

The State of Affairs

Where are we in the grand scheme of things today? We're clearly working our way out of a monster recession. We expect this process to take time, perhaps 5-6 years to get back onto the path we were on in 2006 – 2007. If that timeline plays out we'll have taken a complete decade to enter and exit the recession. That's not a bad thing; it just is what it is. It's also very realistic. It's a complete fallacy to think we'll be in the clear in a month or a year and everything will be back to "normal." Things are improving in many areas but we've got a lot of excesses to work out of the system. Jobs will likely be the last thing to return to normal.

Jobs are being created and growing across the entire world, quickly in Asia and Latin America and more slowly in Europe and America, but we're seeing 10 solid months of growth now under our belts. Fiscal policy across the globe is supportive of economic expansion. One of the biggest challenges today is balancing all of the competing currencies around the world. We see the Federal Reserve attempting to deflate the dollar to be more competitive with foreign currencies, and simultaneously China isn't allowing its currency to appreciate as it needs to. Quantitative easing by the Fed isn't so much about making the dollar worth less and causing inflation, as it is positioning it against foreign currencies. This will be the biggest challenge ahead, finding balance in the competing global currencies so everyone can benefit and no single country has an advantage. In America, inflation is nonexistent, running lately at just over 1%. China has real inflation and needs to find a way to put on the brakes without derailing its economic

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Game Changers

Every so often something changes the game, it changes the way we all live and perhaps the rules we live by. In the world today where we have high unemployment and instant global communication, we have more people working towards coming up with new ideas in an information exchange which was never before possible. Our technology is changing the rate at which we learn. Ask any high school kid a question, any question, and they can likely come up with an answer in seconds or minutes from their cell phone by searching the web no matter where they are. This type of connectivity is making change at a pace we cannot yet fathom. People who are out of work and starting new businesses are working with the same knowledge that corporate scientists and corporate research departments have. These groups are even able to exchange information, work together, compete and innovate from anywhere on the globe. We're going to see a lot of new technologies in the coming years and decades. Let's look at some ideas and innovations that are here now, in development, or coming soon.

LED lights will make most other light forms, outside of natural sunlight, obsolete. The push to fluorescent has been huge in the past few years with their energy efficiency and green characteristics, but the LED revolution will make that look like play. We recently put in 64½" LED lights in an indirect fashion high on a wall in my house to replace the light that a new wall now blocks. This configuration sheds more light than a window, skylight and 4 traditional bulbs ever did. This new light configuration only uses 64 watts of power and has a life expectancy greater than I do. The old configuration used 400 watts, plus a 48" window and a skylight. When was the last time the LED in your alarm clock broke down and you had to replace your clock? I've never replaced a clock due to a bad LED. We see LEDs now in cars, homes, street lights, computers, cell phones, TVs - they're everywhere. This is an entirely new industry that is still in its infancy. As production ramps up, pricing will come down and then you can expect the new technology to go mainstream - more light, better life expectancy, more efficiency, less pollution, more green, absolutely no downside.

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Current Affairs

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expansion. India & Brazil are rolling along nicely with growth around 8% and are closer to inflationary pressure than the U.S. or Europe.

Historically, low interest rates in America have spurred mortgage activity to its highest levels in two years. Consumers are taking advantage of the lower rates to reduce the share of household income going towards debt payments. This leaves more disposable income for investing or consuming and Americans are now consuming at a higher clip than they were before the beginning of the recession. Consumer debt levels and consumer obligation ratios are now back in line with where they were before the housing bubble.

Consumers are well on their way to fixing their checkbooks and balance sheets in a post real estate bubble world. Consumers are saving at a rate we haven't seen in a generation. We're raising a young generation very polarized fiscally – some spendthrifts and some penny pinchers. These young people have seen the dot com meltdown in 1999 – 2000 as well as the great recession so they're very polarized financially. The spendthrift's time has passed now that credit has evaporated for those too financially extended. Now the penny pinchers are able to take center stage and we find the next generation growing up today who think like those that have lived through the great depression. These people will not extend themselves at all, will live well below their means, and will amass financial wealth like we've never before seen.

