

The New Rules of 2009

Each year we get the privilege of learning the new rules and laws that will govern our lives for the next twelve months. As various government agencies do their thing, we must continuously adapt to an ever changing environment. As much as you may not like this, it's healthy for us. Even if I can no longer memorize the data because it's mostly on a sliding schedule, it makes sense to keep the brain working and healthy. Things are never as complicated as they seem and tax and financial rules and laws are no exception. Here is an easy to use reference piece that will give you most of the important numbers and issues for 2009.

The income tax brackets remain the same at 10%, 15%, 25%, 28%, 33% & 35% for the Federal government, and the new income thresholds that trigger them have been adjusted for inflation. The State of Connecticut has left the income tax rate alone too, still 5% with new triggers there too adjusted for inflation.

For your retirement savings, you can now stash more money away towards your future, and now is as good of a time to do it as any with the markets being so low. Here are the new contribution amounts by plan type:

| Plan Name | Max Deposit | Catch Up Deposit |
|-----------|-------------|------------------|
| IRA | \$5,000 | \$1,000 |
| 401(K) | \$16,500 | \$5,500 |
| 403(b) | \$16,500 | \$5,500 |
| 457 | \$16,500 | \$5,500 |
| SARSEP | \$16,500 | \$5,500 |
| SIMPLE | \$11,500 | \$2,500 |

Why these aren't all the same I'll never know! ☺

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The North Dakota Way

What do you think of when you hear North Dakota? Mount Rushmore, no that's in South Dakota. I don't think there is any one thing that North Dakota is known for, not yet. Clearly not a vacation destination nor a very populous state, but the very smart folks in North Dakota are paving the way towards protecting us all in the very near future in a way we can all appreciate deeply. There are only two public (businesses where you and I can buy stock in the business) companies in North Dakota. The population of North Dakota is only around 634,000 people spread across 70,700 square miles. This is quite spacious compared to the 3,500,000 people crammed into Connecticut's 5,500 square miles.

2008 proved to the world not everyone in high places in society is very intelligent, in fact many of them may be just plain old stupid, but very connected or very good at politics to get themselves into the right big time corporate jobs. Just like in the world of medicine we have brilliant doctors, but not all doctors are brilliant – even in medical school someone graduates in the bottom of the class. ☺ Just make sure your doctor is one of the brilliant ones! ☺ The bottom of the class of corporate executives proved in 2008, without a doubt, there needs to be minimum standards of behavior and accountability in the public corporations in America, at least in North Dakota. All of the collapses of big business in 2008 showed that many people got themselves into positions that were too big for what they could handle. We all paid as shareholders with the losses suffered throughout the year.

Today public corporations are run by executive teams that must answer to the board of directors. The board of directors is a group of people that have the ultimate power in a corporation, sometimes board members are also corporate executives. This critical job is a very important one to ensure the corporation is running well, doing the best it can be doing, choosing the proper directions and doing the right thing for the greater good. Many boards of directors are composed of the most talented and savviest business minds in the world. Some boards of directors are just a good old boys club where many of the same folks are present in many boardrooms, not adding

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Your IRA's receive new deductibility limits. If you're covered by a qualified plan at work you can still take a deduction for your IRA if your income is between the following levels:

| Filing status | Income Range |
|-----------------------------|---------------------------|
| Jointly | \$ 89,000-\$109,000 AGI |
| Single or Head of Household | \$ 55,000 - \$ 65,000 AGI |
| Spousal IRA | \$166,000-\$176,000 AGI |

Roth IRAs can be had for joint filers earning less than \$166,000 but not more than \$176,000 AGI, \$105,000 - \$120,000 for single filers and \$0 - \$10,000 for those filing married separately. You can still convert to a Roth IRA with an income of \$105,000 or less married filing jointly.

Self-employed business owners can now deposit a combined total of \$49,000 between salary deferrals and company contributions to a defined contribution plan such as a profit sharing plan, SEP, Keogh, etc.

Defined benefit plans can now use income of \$195,000 to make the calculations on the necessary deposits to create that income stream for the participants.

You are now considered a "highly compensated" employee if you earn above \$110,000 each year.

