

Taxing Times

April 15th is approaching rapidly and we're all thinking about getting those taxes done if we haven't already. The big joke this time of year is that when you do your taxes you get to deal with 2 of your favorite federal agencies, the IRS & the Postal Service but you can make a day of it by stopping at the DMV that day too! ☺ The IRS is in an odd position this year as Congress is pressuring them in every direction and cutting their budgets after their fiascos of recent years in blowing taxpayer money on conferences, travel, parties and movie producing and other wasteful activities and unfairly targeting conservative groups with their strong arm tactics. Here is a notice that comes from Bernie Becker, an IRS employee put out to tax preparers on Dec 21st to show the tax community what to expect from the IRS this year from a customer service perspective.

The IRS wants both taxpayers and its staff to know this: It's only going to get worse. After absorbing a \$346 million budget cut, IRS officials are warning taxpayers not to expect their phone calls to get answered or their refunds to be delivered quickly. Employees shouldn't count on overtime pay, or for empty staff slots to be filled. And lawmakers seeking to reduce the deficit should assume the agency will collect far less revenue than it could have. "We're well beyond cutting out any fat," John Koskinen, the IRS commissioner, told reporters after his agency saw its budget slashed for the fifth consecutive year. "And we're now into cutting, as people say, muscle headed toward bone." In all, the IRS is operating with roughly \$1.2 billion less than it did in 2010, when the agency's budget reached its high-water mark of roughly \$12.1 billion. The \$10.9 billion the agency is slated to receive for 2015 is a 3 percent cut from last year and the IRS's smallest budget since 2007, Koskinen told staffers in an email this week. Adjusting for inflation, the IRS budget is roughly equivalent to what Congress gave it in 1998 — an era when the agency processed about 30 million fewer returns in a given year. The recent budget cuts have led to far fewer employees at the agency, according to the National Treasury Employee Union, which represents IRS employees. The IRS had just over 83,000 staffers at the end of 2013, around 10,000 fewer than when the budget cuts started and around a quarter less than two decades ago. Koskinen told staffers in his Wednesday message that an extra

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Generational Preferences

We often talk about baby boomers and how there are 10,000 of them retiring every day. That's all good but what about all of the other generations out there, what is going on with them and how are their preferences shaping our world moving forward? Here is the generations as they exist today in our world:

Generation Name	Age Range
Matures	70+
Baby Boomers	51-69
Generation X	36-50
Millennials	15-35
iGen	00-14

The one thing that is pretty universal about the various generations is as time unfolds women are having fewer children today than they were historically. Affluence in America has caused some shifts in behavior that include delayed adulthood, longer life expectancy, population bulges and a focus on the individual vs the community or the greater good.

Let's look at each generation and see what matters to them and how we're shifting as a society by generation influence. Matures and Boomers like to see consistency and longevity, tenure and history and quality. These people first must need physiological and safety needs before moving onto other areas or self-actualization. They've lived through tough times and do not want a repeat of any of them. Notice how ads targeting these generations focus on safety, strength and security? Boomers have a wonderful work ethic, show visible signs of success and worry about consensus building. Boomers like to be part of a team and will help others with the expectation that they'll be helped in return. Technology can sometimes be too much for the boomers in the direction society seems to be going. These people want to stay in their homes and simplicity is key. They're now able to focus on what they want to do rather than what they had to do so hopefully their greatest years are ahead of them. Boomers have the ability to act forever young and love rebellious or seemingly rebellious associations such as Harley's Caddy's, Levi's, etc.