The truly global economy is beginning to show its impact. Countries that have always been thought of as exporters are slowly beginning to import more and likely becoming net importers. It is likely that over the next few decades China will become the world's largest importer of goods and services. China has 1 billion more people than we do in America, and they want to live like we do. I don't know if the planet can sustain that, but they will certainly try to do it. As the average Chinese citizen tries to climb out of poverty and into a middle class, they're going to require a lot of goods and services. Many of those goods and services will be made and delivered by foreign companies, many U.S. companies. China is no longer the cheapest place to do business in the world, and many companies are moving operations to other, lower cost nations to take advantage of cheap labor. Monster corporations are also taking advantage of this trend, opening operations and hiring people in foreign countries. This is very good for the companies with the mass and scope to do it. This trend is looking very similar in India, where another monster population tries to find balance, reduce poverty and grow their way to prosperity. ☺

Full Circle

Look at these newspaper headlines that show up in various printed publications and think about what feelings they evoke within.

- 1) "Skittishness is Mounting Among Investors, Some Advisors Urge Boost in Cash Positions," The Wall Street Journal
- 2) "Market Seen Headed Lower Due to Economic Confusion," The Wall Street Journal
- 3) "The Death of Equities," Business Week
- 4) "Small Investors Sit on the Sidelines Watching Stock Market's Surge," The Wall Street Journal
- 5) "Uneasy Mood, as Economy Falters, Even Affluent are Fearful and Cautious," The Wall Street Journal
- 6) "Stocks Drop Amid Bleak Reports on Joblessness, Manufacturing," The Wall Street Journal

This is all pretty scary stuff. Most people are wondering when the bad news will end. Nobody seems to know what is going on and when it is all going to get back to normal. Nobody knows for sure, but if we go by the news, it appears clear that Armageddon is around the corner. What we do know in reality is that the world isn't coming to an end and we will continue to press on, doing the best we can and living day to day. There are, and always will be, issues to deal with. Now I'd like to share with you a time-line on these article headlines. They weren't published in the past year or two when things have gotten crazy. They're from decades ago, in prior recessions when things were likely more scary than they are today. Here are the years each of the above quoted articles appeared in the referenced publication:

- | | |
|---------|---------|
| 1. 1975 | 4. 1989 |
| 2. 1975 | 5. 1991 |
| 3. 1979 | 6. 1992 |

This isn't the first time investors have faced bad news, rocky economic times and disastrous events. It is no surprise that there have always been speed bumps and potholes along the way to the recovery of a recession. In the past 100 years, we've had 16 recessions. This one may go down in history as the 2nd largest one following the great depression, but the periods after the recessions were wonderful. Remember Newton's law that states for every action there is an equal and opposite reaction? This is true in economics as well as in physics. In the 5 years after all recessions, the returns have always been positive. In the decade after a recession, the average return for the next 10 years was almost 19% annually as measured by the S&P 500. History has shown patience and perseverance is the best path to take. Staying focused on the long term is the key to getting through the short term. ☺

Noteworthy News!!!

- Congratulations to the Nevers family on Ryan's new job! ☺
- Congratulations to the Flores family on Pete's new job with Neco! ☺
- Congratulations to Dave & MaryAnn Crout on the purchase of their new home in sunny North Carolina! ☺
- Congratulations to the Perkins family on Janice's new job with Connecticare!
- Congratulations to the Hall Family on Rob's new job with Richards Corp.!
- Congratulations to the Lenkoski-Mueller family on Jan's new job with Yale! ☺
- Congratulations to the Wable family on the birth of baby Mary Katherine! A girl, finally! ☺ She joins big brothers William, Paul, John & Benjamin! There will never be a dull moment in that home and she will be one tough little girl! ☺
- Congratulations to the Quinn family on the birth of baby Henry Raymond, the first for the family! Congratulations also to Andy & Cathy Nygren, who finally have a grandbaby to spoil! ☺

Stated Retirement

Many people today plan to retire to a completely different state than they have been residing in for years in order to save money. These decisions put people hundreds if not thousands of miles away from a lifetime of family and friends. People are making decisions to do this for secure financial safety. The idea is to leave the big income, big expense states of CT, NY, CA and other like minded spend-like-drunken-sailor states and go to places where they can live better on a fixed retirement income, where prices are generally lower. This is a big problem for governments across the drunken states because a flight of residents is also a flight of income and business that these residents generate and that each state needs in order to survive. Here is a list of the most and least friendly tax states:

Least Friendly: CA, OR, ID, MT, NE, KS, IA, AR, MN, WI, OH, WV, NC, SC, NJ, NY, CT, VT, ME