The Social Security system will continue to take 6.2% (12.4% if self employed) of your pay (earned income) until you earn \$106,800. After that you're free from Social Security taxes for the balance of the year.

You're never free from Medicare. You'll pay 1.45% (2.9% if self-employed) of all of your earned income without limit.

Capital gains rates from the Feds remain quite favorable for now, 0% – 15% depending on your income tax bracket and the State is still at 5%.

| Filing Status | Standard Deduction | Personal Exemption Phase-out Range |
|---------------------------|--------------------|------------------------------------|
| Married filing jointly | \$11,400 | \$250,200-372,700 |
| Single | \$5,700 | \$166,800-289,300 |
| Married filing separately | \$5,700 | \$125,100-186,350 |
| Head of Household | \$8,350 | \$208,500-331,000 |

Kiddie tax exemption is \$1,900

The annual gifting limit to individuals is now \$13,000. Gifts to 529 plans using the 5 year accelerated gift provision is now at \$65,000 per person and \$130,000 per couple.

Lifetime learning credits are available for single filers with income between \$50,000 – 60,000 and married filing jointly with incomes between \$100,000 – 120,000. ☺

Reigning in Risk

After the bloodbath that we will remember 2008 to be, we'd all appreciate the reigning in of risk. Risk is a fixed part of life, everything from driving your car around to playing sports carries risk. Most people accept risk to be a part of life but the last few months have been too much for many people and they've left the investment world. The extremes we saw in investments over the past 120 is not normal, nor will likely repeat itself for decades to come. A lot of the risk seen on Wall Street was due to too much leverage (borrowed money, like a consumer having too much credit card debt) and it killed many people and firms. Hedge funds, investment banks and many others were using leverage at 30 – 40 times the assets they actually own to try to juice up the returns. When investment returns turned to losses, that extra "juice" was enough to cause many implosions across the globe, and people became emotionally terrified and retrenched, selling absolutely everything that can be sold, except US Treasuries.

This craziness has created some wonderful investment opportunities moving forward, but I'm confident none of us would like to live through Sept – Dec 08 again, is that fair? ☺ I didn't have much hair going into September, now I'm really out of luck! ☺ We now have a billionaire committing suicide over financial losses, something we haven't seen for 20+ years.

A key ingredient in the risk game is a security called a credit default swap. This is a credit derivative that allows a purchaser to take a position in the gain or loss of an underlying financial instrument. The mechanics of a credit default swap are the buyer pays a premium to the seller and receives protection from default on a certain financial instrument. The seller gains the premiums forever if the underlying financial instrument remains solid, but must pay up big if the underlying financial instrument performs poorly or goes under. These contracts are similar to insurance, but different in that the buyer of a swap need not own the underlying security, nor does the buyer need to suffer any loss from a default event. You cannot buy insurance without an "insurable interest" to protect insurance companies from fraud. Why you can buy these things is beyond me. Warren Buffet calls these products "weapons of mass financial destruction" and he's right on the money with that assessment. In 2008 we saw many credit default swaps on mortgage bonds go crazy. We saw many financial firms having to "pay up" as the value of mortgage bond portfolios plummeted in late 2008.

This industry has been unregulated up until now, but many proposals are on the table to begin regulating the industry from many government bodies. The National Association of Insurance Commissioners (NAIC) is considering regulating this market as it currently does insurers. The insurance regulations proved bulletproof during the disasters of 2008, so this will be a welcome new addition to our world, removing a huge element of risk from all of our lives. ☺

Noteworthy News! ! !

- Congratulations to Amy McKenna on the purchase of her new home! ☺
- Congratulations to Joe & Joanne Guerin on the purchase of their new home! ☺

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Learning to Shop

With the financial heat on many people today, Americans are finally learning how to shop well. This year the holiday shopping season went okay, but many pundits will lead you to believe it was the worst in history. It wasn't – things were down slightly, but nothing crazy. Overall holiday sales were down less than 5% from last year and the media wants you to believe that the world is coming to an end – what a joke!