Gen X & Millennials focus on the individual and the Ego. They're very worried about how things will affect their lives and how they can be distinct from others. They want to be different than everyone else and they tend to be hunters for information, highly organized and know what they want far

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\$250 million in expenses — which included raises for staffers — only deepened the agency’s budget woes this year. The IRS chief added that, with few exceptions, the agency would only be able to add about one new staffer for every five that exit. The agency’s travel budget will also get slashed, and overtime pay will be for emergencies only — such as if information technology systems break down during the filing season, Koskinen told reporters. “There is nothing in there that we’re cutting out that we shouldn’t be doing,” Koskinen said about the agency’s budget. “There isn’t any more give in the system.” As a last resort, the commissioner said Thursday, the agency could even hand down unpaid furloughs for staff — essentially shuttering the entire revenue agency for a day at a time. For taxpayers, Koskinen is already cautioning that the chances of the IRS answering their phone call is no better than a coin flip. The IRS had been answering the phone at about a 60 percent rate. Even if a taxpayer and tax practitioner does get through, they should expect a long wait beforehand, the IRS chief stressed. “Every time I say you can call us, in the back of my mind I almost feel like I should say: ‘You should be prepared to stay on the line for half an hour before you get through and a lot of you won’t get through to a live person,’” Koskinen said. The problems taxpayers could face go far beyond the phone, both Koskinen and taxpayer advocates say. IRS drop-in centers handled about 114,000 questions during the 2014 tax-filing season, according to the Government Accountability Office, down from almost 200,000 the previous year. The nation’s taxpayer advocate, an in-house watchdog, said in a report in January that the IRS had helped prepare close to a half million returns a decade ago for lower-income families, people with disabilities, and older taxpayers. The IRS now says it won’t be able to prepare any returns for those taxpayers. And if a taxpayer does happen to get through on the phone, they’ll only get help on “basic” tax questions during the filing season. Outside of that window, even those taxpayers who filed for extensions won’t get those questions answered. “It is a sad state of affairs when the government writes tax laws as complex as ours — and then is unable to answer any questions beyond ‘basic’ ones from baffled citizens who are doing their best! To comply,” Nina Olson, the taxpayer advocate, said this year. The problem for Koskinen and the IRS is that the budget-cutting zeal for the agency is unlikely to subside on Capitol Hill — particularly if, as expected, the agency’s performance falls off in the coming year. Congress remains livid at the IRS for its improper scrutiny of Tea Party groups, and have said they’re not buying the agency’s line that it needs more money and that cuts to the IRS are counterproductive. A string of top lawmakers trumpeted cutting the agency’s budget as one of their favorite aspects of the recent government funding deal. The Obama administration is expected to unveil new rules for the tax-exempt groups at the center of the Tea Party controversy next year, which will likely further divide Congress. But on top of that, as Koskinen pointed out this week, Congress started rolling back the IRS’s finances well before news broke about the agency’s singling out of conservative groups. Congress also doesn’t agree with the commissioner’s take that he can’t wring any more efficiencies out of the IRS’s budget, having blasted the agency’s past spending on conferences and Koskinen’s decision to award employee bonuses. “Violating the trust of the American people by wasting taxpayer dollars, targeting groups based on their political beliefs, and not cooperating with congressional investigations does not warrant a budget increase,” Rep. Ander Crenshaw, who leads the House Appropriations subcommittee that oversees the IRS, said about the most recent spending deal.

Credit Default Swaps

Here is a term we haven’t talked about in years and these financial tools have been a highly debated thing for just as long. A credit default swap is a type of financial derivative tool that operates somewhat like an insurance policy. One can buy credit default swaps on a business or a government and profit from a failure of either. Buffett considers them financial weapons of mass destruction.

These swaps trade in the markets at prices where a low price indicates the underlying entity is “safe” for the time being and not subject to having financial difficulties in the road ahead. When the meltdown happened in 2007 the credit default swaps for many financial firms were rising quickly, indicating the markets saw a problem with the financial firms. We wrote extensively about how the real estate sector was completely out of control but at the time we had no idea just how intricately woven the many areas of finance were and how these credit default swaps would hurt many areas as the world was highly leveraged at the time. Lehman’s demise triggered the payment of the swaps and led to a global fear that the financial system would cease to exist.

