

## New Mortgage Bonanza

The financial institutions have become more and more aggressive at marketing new, hybrid mortgages. Today the ads seem too good to be true, save thousands each month, interest rates at 1 or 2% - if it sounds too good to be true it likely is. Think about this, if the bank made the same amount of money on every mortgage option, how many options would there be? There would be one. In today's interest rate environment it is very difficult to present a logical, economic argument for not going with a fixed rate mortgage. I hear many "arguments" professing the virtues of hybrid mortgages where you can choose your payment and variable rate mortgages. Before you make any decisions on mortgages, call me. A mortgage is a complicated financial vehicle with many moving parts and most people, even the bankers, don't truly understand the in depth impact a mortgage can have to a quality financial plan. The banking institutions of our world have a powerful incentive to push variable rate and variable rate hybrid mortgages today -

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## Year End Pension Planning

It is August and you did read the word year - end. What is this nut talking about with year - end, there is four plus months to go prior to the big ball dropping in New York City. If you are self-employed now is when you need to be thinking about what type of retirement plan to use for the year. If you are going to choose a SIMPLE plan (**S**avings **I**ncentive **M**atch **P**lan for Employees of small **E**mployers) (Remember, the IRS and politicians cannot do anything unless it is an acronym. Not many people know but there is a body of government known as the department of acronyms that everything has to go through prior it being released to the public. Sorry, I couldn't help myself.) it needs to be set up before 10/1/04. That's right, just over a month to set it up if that is the plan that makes the most sense for your business. Other plans can be set up at the end of the year and some even up until tax filing time including extensions. There are many plans available today ranging from the plain old vanilla IRA where you can put away \$3,000.00 (\$3,500.00 if you've got the AARP card they send out when you turn 50 - it's really anyone over 50 with or without the card) up to more complex defined benefit pension plans that allow massive deductions for those who have a lot of discretionary income that they would like to shelter from income tax and can afford "tying

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because they have pricing power on the mortgages should the rates go up. By pricing power, I mean that as rates in general go up, so will the rates on variable mortgages. I had a group come to our office in the past six months pushing a new "hybrid" mortgage where the consumer can decide how much to pay. These mortgages can be very risky and even cause negative amortization – you owe more on the note in 5 years than when you began. Read that again, that wasn't a misprint. Rates are at 40 – 50 year lows, if you plan on being in your property for a long time, go fixed, period. A logical argument can be made to go with a variable rate mortgage that is fixed for so many years and then becomes variable. Such mortgages are referred to as 7/1 arms. For the first seven years the mortgage is fixed and after that the rate can change each year. These loans come in different flavors such as 3/1, 5/1, 9/1 etc. If you know that without question you'll be moving in 4 years then the 5/1 or 7/1 variable may make some sense. Home equity lines are mostly variable and that's okay. I like to see that equity line available so you have access to your equity – something you won't have should something go wrong in your world. You need to be disciplined enough not to use it for consumption, just for emergency or perhaps for leverage but consumption will dig you a hole. Complicated and overwhelming, mortgages confuse most people, call before making any mortgage decisions.



## Spending The Money

I see the bulk of the population falling for the same mistake, trying to accumulate some type of magic net worth. Perhaps its \$200,000, \$1,000,000, \$5,000,000, everyone has a specific number in mind. I'll submit to you that we don't live in a world of net worth, we live in a world of annual income – after tax. The media has made net worth sexy when they talk about certain moguls and tycoons who have a

net worth with more zero's than I have fingers & toes. Here is the number one billion – 1,000,000,000. Here is one hundred billion – 100,000,000,000. Who cares.....That is maybe .0000001% of the population. We've got a better chance of drowning in a spoonful of water than having the above net worth. Here is the real deal, what would you rather have of the following two options:

**A:** Net worth \$2,000,000 with annual after tax income of \$80,000.

**B:** Net worth \$1,600,000 with annual after tax income of \$105,000.

Either option will provide an income that you cannot outlive and both options will have the same "inheritance" for the survivors. I'm sticking with option **B** since I live on a monthly after tax income, not a net worth. Let's begin accumulating money in places where we own and control it and can spend it as we see fit, not someone else.