The reality of the situation is consumers are finally smartening up, if things are overpriced they're not buying as they shouldn't have been. The small percentage of people who lived above their means are no more – that ability has been wrung out of the system. The very things I've looked at over the past few years and just shook my head thinking "what are they thinking" with the prices people were paying for things has finally hit home hard! It's sad that it takes this much of a scare to put people on a path to financial success. Things are expensive in life and you must be a good shopper to do well, unless you have the resources of Bill Gates or Warren Buffett! ☺

Research this year shows that most consumers were attracted to actually make purchases, not just looking around, if the magic buying words (sale, bargain, closeout, deal, etc) were pushing savings of 50% off plus. This is a good sign that people are now conscious of cost, value and savings. Now we're also seeing savings on the rise and debt being paid down fast.

As scary as the past few months have been, there is a great cleansing happening as a result of the chaos. People are now living at or below their means who were going overboard, they're now saving more and paying down debt. This time around the economic wheel corporations already had very strong balance sheets, now it's the consumers turn to make their balance sheets just as strong and it will happen in the coming years. I'm seeing many things on the cheap – from stuff you can buy all the way to stocks and bonds. Now is the time to buy, but as the saying goes, when it's a good time to buy you probably won't want to – you'll be too scared! ☺ ☺

North Dakota *Continued from page 1*

any real value to the ultimate outcomes of the businesses they're charged with and getting overpaid along the way. This latter group is a network based more on social and political connections than what value they can actually bring to the table for the company and the world at large. This group is what needs to change.

The bottom line is accountability and we need more of it at the top levels of public companies in America today. Over 50% of all public companies are domiciled in Delaware, a state that offers very friendly laws to the corporation, not the shareholders. The states will all likely be competing quite soon for corporate headquarters as it's a wonderful economic boost to the state, all kinds of activity happens as a result of having a public company domiciled in your state.

Some argue it's easier to impeach the president of the United States than it is to get a board member off of the board of directors of a public company. Look at AIG, formerly the world's largest insurer run into the ground, management was changed when the government stepped in with a big loan and the board of directors still exists as it did before the implosion. Why weren't they changed with the CEO? Why aren't people asking these questions? We've all suffered AIG losses – we held it directly as did most mutual funds, it was one of the most widely held securities on the planet and the board of directors is still getting paid! This is a joke!

North Dakota has passed a new law that makes them the most shareholder friendly state in the nation. Many shareholders have filed proposals urging existing public companies to redomicile to North Dakota, including OshKosh (big truck maker, not kids toys or clothes ☺), Hain Celestial Group, Whole Foods & PG&E. It's not likely these proposals will pass, but the mere existence of this new law and the momentum behind it is a good sign.

The new North Dakota law requires for an annual shareholder advisory vote on executive compensation, naming a chairman who isn't an executive, and making it much easier for shareholders to nominate their own candidates for the board of directors. I think it makes sense to take these laws all across the land and apply them to government as well. Who on this planet is happy about how our government is run financially? Are you happy with congress continuing to vote for its own pay package? As embarrassing as it was for the CEO's of the big three to fly to Washington to ask for help, it was equally embarrassing hearing our politicians grill the failed executives. I'd like to see the politicians themselves facing a board of economic advisors to defend their actions and successes over the past few decades. That would be a bigger joke than the big three chiefs flying in private jets to Washington asking for a bailout! ☺



Money Quiz

Nobody could accurately figure out that 1901 banks failed between 1987 -1991. We had a ton of responses but none correct. ☺

This month's challenge is to tell me how many days the stock market moved +/-4% in trading during 2008 and also how many days did it do the same from 1983 – 2007. The winner will have lunch/dinner on us at Chili's. 010509:9☺

Breaking The Habit

I'm not talking about the bad habits that usually come to mind like smoking, drinking or eating too many sweets. This bad habit is something Americans do in excess for no very good reason: consume billions of bottles of water every year when we have perfectly good drinking water.

It's certainly understandable if your water at home or work is somehow contaminated or tastes like acid, but for those with perfectly good water supplies why bother wasting the planets resources on bottled water?

