

## The Importance of Capital

It is critical that the American public begin prioritizing capitalizing their personal finances. The average family spends 34.5% of every dollar earned on interest paid to another institution. Interest to pay for credit cards, student loans, car loans, mortgages and everything else people buy. The focus is on rate of return but if we can show people how to avoid giving financial institutions 34.5% of their income, rate of return becomes a moot point.

How long could a business run without adequate capital? Not too long. Each household's personal finances is indeed a business, one that is all too often not treated as one. That is reason people find themselves constantly at the mercy of the financial institutions – who want to give you money when you don't need it and won't give you any money when you need it. Who is in control here? I prefer to see each person in control of their finances and be able to make the choice, do I want to use my capital or someone else's.

*Beginning on page 2, Capital*

## Telling a Mother Her Baby is Ugly

There is no easy way to tell a mom that their child is not beautiful. I believe all babies are beautiful (especially Hannah & Sammy – but of course I'm not biased.) This is exactly the dilemma some people face when it comes to their finances. Many people are very happy about some of the things they are doing financially. When I ask people "what is your past experience with financial planning and financial planners" what usually follows is a list of things they are very happy and proud of. If the things they feel good about, are proud of and believe in are in fact not the best, what should be done? My challenge is to somehow communicate to them that the things they are doing may in fact not be in their best interests. That is the equivalent of telling a mother her baby is ugly. The best way I have found to do this is the following statement: If what you believe to be true about your money turned out not be true, when would you like to find out about that.

There are many things that people believe to be true that are not, here are a few examples that I see daily:

- 15 year mortgage is "cheaper" than a 30
- You are safer having your home paid off vs. fully financed
- "Safe" investments such as savings, CD's, money markets have no risk

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Remember that when you use your capital you are not only giving up the capital, but whatever that capital could have earned for you over a lifetime – it's gone forever. As I've discussed with many of you it makes sense to try and become your own banker for many things in life and pay yourself back (not with 401(k) or pension loans.) Most people have a much greater need for an understanding of the banking system in this country than almost anything else. The banks are arguably the most important business on the planet. What other business could survive without banks? None, zero, zip zilch. That is why in every town in America the bank has a building made of brick, Granite or Marble and most other businesses have buildings made of particleboard. Banks control the capital and the golden rule is those with the gold make the rules.

Of the three types of people - spenders, savers and wealth creators, only the wealth creators understand how to use capital. Spenders have a very frustrating financial life, they are continuously spending more than they have and always working to get their head "above water." Savers have some discipline and will wait to buy things, then raid their savings or investments to buy the thing and transfer away the money and the opportunity cost forever. Wealth creators understand that in order to get ahead you need to avoid transferring away most of your income and capital to others. Remember, there is a finite amount of money in the world, it is simply a question of how much can you get under your control.

If you are willing to take the necessary steps and would like to be a wealth creator, I'll be happy to coach you there. Feel free to contact the office for the next step.

## **10 Ways to Save Money on Gasoline!**

Walking, Biking or the bus isn't an option for most of us

who don't live and work in the city. The thriving metropolis of Harwinton doesn't offer subways. Inflation isn't something people have paid much attention to in the past few decades. You'd have to be living in a vacuum not to notice the mind boggling pace of inflation on gasoline lately. (Gouging, yes) Here are a few ideas on how to save a few bucks on gasoline:

- Keep the lead out of your foot. Statistics say that if you drive aggressively you can lower fuel economy by 33% on the highway and 5% around town. (I must be getting about 3 mpg with the way I drive)
- Tune up your car. A poorly tuned car consumes 4% more fuel than a well tuned one.
- Keep your tires properly inflated. Low tire pressure is a drag on fuel economy.
- Use the correct oil as recommended by the manufacturer.
- Get the junk out of your trunk. I've got a neighbor who carries no less than 500lbs of catalogs in his trunk. It takes much more fuel to haul around that extra weight and it kills the suspension.
- Don't buy high test unless required by the manufacturer. Use the recommended octane for your vehicle.
- Use cruise control if your vehicle is equipped.
- Don't idle if you are sitting around for a long period of time. Don't keep the car running just to keep it cool in the months to come.
- Combine trips to work, grocery and errands to avoid unnecessary travel.
- If you own more than one vehicle, use the one that has better fuel economy. The Excursion (When painted yellow I often mistake them for school busses) should never be used over the Prius unless you're taking the whole gang.