Of course the financial system didn’t cease to exist but it was a scare at the time and markets are based on emotion — fear and greed — in the short term. Short term can be a few years but at the end of the day the markets are like scales and reflect the true weight of what is on them at the time. Today we’re seeing the swaps show stress in some areas, mostly in countries who have been foolish with their finances for decades. The problems are coming home to roost now despite the efforts of central banks across the globe to placate investors fears.

These swaps are priced like insurance, if the risk of an event is very small the premiums are small and if the risk of an event is high the premiums go up, sometimes exponentially depending on the risk. You can be on either side of a swap, as the seller of it or the buyer of it. If you’re the seller and a claim comes due, you need to have the capital ready to pay the claims. If you’re the buyer, you’ll need to pay an annual premium for the risk, and if the event comes due, the rewards are often monster in size and scope because the event seemed like a low probability one at the time it was sold.

To give you an idea of how the market perceives the health of the Greek government in November of 2014 the prices of a Credit Default Swap for the country was at about \$700.00. Today that same swap is priced at just under \$4,000.00. This is a rise of about 250% in just a few months so if you had the inclining to buy a swap just a few months ago it was quite profitable. Now if the Greeks go the way they appear to be heading, into a default scenario, it’ll trigger the swaps to pay out and whoever owns them will be having a party while the poor folks in Greece will be wondering how they’re going to restructure their society to live within their means. The past few years have seen almost all European government swap prices go down to negligible levels, about the same as a Tech giant with no debt due to Central bank interventions. Risk and reality appear to both be back, regardless of what forces are playing out in the markets.

Noteworthy News!!!

- Our condolences to the Duger family on the passing of Don, a wonderful man, husband, father, grandfather, uncle, brother and friend.
- Our condolences to the Zaepfel/Melanson/Savino families on the passing of Anna, a wonderful woman, wife, aunt, mother, grandmother, great grandmother, person and friend
- Our condolences to the DeFiore/Russ families on the passing of Lydia, a wonderful woman, aunt, wife, mother, grandmother, great grandmother, person and friend
- Our condolences to the Fletcher family on the passing of Lois, a wonderful woman, aunt, wife, mother, grandmother, person and friend
- Our condolences to the Shanley/Rabinko families on the passing of Cherie, a wonderful woman, aunt, wife, mother, grandmother, great grandmother, person and friend
- Our condolences to the Kalat/Graham families on the passing of Kathleen, a wonderful woman, aunt, wife, mother, grandmother, person and friend

Question & Answer

Ask any financial question you have and we'll address it here.

Q: The dollar is strengthening against many foreign currencies, why is this?

This is a great question and although we don't know for sure, it appears that the dollar's strength is because of central bank actions here vs those of most other foreign governments. We're in a place where the government and central banks are trying to normalize monetary policy. We say trying because they're not actually doing a lot of what they've said they'd do over the past few years so their credibility is in question at best, shot at worst.

The Fed did manage to stop its QE or bond buying program a few months ago but it still has rates at zero and is conducting swap operations so we're a very long way from normal. All of this is happening as many central banks across the globe have just kicked off their own versions of QE or bond buying in many places this year. Many say the US is the cleanest dirty shirt in the room as other matured economies have much dirtier shirts than we do. The dirty shirts of course referring to the mess economically that is economic and banking in nature.

The strength of the dollar has been impressive this year, and that's great for us if we're traveling to Europe but bad for multinational companies who operate overseas as the dollar strength will hurt their overseas earnings badly. We'll see how this plays out but those claiming the dollar will collapse seem to be living in another reality than the one we have today. ☺

Generational Changes (Cont'd from pg. 1)

before they enter a store and likely have more data about the product they're after than the company representative. Notice how ads catering to this group hit the Ego and person rather than the collective society?

