

# Money Matters

Volume 2, Issue 1

Advising, Educating and Inspiring you to a better life

January 2004

## Happy New Year

It's the time of resolutions and the top three resolutions are typically losing weight, quitting smoking and getting financial affairs in order. All are important and good luck on accomplishing your individual resolutions. Here are some ideas on things you may wish to consider in getting your financial affairs in order:

- Take an honest account of your spending habits. How much money flows through your hands each month? How much are you wasting? Write it down. If you would like our worksheet or spreadsheet on this, contact us and we'll get them to you. If you own a business do this personally and for each business entity.
- Let compound interest work for you and not against you by paying off high rate, non deductible interest. Most debt is bad unless it is low rate and tax deductible. In today's environment, the best debt is mortgages and student loans.

Create a savings and investment plan, and stick to it. Do it electronically. Save more than you think you need to. The average American

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## How to buy cars!

The way you purchase cars and homes largely dictates how successful or unsuccessful you'll be in your financial world. I see people regularly spending \$30,000, \$40,000 or \$50,000 on cars. I see some people spend over \$100,000 on their cars. Cars are very expensive today. 74% of all cars sold today are leases. A lease allows people to buy a car they cannot afford by locking them into payments for their entire life. The overall historical rate of inflation has been 3.1% over the past 84 years. The historical rate of inflation for autos has been 9%. Cars are getting more expensive daily. Manufacturers have slick ad campaigns that try to get us to buy new cars, and buy them often. They offer us free financing, cash back, and big money on our useless cars as trades. (When anything is sold for 0% financing, it means that this is so grossly overpriced to begin with financing charges are built in)

The best way to buy cars is to buy reliable cars used. Buy the car when the maximum amount of depreciation has already occurred and the depreciation curve has leveled off. Keep the car for as long as it will run mechanically. People make emotional decisions to replace their cars when they require a few repairs. There is no need to have a new car every few years. I drive a 1995 model year car and love it. Cars are depreciating assets unless you buy special collectors cars or classic cars. At the end of the cars life, it is usually worth zero. Try to avoid the emotional mistake of buying cars new and buying them every few years. As with anything else, the novelty of a new "toy" wears off when you've had it for a few months. Even when the novelty is gone, you are still paying for it for years to come.

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## **Resolutions (from page 1)**

- saves 4% of income. Try and increase your savings whenever possible. There is never a good time so just do it.
- Spend less than you want and save more than you need to.
- Remember if it looks too good to be true, it probably is. Consult with us before making any large financial decisions which may turn out to be mistakes. We'll keep you from making any big mistakes and protect your interests.
- Diversify both your investments and your taxes to reduce your financial risk.
- Don't get caught up in the daily hype surrounding finance. Create a plan and stick to it.
- Money is just a tool, don't let it rule you.
- Invest not only in financial vehicles, but in yourself, your family, your community and your spirituality.



## **America's Insatiable Appetite for Credit**

The average American has a consumer debt balance of \$18,700. This included credit cards and non mortgage debt. Credit card debt for the average American with a credit card is now at \$8000.00. Forty percent of people pay their credit card balances in full each month – that means that the 60% of the population who do not pay off their balance each month have an average credit card balance of \$12,000.00. Today we have more income because we are mostly a two income household. Years ago, there was only one working parent and people did not have the credit issues they have today. What are we buying? Why are we digging this hole for ourselves? If you or anyone you know has a problem with this call the office and we'll help them change their behavior and find a way out.

## **Market Timing, Fact or Fallacy**

There are many purveyors of “systems” out there. Systems to beat the stock market, systems to make you rich overnight, systems to instant wealth. Many of the systems involve “timing” the stock market. Last fall, Barron's magazine produced a hypothetical investment scenario showing if you invested \$1000.00 in the Standard & Poor's 500 in February, 1966 and held it until October 2001 you would have \$11,710.00. An impressive return. The same magazine reported that if an investor missed the five best days every calendar year, that \$1000.00 investment would have shrunk to \$150.00. Not so good. The bottom line is it is impossible to “time” the market and we all need to be invested. There are constant reports of the trillions of dollars on the “sidelines” waiting for the market to get better. Already today people feel good about the market since 2003 was a strong year. When the market feels bad, it's actually the safest time to invest. For all the people wanting to do something now, I certainly urge them to do it, but they would have been much happier had they done it a year ago.