It consumes 1.5 million barrels of oil each and every year just to make the bottles that American's consume in drinking bottled water. That doesn't pump the water and bottle it or bring it to the store where you buy it, it just makes the bottles. Now add in all of the other logistical components of the process and we're now at 5.0 million barrels of oil annually. We all use energy and we're not going to stop doing it tomorrow but the bottled water thing is especially painful because 86% of the bottles end up in a landfill even though they're perfectly recyclable. Do you see a 5 cent recycling fee on bottles coming soon? It could be if we don't change our habits and fast. ☺

This process is producing unnecessary garbage and wasting energy, something we should all become more conscious of as we move into our future. There is a floating pool of plastic in our oceans larger than most states, also mostly from bottles of water and other various plastic containers. There is no reason we cannot use a water bottle and refill it with well water or filtered water and not waste so much. The bottles of water, once they're in a landfill, take over 1000 years to biodegrade. At that rate, our babies, grandbabies and the next 15 generations of our grand grand babies will be living in a world of evil plastic toxicity as they finally turn to compost.

Trading Galore

You can trade anything today, cars, cards, stamps, stocks, etc. If the sports world when your team isn't playing well it is sometimes necessary to make a trade – get a new player, a new coach, a new owner or perhaps all of the above. This trading thing not only happens in the sports world, it happens in the financial world as well. We have indexes today that try to track various investments and they're all made of up of a list of securities. Historically these indexes were stable and changed very little.

That's not the case anymore. The once stable indexes who rarely changed have become quite active in change. There are a number of reasons for this change and let's look at the tax angle of this new behavior. Historically any company that was based here in America and fit the requirement for an index was on the list. Today many companies are seeking shelter from American's corporate tax system by incorporating in foreign lands. Bermuda has been a hot spot for a long time. Now companies are switching to Europe to try and save on corporate taxes.

Whenever a company changes it's place of incorporation it also changes it's eligibility to be in an index. Covidian recently said it's going to change it's place of domicile to Europe, a trend that is getting a lot of traction lately. The moves are also partly inspired by a fear that the newly elected President Obama will raise tax rates on corporation and in an effort to dodge the bullet, the reorganizations are happening with due haste.

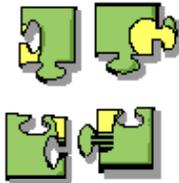
This change forces indexes to buy and sell securities, often at the worst times – selling them low and buying them high to meet the indexes mandate. Not having the ability to pay attention to the economics of the situation and having a lot of assets, the indexes are pushing prices above and below where they should be because of forced buying and selling.

Switzerland is also a new home of refuge for firms looking to hide from the taxman. There is going to be a lot of talk about international tax law in the coming years as companies move all around trying to save a few dollars on taxes. Unfortunately, we as individuals cannot play such games. It may not make sense to, because for countries such as Bermuda who don't have tax treaties with the US may not prove successful in such maneuvering. Switzerland is also a new destination for many companies and they do have a tax treaty with us, so there may some benefits to that.

Who wants to travel to Switzerland to attend the annual shareholders meeting? ☺ ☺ ☺

Inspirational Quotes

- *Genius is eternal patience*, Michelangelo
- *A good head and a good heart are always a formidable combination*, Nelson Mandela
- *Ideas shape the course of history*, John Maynard Keynes
- *Take away love and our earth is a tomb*, Robert Browning
- *Nothing happens until I make it happen*, Scott Wilson
- *One's feelings waste themselves in words; they ought all to be distilled into actions which bring results*, Florence Nightingale



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

Kids Korner

The Easter Egg hunt is coming quickly and we're hoping you and your loved ones can come. Put it on your calendar today – Saturday March 28th at 2:00 at the Chadwick's house – 615 Plymouth Road in Harwinton. Rain date is Saturday April 4th same time same channel. If it snow's it's still on, only heavy rain stops the hunt.

We'll have a similar format as last year – the eggs will have "Bunny Money" in them and your rugrats will hunt for it and the garage again will be the Bunny Store for the rugrats to make purchases in with their newfound loot. Not only will it be a ton of fun, but they'll learn the buying and budgeting process! Dress the kids so they can get filthy and bring your smarts to see if you can solve the riddle eggs! ☺ ☺ ☺ ☺

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