The way these younger folks get information is completely different from the Boomers or the Matures. They focus on internet and online first, then go to friends and relatives, local professionals and would look at the TV/Radio as an absolute last resort. The Gen Xers who are motivated are doing exponentially better than their older counterparts at the same stage of life. Although these participants seem cynical, they're ultimately very pragmatic and work hard to move up in their careers. They're the biggest consumers of online shopping and banking. Watch as they stalk a product or service they need, the women of Generation X are the most empowered and knowledgeable shoppers on the planet. These people are cautious and conservative and very wary of so called "experts" and want to see the real part of people, not the corporate persona. Email is the preferred communication medium for this group.

Millennials are individuals but part of a pack. They are well looked after and optimistic, most haven't had any real challenges in life. They're not yet adults and are experiencing development later in life, same stages just at older ages. Future is very short term for this group and they have huge aspirations. 32% of them still live with their folks, only 21% of them are married today. Think about how the first 3 generations grew up vs today's Millennials. I hate to admit I'm in one of the "older" generations but it's crystal clear how the differences lie. Here are examples of awards we'd have seen in the past that would have meant a great deal to us:

- Medal of Honor
- Silver Star
- Purple Heart
- State Champion
- All American
- League All Star
- League Champions

Today it's far different for awards for the younger generations, they get awards for just showing up. Everyone gets a trophy even if the team doesn't win, it's no longer the winners of the league or the 10 best athletes in the state.

The older generations grew up in a tougher environment all around. On the way home from the hospital we sat in the front seat and our mother's arms were our seat belt in the event of a quick stop. Everyone smoked and there were no emissions tests. Today the kids come home in a carbon fiber child carrier with 5 layers of padding and impact zones, strapped and bolted to the frame of the vehicle by an MMA fighter with a hermetically controlled ventilation system to ensure clean air. It's a whole new ball game on how we're raising kids today so of course they're going to act differently. ☺

Money Quiz



This month's challenge is appropriately on income taxes as we approach the deadline for filing our taxes. The top 10% of taxpayers earned at least \$125,195, what % of income taxes did they pay? Last month's quiz was won by Stuart Reneike, the markets have had 53% up and 47% down days in the last 50 years. Winner goes to Ruby Tuesday on us! 02/09/15:04

Whose Name is on the Asset?

Getting sick is the largest risk for most of our retirees. If you're already in retirement and you're not worried about income and have ample assets to live out your life in comfort the real risk for most of this category of American's is getting sick and needing care in your older years. We get the phone call almost every month and it goes something like this. Mike, my uncle (or father, grandfather, friend, boss, cousin, or other family member) just got hurt and went to the hospital and will not be coming home. They're going to be transferred to a nursing home and we don't want to lose all of their money to a home or the state, what can we do?

This is a tough situation and we're now in disaster recovery mode dealing with it at this point and we'll do all we can but it is very important you understand how this game is played. People often think that assets are safe because many people's names are on the accounts of the person in need of care.

Here is a hypothetical situation where mom and dad are in their 80's and their only son Mason is also listed on their bank and investment accounts. If dad is sick and now in need of care if his accounts have his name, the mom's name and son Mason's name on the accounts those accounts still need to be used for care before the family will get any help from the Medicaid system. The rules of spend down vary by state and marital status but the universal truth is that if the person who needs care is listed on the account as an owner within the last 5 years that account, in total, not a fraction of it, will be included in the calculations. Even if the parents owned 99% of an account and Mason owned 1%, it'll be treated as if the parents owned 100% of it.

