

How to S t r e t c h an IRA

When new babies come into this world they're cute, cuddly and they smell great (most of the time). People talk about how a baby may have daddy's face or mommy's eyes or a feature from grandma. That is indeed wonderful and a true gift from above. In respect to multigenerational finances I often help people stretch their IRA's across multiple generations. Here is an example of how we do it and what it means to the family – multigenerationally. This only applies to IRA's, not 401(k)'s or other forms of retirement plans so its very important to make sure that if you leave an employer or retire you get all of your retirement assets consolidated into an IRA you own and control and can take advantage of the s t r e t c h. Since retirement plans are tax deductible and tax deferred good old Uncle Sam can't wait for you take the money out of your retirement plans because it's taxable income to you and tax to him. People often don't pay much attention to naming beneficiaries on accounts – retirement or otherwise – any

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True Accounting, Finally!

2006 is the first year public companies in America are required to expense stock options as a true and legitimate business expense. Think about this, up to now when corporations gave their executives and high level managers stock options, they didn't have to include the cost of buying those options as a business expense. Were they paying for them? Of course, they were paying millions, perhaps hundreds of millions and sometimes billions for this "perk" but not accounting for the cost. It's a true of a cost as is employee salary, health insurance, rent, utilities or any other expense a company pays for. The current Sikorsky strike is very much about stock options and executive pay. The striking workers are upset that Sikorsky wants them to pay more for health care and accept what all other branches of United Technologies have accepted by union members. Remember that when the press reports that a particular CEO made \$50,000,000 (that's 50 million dollars) or some other outrageous amount of money this year that compensation package is often a salary of anywhere from \$500,000 to a few million dollars each year and the rest is stock options or stock based incentive pay. This compensation also often includes severance packages you would not believe – sometimes tens of millions to leave. In financial circles we often refer to stock option as pennies from heaven. Sikorsky is a United Technologies subsidiary, as is Carrier, Hamilton

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financial account can have a beneficiary and I suggest you take advantage of it. Mason is a 70 year old man with \$250,000 in his IRA. He doesn't need the money to live but must begin taking RMD's (required minimum distributions) once he reaches 70 ½. He names his wife Natalie as the primary beneficiary (a critical step, without this, the stretch won't work) (if you name your spouse as beneficiary and (s)he is more than 10 years younger than you it can substantially reduce the RMD you're required to take) and subsequently passes away. Now Natalie can roll the entire IRA into her IRA, tax free. She needs to now take minimum distributions and she is now 76 years old. Her RMD's are based on a 22 year life expectancy. She names her daughter Jennifer as her beneficiary. Again the naming of the beneficiary is critical to this process unfolding correctly. Many years later Natalie dies and Jennifer is now the beneficiary of her mom's IRA. Instead of taking a lump sum and paying income taxes on the whole account, Jennifer is going to roll the account into what is known as a BDA-IRA (beneficiary designation account Individual Retirement Account) and continue the tax deferred growth. Jennifer is required to take minimum distributions over her life expectancy which at the time is 31.4 years. She names her son Max as the beneficiary of her IRA so the process can continue when she passes away – Max can take his moms remaining RMD's. When the RMD's are taken, they are taxable income to the recipient but the amount left in the IRA account continues to grow tax deferred – earning interest for you and your family on money you would have otherwise paid in income taxes. This illustration shows one IRA stretched over three generations and earning the family \$1,225,765 in income from a \$250,000 account balance – with a modest 6% growth of the money. The total income tax savings here is over \$270,000 assuming a 28% income tax rate. If anyone in the family were to take a lump sum distribution it would increase the tax bracket to either 33% or 35%, causing more taxes to

be due. Thinking in through does wonders for helping avoid unnecessary expenses and taxes. Who is the beneficiary of your IRA? Do you have an old employer sponsored retirement plan that isn't yet in your IRA? Get it to the IRA – now. ☺ If you or anyone you love needs help with this, as always, call the office anytime. ☺