## Legal Documents, What ?

Do you have a will? How about guardians for the children? Do you have a buy – sell agreement if you own a business? Is it funded? Here is an area where people don't realize there is a problem. As I see each of you we discuss this area and almost without exception, something is missing or is twenty years old. If the kids are in high school and you haven't written a will, (please don't be saying that's me) call the attorney as you read this because the second you put this down you'll go back into procrastination mode. The importance of the legal documentation is often overlooked. You need these documents and they need to be coordinated with other areas of your lives. If you and your spouse both die, do the children have guardians? Does the money follow the children? Are the guardians capable of making financial decisions? If you have substantial life insurance policies, are they includable in your estate, compounding the estate tax problems? If you or anyone you love has questions, call and we'll help put you in touch with an attorney.

## Noteworthy News !!!



Time to sharpen your pencil, get a calculator and start surfing in cyberspace, there were no correct answers to last months Quiz. Many guesses have been coming in, but unfortunately not a single correct answer- this month a few very close ones. Remember, you're not playing with kids here so be ready to learn and earn in this section of the newsletter. Hopefully there will be more success this month. The most you could lose to the Government if you died with a large balance in an IRA is 86%. Yes, 86% in "shrinkage" just by being successful. Although the IRA's and other retirement type plans are easy to accumulate a lot of wealth inside, they are the least effective at distribution. Never put all of your eggs in one basket, especially one the government controls.

Congratulations to Eric & Susan Larson on the birth of their son, Jack Daniel on August 12<sup>th</sup>. A healthy 8lb 10oz bouncing baby boy. (Ouch, boy am I happy to be male - when Hannah & Sammy were born I suddenly found a whole new respect for the female anatomy...wow.....)

Our condolences to Dave & Denise Pasquallichio and family on the passing of Dave's father.

## Coming Events

The classes we teach are going to begin shortly at many locations across the state. As they are announced we'll put them in so you or your loved ones can attend. Here is a list of what we know right now, call the office to register:

**Planning & Paying For College**, October 19<sup>th</sup> & 26<sup>th</sup> from 6:00 - 8:30 pm at Wolcott High School.

Learn the game of college aid and make yourself look like a pauper, maximizing the chances for financial aid. Take this course if you have a bun in the oven or a high school senior.

**Successful Investing Without a Harvard Degree**, October 5<sup>th</sup> & 12<sup>th</sup> from 6:00 - 8:30 pm at Wolcott High School.

Learn how to avoid emotional decisions that always lead to failure with investments.

up" in a pension plan. There are many decisions that go into which pension plan to use and a few of those variable include: how much would you like to put in for the year, would you like to have life insurance in the plan, is the business consistent enough to put away roughly the same amount each year, how many employees do you have, what type of business entity are you, are your employees full time, are they seasonal, are they U.S. citizens, how long have they been with you, would you like to reward them, etc. Many times you can save more on taxes than you'll give employees in establishing a pension plan - perhaps it makes more sense to give to the employees rather than Uncle Sam? If you or anyone you care for needs help with these issues, feel free to contact us for a pension plan consultation where we'll give you the plain English explanation.



## Keeping Score

There is a universal law and it states that anything you pay attention to automatically improves. Finance is no exception and you need to pay attention to where it all goes. People are typically amazed at the end of the year where all that money went. In America we have an amazing thing I refer to as "checkbook syndrome." This is where no matter what you earn each month, you spend it. I see some folks who live comfortably on \$2,000.00 each month and others who live comfortably on \$100,000.00 each month. We live in an expensive state so a couple grand each month is tough to be comfortable on, but some do it. Try to save 20% of your income and if you can't or won't, call and we'll help you get there.





