are experiencing a "V" shaped recovery. Here are a few recent positive headlines:

- The Institute for Supply Management (ISM) index of manufacturing showed the slowest rate of decline since August, 2008.
- June showed increased consumer spending for the second month in a row.
- The rate of job losses is declining.
- China is showing impressive growth and should experience an 8% increase in GDP this year.
- The decline in housing prices has slowed and the number of houses on the market has declined.
- The budget deficit is now only projected to be \$1.58 trillion instead of \$1.7 trillion.
- Since March 9th, the Dow Jones Industrial Average has increased approximately 45%.

However, I couldn't help but observe throughout his presentation that his conclusions were drawn by comparing this recession to all other recessions since WW II. I don't think our current economic disaster can be compared to anything except maybe the Great Depression of the 30's (and I noticed he never even bothered to hint that we might be experiencing more than a mere recession).

Included in the presentation was a graph showing the amount of household debt in the United States as a percentage of Gross Domestic Product (top of next page). As you can see, household debt as a percent of GDP was close to 20% a few years after WW II. Last year it reached approximately 100% of GDP.....and it was only about 65% just 8 years ago. This country has increased its reliance on credit every year of my life.

Household Sector Debt as a Percent of GDP



I point this out to illustrate that, in all our previous recessions (high-lighted in pink), we were able to spend our way out of the recession because we were not overly burdened with debt. In the event we were overly burdened, we could continue to borrow more because our wealth continued to increase...wealth in the form of a stock market bubble and wealth in the form of a housing bubble. For the first six years of this decade housing prices increased dramatically and household debt exploded. With the almost simultaneous bursting of the housing bubble and the stock market collapse, close to \$13 trillion in household wealth has been wiped out...wealth that presumably would be used to help the consumer spend our way out of this recession.

Other reasons to stay concerned:

- The increase in consumer spending is likely a result of government stimulus and will disappear as soon as the stimulus does.

- China's reported growth is not as real as you might think. Our government is encouraging our banks to lend money to stimulate our economy but our banks are reluctant to do so because they are concerned about being repaid. The Chinese government can demand that their banks lend money. A lot of their stimulus today could turn out to be bad loans next year.
- I write about home foreclosures every month. July set a record for new homes in foreclosure; 360,149. That is an increase of 32% from last July and a 6.7% increase over the previous month!
- In the second quarter, 9.24% of all mortgages were delinquent and 4.3% were in foreclosure. Over half the homes in foreclosure were from PRIME MORTGAGES!

We find it difficult to believe that we can maintain any kind of meaningful consumer spending when millions of

people are having difficulty making their house payment.

In my neighborhood, things haven't improved. I continue to ride my bicycle on the same route every day. At the end of August, there were three fewer "For Sale" signs than at the end of July. However, none of the houses were sold. All three homeowners elected to take their homes off the market.

Needless to say, at Boyer & Corporon Wealth Management, we

have a dim outlook on the global economy. We would caution you against pundits who compare this economy with any previous recession. Four of the past nine recessions have occurred since I began my career in the investment industry. I have never seen anything like this. We have slightly increased our equity position the past few months but continue to be cautious. Even though the Dow Jones Industrial Average has rallied the past 6 months, it is still down over 30% from its peak in October, 2007.