Useful Legislation

As everyone knows, I'm not a huge fan of our legal system – thousands of laws attempting to enforce 10 commandments. Of course each society must have rules to live by but there is some good news on the legal horizon. There is a pending bill that will treat lawmakers, their aides and political intelligence firms as corporate insiders. Corporate insiders are those deemed to have "inside information" – now they'll all be on the same page as corporate executives, us in the financial industry and other professionals or people privy to non-public information if this bill is passed. It blows my mind to think that even now, if a congressman knows of something going on at Capital Hill, (s)he can profit from that right now – but you and I cannot. ☹ The reality is nobody should profit from such information – without exception. Most people thought that with the craziness that's gone on in the past 5 years with corporate corruption, the holes would be plugged. Not quite yet, but they're working on it. More good news on the legislation front is a potential Youth Savings Account (YSA) where children will be allowed to put money in a tax deferred account without earned income (a Roth IRA is tax deferred, but the kid needs earned income to fund it – most kids have none) that will automatically turn into a Roth IRA when the minor turns 18 years old. Think about this one – save \$500.00 per year for your newborn and at age 65 you'll have \$2,691,538.99 at 10%. If you started @ 18 you'd have \$1,252,688.59. I hope this new YSA becomes real – quickly. ☺ ☺ ☺

Noteworthy News! ! !

Our condolences to the Hawley/Viltrakis families on the passing of Terry Hawley, a wonderful soul, father and man. ☹ ☹ ☹

Google's Index Inclusion

On March 31st Google officially becomes a member of the S&P 500. The S&P 500 is an index created by McGraw-Hill subsidiary Standard & Poors. It is a market capitalization weighted index, meaning bigger companies have a larger weight on the index than smaller ones. It's meant to reflect the broad spectrum of profitable, highly traded liquid securities in America today. When a stock is added to the index, all of the index funds, ETF's Spiders, Vipers, etc. that track that index must buy into that companies stock – regardless of price or value. The index managers will need to buy 7.3 Billion worth of Google stock, just because it is now part of the index. Google, in a smart move, decided to issue new shares in a secondary offering to satisfy this new stock demand, and with it's price at a fourfold level from where it started a few years ago – around \$400.00 per share, they'll raise 2 Billion dollars in a day. These new shares will dilute the value of current Google owners because there are now more shares out there and your percentage ownership falls. ☹ Now is what's good for Google good for shareholders? The concept that when a company is included in an index, it's demand rises and price rises accordingly. On March 28th, Google was up 5.7% just on this news. Is Google worth 5.7% more because of it's inclusion in an index? No, never, not a chance. Google replaces Burlington Resources, an oil company who is going to be acquired by ConocoPhillips. Google will become the highest per share priced stock in the S&P 500 index, surpassing Goldman Sachs – who will manage Google's share sale. There is about 4 trillion dollars invested in funds that track the S&P 500 index. ☺

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Sundstrand, Otis Elevator and Sikorsky. The UTC CEO George David made \$13,356,928 in total compensation in 2004 – including stock options. From previous year's options and unexercised stock options, Mr. David will make \$239,252,200 in total compensation – before 2006 this wasn't counted as a legitimate accounting expense – a joke and an insult to the investing public. As these grants and options were all granted prior to 2006, none of them have counted as an expense against United Technologies income statements. Not only are we talking about real expenses, but we're talking really big expenses. Not that executives and management shouldn't be paid – of course they should but at what point is enough enough? I can understand the position of the striking workers but also realize that the cost of health care is killing America – if companies agree to union demands they'll all end up in a financial mess as General Motors is today – mostly due to deals it made with union decades ago. (The fact that many of their products are behind the times doesn't help either) ☹ If the company pays for it, whatever it is, it MUST be accounted for so when we, the investing public, look at financial data we don't have to worry about games being played with the numbers. UTC's stock option grants for the year are noted in their annual report to be 1.5% - 2% of the company's outstanding shares of common stock. The company has roughly 102,000,000 (one hundred two million shares) shares of stock outstanding. At around \$60.00 per share that is \$6.1 Billion of stock options – annually. The value of UTC as a whole, known as market capitalization is around \$60 Billion. The stock options granted can be almost 10% of the company's net worth – and up to 1/1/2006 the cost of such expenditures weren't accounted for. The numbers we're talking here are huge – and arguably very excessive. Moving forward since companies now have to account for these expenses look forward to more responsible accounting and granting of stock options and stock based incentive programs. ☺

Ask Yourself!