A "clean" way to see this play out in an ideal world would be for mom and dad to gift money to Mason and have it in an account in just his name and for 5 years to pass before mom or dad were sick and needed care. In this scenario the money is "free" of look back and will not be used in any calculations. We must use the same test for homes, cars, businesses and other assets that may come into the equation. This is important and we're happy to have these conversations with you or your loved ones anytime. The sooner the better in general! ☺

Fuel Cells

This is a technology that may be a true game changer in energy for our planet moving forward. Electric hybrids seem to be all the rage these days with respect to automobiles and they're certainly more efficient and green than their petro cousins. Some of the new electric and hybrid vehicles have fuel economy of 50+ mpg equivalent and some use no fuel whatsoever, just plug them in overnight and you're good to go. Fuel cells appear set to come to the mainstream as Toyota has recently launched a test fleet of 700 cars in Japan. This is a monster improvement over the average 18mpg that most of our rides get. Cars of course are much better on average in respect to fuel economy, but the big trucks, SUV's that can carry a soccer team and high horsepower racing cars pull the averages down a lot.

Governments have mandated very stringent fuel economy standards for all auto companies in the coming years so the manufacturers are scrambling to find new technologies to hit these targets. The manufacturers are looking at alternative power plants as well as different ways to build the cars including aluminum and carbon fiber to save on weight. I suspect some combination of both will be the ultimate game changer when the rules long term dates finally come to the calendar.

Each manufacturer is under a different amount of pressure based on how many vehicles they sell in what categories because the rules are fleet averages. Companies with large fleets and many small cars are less under the gun over those with smaller fleets and more trucks or performance cars. The German luxury manufacturers are under the most heat as their fleets are mostly performance cars and high powered luxury cars. You'll see new segments of cars created in the near future to try and meet these rules and I suspect they'll be led by the companies under the most heat to meet the new regulations.

Fuel cells bring a new technology to the car companies and in addition to mechanical and electrical engineers, the firms will now need to bring in chemical engineers to find ways to make the fuel cell power plant maximized for the automobile. This isn't a new technology as they're already very popular for stationary installations across the globe. We happen to have a large fuel cell manufacturer right here in CT and they're a sizable player on the global stage. Some large multination corporations have fuel cell divisions and the concern for many has been two fold. First how to come up with a network of filling stations as we have gas stations today. Secondly how to make the fuel, pure hydrogen, less explosive for use in cars. The first obstacle will be a large one to pass but if this technology is to be they'll find a way to slowly retrofit gas stations. There is already a stretch of Autobahn that has fuel cell stations. The second obstacle is less of an issue as we're already driving around with 20 gallons of gasoline under our trunks in most cars and we all know that is also quite explosive. It'll be a very interesting story to see play out and it's a theme we love from an investment perspective as well.

Inspirational Quotes

- Do not wait until the iron is hot to strike, begin striking now to make the iron hot! W.B Yates
- Can you imagine what I would do if I did all that I can? Sun Tsu
- The purpose of life is a life of purpose, Robert Zan
- It's only a thought and a thought can be changed, Louise Hay
- Imagination rules the world Napoleon Bonaparte
- Individually we are a drop, collective we're the ocean, Ryunosuke Sosto
- In the realm of ideas everything depends on enthusiasm... in the real world all rests on perseverance, Johann Wolfgang von Goethe
- Instinct is untaught ability, Alexander Bain
- Anger is seldom without reason, but often without a good one, Ben Franklin
- Real difficulties can be overcome; it is only the imaginary ones that are unconquerable." - Theodore N. Vail



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

Kids Korner

Who does it help if we help our kids too much? We all love our children and would do anything for them and hope their lives will be better than ours but could helping them be hurting them? I remember many times as a youth things going badly for me based on where I was, whom I was with and what we were doing. Most of these incidents were just kids being stupid kids and nothing too bad. From those experiences I've learned a great deal and luckily I was mostly a bystander in the antics. Today our kids are so smothered they often don't get the chance to learn, to screw up small things and to experience how tough life could be. I recently had a conversation with an 8th grade friend of my daughter who lives on a wealthy dead end road in Burlington and she truly believe it's too dangerous to walk down the street to the bus stop. Have we gone too far in "protecting" our kids? I fear they're living in a bubble if we scare them into everything is bad and scary.

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