## Money Quiz

The U.S. Government prints how many notes each year? If they were laid end to end, could they wrap around the equator of the earth and if so, how many times? This is a multi part quiz where winners will win a “piece” of the prize. You’ll need to get it all correct to win it all.

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.

## Where Are They From?

Businesses are so large today that many of them are what is known as “multinationals.” A multinational is a business that operates in many nations. Here is a quick look, perhaps surprising, at where many of the names we know on a day to day basis are headquartered:

Lipton	United Kingdom (U.K.)
Shell	Netherlands & U.K.
G.E.	Connecticut
Microsoft	Washington State
Slim Fast	U.K.
Bayer	Germany
Toyota	Japan
Gerber	Switzerland
DiamlerChrylser	Germany
Nestle	Switzerland
Hershey	Pennsylvania

## Kids Back To School !

My kids will both be in pre-school this year. Hannah in her second year, 3 day program (she’s big time) and Sammy in her first year, 2 day program. This week the state is offering “tax free” week to let parents gather the necessary things for the rugrats without making a donation to the Governer Rell foundation. Take advantage of this when you go to buy things but don’t fall for bargain marketing. A bargain in America is something you don’t need at a price you cannot pass up.

For those of you with kids that are entering kindergarten or first grade this is a prime time to begin thinking about saving for the future what you were just paying to the daycare facility. It’s a real good time to start because before you know it, the kids will be walking across the stage at high school graduation and if you aren’t prepared, the evening won’t be pleasant. Would you prefer to think about the wonderful education your child will be experiencing at school or would you rather worry where the money is going to come from? The end of child care is a critical junction - you’ve been spending the money for years now, giving it to someone else. Consider taking what you were spending on child care and begin saving for the future with the exact same number of dollars. Don’t wait too long because if you get to October or November without saving the money you’ll begin consuming it in the monthly cycle – checkbook syndrome will have captured that extra money.

Which plan is the next question. Should you use the much touted 529 plan, an UGMA, (uniform gift to minor, uniform trust to minor (UTMA) depending on the institution) investments in the parents names, insurance, annuities, home equity? The list goes on and on and there is no end all be all answer. Each option provides certain advantages and disadvantages. If your rugrats are young, remember that tax laws on the 529 plan “sunset” in 2010. If they won’t be of college age by then, the laws may change and the Government controls the plans.

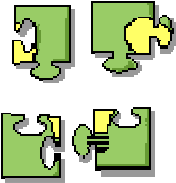
# Healthy Foods

In my efforts to get physically fit as well as my mission to help everyone get financially fit, here is a list of foods that help the human body.

- Tomatoes – reduces risk of prostate & other cancers
- Oats – lowers bad cholesterol & may help lower blood pressure
- Salmon - helps the heart by cleansing plaque and driving down bad cholesterol
- Spinach – keeps blood vessels healthy, protects babies & prevents blindness
- Broccoli – fights cancer causers & reduces risk of some cancers
- Nuts – lots of good fats, may ward off heart disease & cancers
- Red Wine – may help ward off hardening of arteries & boost good cholesterol
- Green Tea – lowers risks of cancers
- Blueberries – fights free radical damage linked to heart disease & cancer, may make you smarter
- Garlic – can reduce bad cholesterol & make blood less sticky – has antibacterial & antifungal powers – wards off vampires !

# Inspirational Quotes

- I used to eat lots of natural food until I learned that most people die of natural causes, author unknown.
- The easiest way to find something lost around the house is to buy a replacement, author unknown.
- Never take life too seriously, nobody ever gets out alive, author unknown.
- An unbreakable toy is useful for breaking other toys, author unknown
- Politics is supposed to be the second oldest profession, I have come to realize that it bears very close resemblance to the first, author unknown.



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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Please think of us whenever you or someone you care for needs the following:

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- In depth portfolio analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or variable
- Disability Income Insurance
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long Term Care Insurance & Issues
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

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