These are words spoken from people that I hear on a regular basis and may be important to you too. Think about these things and if they apply to you or anyone you love feel free to call for advice.

- I'm not confident that the wealth I've accumulated for those I love will be used in a manner I desire.
- I'm not satisfied with the level of communication I have with my current financial advisor.
- I'm paying more than I should be in capital gains and ordinary income taxes.
- I'd like to put more money away before taxes.
- I'm not sure I have the proper plan in place.
- I basically know where everything is, but have no formal plan to execute my wishes.
- If anything happens to me, nobody knows what I own or where it is.
- If something happens to me I'd like my family to be able to sell my business for what its worth.
- My parents are well now, have substantial assets but I can't seem to get them to talk about money and related issues.
- I'd like to retire but don't know when I can or if I have enough.
- I have a lot of assets but no exit strategy.
- I'm struggling to get my values about money to my kids and grandkids.
- I have a substantial estate and don't want to lose 50% or more to taxes and fees when I pass away.



Money Quiz

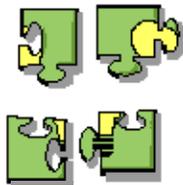
Last months' quiz was won by Ron Stadalnik. He & Pam enjoy dinner on us at Saybrook Fish House. 1982 was the first year of 100 Million share trading on the NYSE. This month's challenge is to tell me what net worth would put your family in the top 25% of U.S. households? The winner is going to dinner on us at any one a few select fine dining establishments. 03:13:06

New Fuel ☺

As we all struggle with the painful price of energy these days lets look at a clean alternative. Brazil expects to be oil free by the end of 2006 – that's right – oil free – they'll need no more of it. They have been developing sugar based ethanol since the 70's and now are running on it almost exclusively. Cars sold there are called flex fuel vehicles as they can run on gasoline and ethanol. In the 70's they passed laws saying all gasoline stations had to have at least 1 ethanol pump. They sell it there for less than cost of a gallon of gas, produce zero emissions and aren't worried about global politics and oil. The US is beginning to use corn based ethanol in small doses. Our research and development is easily a decade behind Brazil but it's a brilliant direction to go. GM has roughly 1,500,000 flex fuel vehicles in the US right now and all the vehicles they export to Brazil are flex fuel. Ford exports to Brazil are also flex fuel. It hasn't come to Connecticut yet as we don't have any flex fuel stations. This is an idea politicians should take up and push hard – something that is useful to everyone with no losers – except oil companies – is your heart bleeding? ☺

Inspirational Quotes

- You don't get to choose how you're going to die, or when. You can only choose how you're going to live, now, Joan Baez
- Everyone has talent. What is rare is the courage to follow that talent to the dark place where it leads, Erica Jong
- One can never consent to creep when one feels the impulse to soar, Helen Keller
- What's terrible is to pretend that the second-rate is first-rate. To pretend that you don't need love when you do; or you like your work when you know quite well you're capable of better, Doris Lessing. ☺



Radio Trivia

- If you retire in 2006, what is the maximum social security monthly retirement check you can receive? \$2053/month
- 1 out of how many households have a net worth of \$1,000,000 or more including real estate? 1 out of 13. ☺
- The average price of a home in California increased how much in the past 10 years? 204%
- The S&P 500 closed at 1307 on 3/17/06 – it's highest close since when? 5/22/01. ☺

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

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. They'll certainly appreciate you thinking about them and having their best interests at heart.

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