## NOTEWORTHY NEWS !!!



*Continued from page 1, Financial Fallacies*

Congratulations to Jason & Jung Manson on the purchase of their new home.

Congratulations to Lew & Jill Hutchinson and their three little girls, Casey, Scout & Jillian on the purchase of their new home.

Congratulations to Lee & Angela Rimbach and their three children, Panagiota, Chelsea & Lee Jr. on the building of their new home.

Our condolences to Tony & Cecelia Cence and their family for the loss of a very dear lifelong friend, Isabel Mineham to Leukemia.

A sad note that three of the members of our "family" have been diagnosed with cancer this month.

We'll keep everyone in our prayers who is facing trying times or recently lost a loved one.

A special thanks to Janice Potter for editing this newsletter every month. She takes the red pen and uses several vials of ink each in correcting all of my mistakes.

If anything special occurs in your life, good or bad, be sure to notify the office for advice and you'll be included in the noteworthy news section of the newsletter.

## Computer Intruders

It's high time the government does something about the computer business. I seem to be spending more and more time "protecting" my computers from people trying to get in and foul them up. The computer people talk about viruses, worms, spyware, spam and host of other issues that invade my world on a daily basis. This is nuts, stop people from sending us things we don't request and furthermore stop them from making our computers send other people things they do not want. I cannot believe this happens in 2004 America. The people doing this are very smart people and if they just put those resources, efforts and talents to a legitimate business venture, they'd likely be very successful at it. Lets hope it ends soon, its wasting a lot of time for all of us.

- Pension, 401(k), 403(b), SEP, SIMPLE type accounts always save people money on taxes
- Income taxes are high today
- You control the equity in your home
- You control the money in your pension plan
- I'll get insurance when I need it. ( you have to get it when you don't need it, if you need it, nobody will give it to you)
- Term insurance is the cheapest form of insurance
- Term insurance is worth the most on the day that you die
- Investing in a taxable environment benefits you more than the government
- FDIC insurance is better for you than for the Government & the financial institutions
- Opportunity costs don't effect me! (look at the smoking quiz from last month)

If you or anyone you care for believes in any of these statements, its likely time for us to have a conversation. Maybe there is a way to find beauty in the baby when you have a clearer lens to look through.



## Calculations we'll make for you!

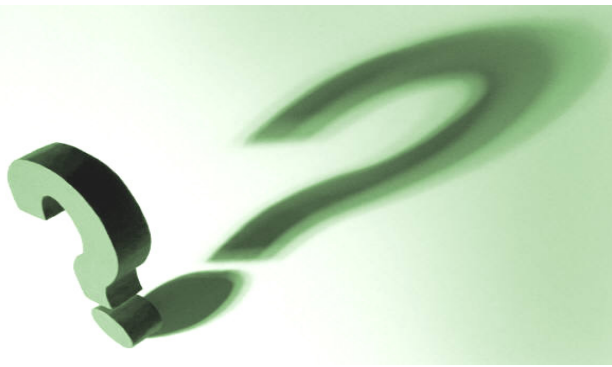
Retirement Income, Retirement income you'll need in 10 years, College costs, Estate taxes, Insurance wants, Monthly savings to meet goals, Car payments, Loan payments, How much house to buy, What type of mortgage, How to finance, Investment costs analysis, Cost of qualified pension plan, Required Minimum Distributions, Income tax saving strategies, Long Term Care expense.....If you need something else, call.