## **Financial Aid Time**

If you've got a child planning on going to college in the fall now is the time to begin the financial aid application process. Aid is abundant in the beginning of the year and as time unfolds, there is less money and tighter standards to get that money. The sooner you apply, the greater your chances are for a benevolent package.

Apply for aid regardless of your financial situation. Even those earning over \$100,000 annually can qualify for aid. There are loans available regardless of need that you may want to take advantage of to leverage your assets and income tax situation.



## NOTEWORTHY NEWS !!!



*continued from page 1*

Congratulations to Steve Jacovich for winning last months quiz. He won live on the air and he won our MW Financial prize package.

Congratulations to everyone participating in the radio show. We've had a winner every week and sometimes two winners in one show. The radio show continues to be a great place to learn finance and have fun.

Our condolences to the family and friends of Marc Damelio on his recent passing. It's a terrible holiday when a loved one passes, but especially painful when it happens on Christmas Eve.

If anything special occurs in your life, good or bad, be sure to notify the office and you'll be included in the noteworthy news section of the newsletter. Should the news require advice, you'll certainly get it.



## The Cost of Investing

So many people do not understand the true cost of investing. Many people assume it is free – come on, nothing is free and often when it appears to be free you are getting overcharged. I've built spreadsheets to help you understand the costs of investing, and most folks have never had this conversation in detail until meeting me. A new law is on the desk of our legislators. It is a law that would require investment companies to send you a statement each and every year saying how much it cost you to own your investments, in dollars. Today each of you get information from your investment companies (too much of course, but that's the law – the securities industry has a secret agenda to destroy what is left of the rainforests) that explains the costs in a percentage. Often that does not explain the underlying costs of the internal investments. You may see the fee of the advisor, but what is the fee of that mutual fund, variable annuity or sub-account? So many things are disguised that it would be a blessing to see in real dollars and cents what things cost? Often times 2% and \$25,000 have a much different impact. If you or anyone you care for doesn't truly understand the costs associated with their investments, call the office and we'll explain things to you in plain English so you can make decisions that are right for you, not for the financial institutions.

When you buy a car you will always finance, always.

## Car Buying 101

You'll either pay a finance charge to the finance company, (0% interest loans have the finance costs built into the price) or you'll lose interest you could have earned had you not paid cash for the car. The best method for buying cars is to become your own banker. Pay interest, but pay it to yourself.

If you fall into the trap of always buying new cars or leasing cars your whole life, it's incredibly difficult to get ahead. The same thing is true for your housing. Try not to bury yourself in a home. Financial institutions today will allow you to buy much more home than you should have to be fiscally responsible. Never borrow what the banks will allow you to, try to borrow ½ of what you are qualified to buy. This will allow you to continue to save while being a happy homeowner.



## How would you like to buy dollar bills for 40 Cents?

That is exactly what value investors do. This is something you understand or you don't. I've had this conversation with some folks every year for almost 10 years now, some get it and some don't. It's like buying things when they are on sale. You regularly pay normal price, but every once in a while there is a chance to buy at a tremendous discount. When that chance comes up, take full advantage of it and buy as much as you can, within a financial plan. That chance is with us today and you can take advantage of it, just call the office and we'll get you on the right track. If we've been helping you invest you have reaped the rewards of value investing and it has protected you when things got ugly in 2000-2002. It has been particularly good from 10/10/02 to today, with many things being up over 50% in those 15 months. This is how wealth is created. You need to be able to zig when everyone is zagging. It's emotionally difficult but intellectually simple. Remember, if the road everyone was on worked, they'd all be rich, but they're not so



## Money Quiz

Last months answer is Al Capone, the first person to earn \$100,000,000 (that's one hundred million dollars) in one year.