Most Friendly: WA, NV, WY, SD, TX, IL, TN, MS, GA, FL, PA, NH

It's no surprise that residents are flocking to the tax-friendly states and away from the unfriendly ones. States can find all types of ways to separate you from your money. States can levy income taxes on all income, whether it be just pensions, everything except pensions, not in state pensions, social security, etc. This is complicated, and we're happy to have this conversation with you about which states make sense and which ones don't. People leave for home prices too. We see a lot of people leave CT & NY for NC. Even though they'll pay more income tax in NC, the property is much less expensive and the property taxes are 10% of the departed state. It'll be interesting to see how this unfolds moving forward. ☺

Game Changers *(Cont'd. from page 1)*

Along with the improvement of the light spectrum, we now have the ability to put a high quality display on a flexible material. No longer will displays need to be straight or made out of glass or plastic. The new screens will be able to take any shape or form, and bend and flex like clothing. These new displays will be fully functional displays with touch screen controls and virtually unbreakable. This will change those cracked screens and broken electronics forever. I cannot even fathom where we'll have displays in a few decades as this technology comes of age.

For those over 40 who now need glasses to see the newspaper, the street signs or the play, we're not too far from mass market adjustable glasses. Bifocals and trifocals will die the death of the dinosaur when these new lenses hit the mainstream. The lens has the ability to focus the entire lens, not just the top, middle or bottom so you can really see what you're looking at in full. This will change the world of glasses, virtually any person can wear adjustable glasses, with the exception of extreme prescriptions.

Drywall can now be made mostly from recycled material and comes under the name of Ecorock. It requires 80% less energy to produce and is mold, rodent and termite proof. It provides more strength than traditional sheetrock and is waterproof.

Wireless everything can be a reality sometime soon. Imagine a world with no wires connecting all of our devices, our grid and our world? I find it hard to imagine, but it may become a reality. The technology is close, they're working on solar arrangements in space and once they can beam the power down to earth, that will open up a whole new world where wires are just not necessary and power is almost exclusively solar. This may put the Middle East out of business as they only have sand and oil. This technology is likely a long way away.

Energy is a huge area with a lot of new technologies coming on strong. Using high temperature plasma gasification to turn municipal and industrial waste into various fuel sources is a new reality. This new fuel can be turned into ethanol, methanol, diesel and other transportation fuels and when it's made, the only byproduct is heat, which is turned into energy and sold back to the grid.

Solar devices can generate heat. Air conditioning and hot water to buildings without using any electricity is also in the works.

Hydrogen is currently the fuel for fuel cells, and the big problem is that it is generally produced from oil or natural gas well. But new technology can supposedly produce it from sea water, at a cost of less than \$1.00 a gallon. This will make fuel cells mainstream and perhaps eliminate the gas and electric cars simultaneously. Fuel cells only byproduct is water, which is in short supply in much of the developed world. What a double win, by making energy you generate water. ☺



Money Quiz

This month's challenge is to tell me what the maximum annual contribution was in 1979 to a 401(k) plan. In 2010, it is \$16,500 + \$5,500 if you're over 50. Last month's quiz was won by Michelle Snyder. The market value of owner-occupied housing represents 28% of the net worth of the average American. The winner will enjoy a meal on us at Ruby Tuesdays. ☺ 112210:12

Multi - Generational

You can roll your retirement assets from one generation to the next with very little tax consequence, if done properly. Let's look at how we can deal with IRAs, 401(k)s pensions, 403(b)s, Roth IRAs 457s, etc. when it comes to the passing of a loved one. In each event, the named beneficiary on the account is the person it is going to. The beneficiary designation overrides any other legal instrument such as wills, trusts, etc. Once we know who is to receive the money in the next generation, that person has two options: 1. take the cash and run (tax free if Roth, otherwise taxable) or, 2. roll it into an inherited IRA. Inherited IRAs are commonly referred to as Beneficiary IRAs, BDA- IRAs, (beneficiary designation account – IRA) IRA-BDAs, etc.