## How Much Does it Take?

I hear this question all of the time. Mike, how much does it take to retire? There is no easy answer to that question and no magic pill one can take to get there. It all depends on how much money you need on an after tax basis each month to be comfortable. I see some who live comfortably on \$2,000 each month and others who have a hard time living on \$50,000 each month. (Ludicrous I know, but it happens)

Lets say you need to have \$4000.00 each month to live comfortably in retirement. Don't believe the media when they say you can live on 70% or 50% of your income in retirement, do the calculations and if you don't know how we'll them for you. One of the most important things to consider is in retirement, every day is Sunday. You wont be working 40, 50 or 60 hours every week anymore and just might want to go do something. Many activities cost money and that will cause you needs to go up. Once you settle on your number, follow the logic and you can get there. If Social Security will pay you \$900 each month and you get a company pension of \$1400 that gives you total monthly income of \$2300. You need to fill the gap of \$1700 each month. Remember that you need to have the pension and social security protected. Be sure your spouse or survivor is guaranteed the same income and if they are not get a life insurance policy to guarantee them that income should you predecease them. Now to replace the \$1700 each month you'll need roughly \$450,000 to generate that income. If you didn't have Social Security or the pension you'd need \$1,000,000 to replace that income.

With all the planning you are doing make sure that the income you are going to retire on has inflation protection built into it. Social Security does (that may be changing) and some pensions do, others don't – check your plan. Inflation has historically averaged 3.1% annually for the past 85 years. Build that into your plans. We always automatically build a 3.0% inflation adjustment into everyone's retirement income.



### **MONEY QUIZ ARE YOU IN THE KNOW ABOUT YOUR DOUGH?**

It is time to sharpen your pencils, tune your computers and calibrate your calculators on last month's question. There were a plethora of answers to last months quiz but not a single one was correct without my help. The actual cost of a person getting hooked on smoking from age 17 to 65 is an amazing \$6,897,954.27. That's right, almost **7 million** bucks. I think most of us could retire comfortably if they could just keep what they would have transferred to the tobacco companies.

This topic is especially close to my heart since I lost my mother (52) and grandmother (66) to Lung Cancer. Please urge those you love to try and stop smoking.

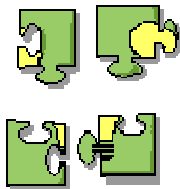
1) What is the only 15 letter word that can be spelled, correctly, without repeating a letter?

Email, fax, call or mail your answers to the office. The first correct answer will win a free dinner or a free massage, your choice.



# Inspirational Quotes

- You make a living by what you get, you make a life by what you give, Unknown
- Upon our children, how they are taught, rests the future, or the fate, of tomorrow's world, B.C. Forbes
- Nothing can stop a man with the right mental attitude from achieving his goals, nothing on Earth can help the man with the wrong mental attitude, W.W. Ziega
- When the only tool you have is a hammer, every problem begins to resemble a nail, Abraham Maslow



# Avoiding Family Business Fumbles

Family businesses are much different than publicly traded corporations. With family businesses there are typically only a few, perhaps one, key person who makes the whole operation viable. In order to keep the business going through the generations it is necessary to do some planning. Business succession planning is critical to any family owned business and typically ignored. Only 30% of family owned businesses survive generational transitions. This is scary number that needs to be addressed. It is very sad for me to see people slave for 30, 40 and sometimes 50 years to build a successful business only for it to fold in months due to lack of planning. The generational handoff is typically a failure due to inadequate financial preparation and family conflicts. As business owners, be careful to diversify away from your business and have cash and other assets that are not part of the business. The transition is never easy but with proper planning can be very successful and financially lucrative for all parties involved.

If anyone you care about would benefit from receiving this newsletter, tell us who they are and they will be included on our mailing list. I'm sure they'll appreciate you thinking about them and having their best interests at heart.

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

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- Fee based investment management
- In depth portfolio analysis
- Estate & Income Tax Planning
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- Retirement Income–Guaranteed or variable
- Disability Income Insurance
- Widow/Widower Assistance
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