Which investment is worth more over 30 years, and how much more -- A 5% investment that is tax free or a 10% taxable investment in a taxable environment? You are in the 30% combined marginal tax bracket and the cost of money is 6%. We're going to assume taxes never go up (yeah, right) and the returns are linear.

The first person to call the office with the correct answer will win a free massage or a free dinner for you and a guest.



## Human Life Value

Human life value is the present value of an individual's economic contribution to his or her family – throughout a lifetime. What the person earns today plus all the years of future earnings that could have been earned if that person were still with us. The victims of the world trade center are all being compensated based on a method for calculating human life value. If you were killed by a drunk driver in an auto accident, how much would you expect your heirs to receive in compensation? Human Life Value is what the attorneys would go after. How much life insurance do you have? Do you have your human life values worth of life insurance? If not, why not?



## 2004 Pension Information

The new-year has come and there are new limits for contributions to retirement plans. This information used to be simple and we could all commit it to memory. I remember for years the limit on a 401(k) plan was \$9240. Today's tax laws now provide annual increases, sunsets, exemptions and of course, acronyms. I think the IRS has an internal, unpublished policy that mandates they use acronyms in everything they do. Now there are so many plans and so many sliding schedules it requires a spreadsheet. Here is the information for tax year 2004.

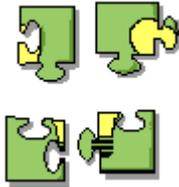
Defined Benefit Maximum Annual Benefit	\$165,000
Defined Contribution Maximum Contribution (This is 401(k) type plans)	\$ 41,000
Salary Deferral Maximums per plan	
401(k) or 403(b) or single K	\$13,000
Over 50 Catch Up 401(k) or 403(b)	\$ 3,000
SIMPLE	\$ 9,000
Catch up For SIMPLE	\$ 1,500
IRA & Roth IRA	\$ 3,000
Catch up for IRA	\$ 500
Maximum Calculable Salary For Pension Plan Contributions	\$205,000
Highly Compensated Salary Limit	\$ 90,000
Key Employee Salary	\$130,000
Salary for SEP eligibility	\$ 450
Taxable Social Security Wage Base	\$ 87,900

As always, be sure to know your exit strategy prior to heavily investing in qualified retirement plans. Who controls these plans? Uncle Sam!

## Existing bubbles!

## Inspirational Quotes

- The golden rule: Those who have the gold make the rules, author unknown
- God so loved the world that he did not send a committee, The bible
- The high cost of living high is what keeps most people down, MC
- After all it is those who have a deep and real inner life who are best able to deal with the irritating details of outer life, Evelyn Underhill



2003 was a great year for investing. Stockholders finally had some good news after the carnage of 2000, 2001 & 2002. I see many people getting excited about the new wealth being created almost every day by the blistering rise of the stock market. Don't expect every year to be like this and don't forget about diversification. People are rushing to put money in the stock market after a good year. I certainly encourage saving but be sure you are following an asset allocation plan and rebalancing at least annually. Real estate continues to worry me. Real estate is as expensive as it was in the late eighties. If you are looking for opportunity, one is staring you right in the face and it is your home. Be careful about how much you sink into your home. Residential real estate is a lifestyle decision, not an investment. Today land and building homes is a booming but slowing business. I've seen homes double in value in the last few years. I've seen building lots double in value in months. This cannot last so be careful. If you are considering selling now is the time to do it as I believe things are slowing down. Don't get caught in the trap of selling now for high profits only to buy again equally high.

If you would like anyone you care about to begin receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll also get a note with their first issue telling them you suggested they receive the newsletter. They certainly will benefit from this information and I'm sure they'll appreciate you thinking about them and having their best interests at heart.

Name \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Name \_\_\_\_\_

Address \_\_\_\_\_

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