The first step is to re-title the deceased persons account to the name of the deceased and the beneficiary. Let's say Sam Smith left his IRA to his daughter Halle. To re-title the account it would look like this, Sam Smith, deceased, Halle Smith IRA. Once that happens, Halle now owns the account and it's clear where it came from, it came from her deceased father Sam. Now Halle may have to take distributions each year depending on how old Sam was when he passed. If she has to take distributions, it's a slice of the account, not the entire account. The account can be left to grow, but each year the distribution needs to come out and get taxed. Halle can do the same thing with her children, and these accounts can go on for multiple generations. The only part that is taxed is the annual required minimum distribution each year, the bulk of the account is left to accumulate for perhaps 150 years. If the account is a Roth IRA, the distributions are not taxable, but just come out of the Roth tax free environment. Anyone can use this technique, just be sure you're titling assets correctly and taking the distributions as prescribed by law. If you'd like to discuss this, call anytime. ☺

The Ultimate Stretch

People are mostly thinking of Yoga or stretching their muscles when they hear stretch. When it comes to your finances, I'm thinking of stretching certain types of accounts. Retirement plans can be stretched over multiple generations, and with their favorable tax treatment, can really accumulate substantially. I'm not as big of a fan of converting to Roth IRAs as most people in the financial world are. I feel this way because many people don't pay much, if any, taxes in retirement. For those who do pay taxes, and a lot of them in retirement, the Roth is prohibited for them but other tax angles are available. I've had this convert or not convert conversation a lot lately with many people and here is my conclusion.

For the average person who has an average home and some assets saved for retirement and lives on a small pension, social security and interest and dividends from their investments, the Roth conversion is probably not in their best interests. If you convert this year, the Feds are giving you a special waiver to pay taxes in 2010 & 2011, to spread out the pain. Converting will still cost you taxes on the converted dollars. If you're already in retirement, you're living on a steady income that isn't likely to go up a lot in future years, it may even go down if there are no cost of living adjustments on the pension(s.) We've run this scenario a lot of times and it typically doesn't make sense to convert, even with the threat of higher tax brackets later on. Taxes will go up eventually, but on whom and how much we don't know. The Feds inked a deal today to extend 2010 tax rates for all taxpayers for several more years so the impending doom of 99.99% tax brackets tomorrow is now postponed.

Roth IRAs and conversions to Roth IRAs make a ton of sense for those who are in a low tax bracket today, but are going to be in a much higher one in the future. Medical residents are the perfect example of a group of people who should certainly be converting any retirement assets to Roth. As residents, they're getting paid 40-45k, working 100+ hours each week, and when they finally get a job their income will go up exponentially. This group is a win/win for conversion because the tax bracket today is low and conversion costs will be much cheaper today than their tax brackets will ever be again in the future. This is also true for other young professionals such as attorneys, executives, etc. Business owners just starting out have the same opportunity, in the incubation period of a business there are little, if any gains, and the opportunity to go Roth is huge, if the capital is available to do so.

If you'd like us to run a scenario for you, reach out to us. In certain situations the conversion does make sense, but not nearly as much as it's touted. Uncle Sam will clean up this year on taxing 2010 conversions, and I wonder how many conversions will end up costing the uninformed taxpayer in the long run. ☺

Inspirational Quotes

- “The man who does not read great books has no advantage over the man who cannot.” Mark Twain
- “Always make a total effort, even when the odds are against you.” Arnold Palmer
- “In love beggar and king are equal.” Indian Proverb
- “No fate is worse than a life without love.” Mexican Proverb
- “To love and win is the best thing. To love and lose, the next best.” William Thackeray
- “Most people seek what they do not possess and are thus enslaved by the very things they want to acquire.” Anwar El-Sadat
- “The best things in life aren’t things.” Art Buchwald
- “It all depends on whether you have things, or they have you.” Robert A. Cook



**We can piece the puzzle together
and make your money work for you! ☺**

Kid’s Korner

Kids need to get to know the value of a dollar and I’ve recently come up with a fun way to get them to learn and compete with one another. I’m going to ask the girls to go out and research the best place to get an item. I’ll give them the specific item, and each of them will have to spend some time researching said item and finding where the best place to buy it is. The rules of the challenge will be the item must be as described, they can get it online or in a physical store, their choice. They must report back to me the research they’ve done and tell me where they’ve chosen to ultimately make the purchase and why. I also want to know what places they researched and what the various prices were at each place. They’re going to be asked to track the prices of said item at each place they researched and then tell me why the same thing sells for different prices at different places, if it’s exactly the same item. I’ll build this exercise with one item today, but we’ll add to it over time and hopefully they’ll develop a sense of where to buy certain things at good values and where to avoid certain things for poor values. I’ll let you know how it unfolds. ☺

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