

Debt Swaps

In these unprecedented and crazy times we have all kinds of insane things happening. The old theory was that if you were a business owner and were unfortunate in your decision making or a poor steward of your corporate finances and you had to go down the road of bankruptcy, you just lost the business and it was sold off to competitors for pennies on the dollar or you just closed your doors and they have a subsequent auction. At that point the conversation was over. Today this is far from the case.

Today we have government bailouts and debt swaps when a company is getting into hot water and they can no longer function as they once did. I disagree with bailouts, but as the politicians try to placate a fearful population and buy votes this is what it has come down to. We saw this happen with General Motors and Chrysler last year with the deepening of the recession. The globe had a financial panic and people stopped spending, especially on big ticket items like cars. The foolish management at two of the big three auto makers had too little liquid cash, too much debt, made undeliverable corporate promises and they were forced to ask for a government bailout to stay afloat. There isn't anyone who would want to own either of them so a buyout was out of the question. This was a last ditch resort to avoid a meltdown of what people thought would be epic proportions at the time. I thought they should go away and we should let competition prevail. They got the bailout and later went through a pre determined bankruptcy where the creditors (bondholders, Uncle Sam & Unions (who really aren't creditors), were politically given preferential treatment here, but not in other similar and smaller cases such as the one I'll outline momentarily) were given

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Roth Explosion

2010 presents a very unique opportunity to take advantage of Roth IRA's for everyone, regardless of income or tax bracket. The old laws allowed people with incomes of \$100,000 or less to convert regular IRA's to Roth IRA's, leaving the high income earners left with no choice but to pay the taxes upon withdrawal from the traditional IRA accounts at a future date. At a future date and at a future tax rate is how regular IRA's will be taxed. None of us know what the tax rates will be in the future but we all know taxes will be going up here at some point. We don't know exactly what taxes or exactly what income will be taxed or for how long or at what rates but at the rate they're throwing ideas around, nothing is out of the question. The inability of government to make tough decisions is also an issue, they're building debt at alarming rates and the only way to pay it down is to reduce spending and increase taxes, both of which are going to have to happen to find a balance at some point in the future.

The Roth IRA allows for investors to take tax free withdrawals of the money after age 59.5 or after 5 years of having the money in the account. Deposits to Roth IRA's are not tax deductible but the money inside grows tax deferred. Traditional IRA's are taxable when the money comes out and contributions are deductible when they are made, in general. Traditional IRA's share the tax deferred growth of the money within. The tax rate on the traditional IRA withdrawal depends on the investors tax bracket, which can be anywhere from 8-35% on Federal level.

If an investor converts his/her traditional IRA to a Roth this year, in 2010, the IRS has benevolently given that investor 2 years to pay the income tax due. This is the big downfall to Roth IRA conversion, tax is due upon conversion and tax is a big number. You can spread the tax payment across 2 years, 2011 & 2012 if you convert this year. Just to quantify the numbers, let's say you wanted to convert \$500,000 from an IRA to a Roth IRA. Regardless of your income, this would put you in the top tax bracket and the Federal income tax due would be \$175,000 on the conversion. Add state taxes and this obviously is a very expensive proposition today, but one which may offer tax savings down the line. Another perk to the Roth IRA is that they don't require

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essentially complete ownership in the company. Shareholders were wiped out, bondholders were wiped out, and a new playbook was written on how business may go down from now on.

Just a few weeks ago we saw this happen again with YRC Worldwide. YRC Worldwide is a monster global trucking company that is the result of many mergers and acquisitions over the years. YRC has been carrying a lot of debt for a long time and the recession, skyrocketing fuel prices and heavy competition has pushed them to the brink of existence.

Many believed the company wouldn't survive last year and many competitors began slashing prices to get new delivery accounts, assuming YRC would implode and they would have new business with one less competitor in the world. The premise of the debt swap is to eliminate the debt and in exchange give the debt holders stock in the company as a trade off. The company will no longer be saddled with onerous debt payments and in theory, can return to profitability and then make money for the shareholders. The hope is that debt holders will make at least as much as they should have with their bonds, and perhaps more if the company heals and eventually excels. At this point debt holders are open to virtually any option because they know if the company goes the bankruptcy route there is little to be had at the subsequent auction. The debt swap normally applies only to creditors, typically bondholders but the GM deal was a political mess where unions were able to magically become a creditor via vote buying. In this case the unions helped motivate debt holders to not push too hard on the cds (credit default swap) or else get exposed politically. The unions or employees were given no such special creditor treatment in this deal as creditors and union employees gave up substantial financial resources here.

Now that it's all done a lot of debt is gone and the once debt holders are now the major owners of YRC Worldwide. The old shareholders are basically wiped out, as they now only have ownership in 95% of company's outstanding stock. When news this was the likely outcome for YRC, the share price plummeted from \$4.00 to \$1.00 and now hovers around 60-80 cents. The reduction in price of 75% or so is much less than what should have happened because 95% of the company is now controlled by the bond holders. The price should have shrunk by 95%, but it didn't because there is some hope that the company will turn it around. If the company does turn it around, any gains in true earnings will go 95% to the once bondholders and 5% to the "other" shareholders. This is painful to say the least and unlike a crazy bailout scenario, the 95% holders cannot be bought out, they're here to stay. A few years ago, YRC earned 800 million a year on average. Now they're losing heavily. Even if earnings get back to that pre recession level and the stock is priced at fair value accordingly, shareholders can only expect to have a value of slightly better than where the shares trade today. This, as with most other swap situations, likely isn't worth getting involved with. ☺

No More Nudity

I'm not talking about naked beaches here, they'll continue as they always have and you'll never see me anywhere near one of them! ☺ I'm talking about high tech investment traders who have arguably been getting away with murder. The SEC is proposing a ban that would halt an arrangement known as "naked access." This practice involves allowing traders to buy and sell securities in an instant, in high volume without the exchanges or regulators knowing exactly who is on the other end of the trade. For many years this practice was viewed as a great, healthy thing as it increased market liquidity in a big way. Now we're entering into a new regulatory era where risk will not be tolerated and this is seen as a way to shut the door on possible abuses. I agree! It's a rare day when I agree with new government minutia but the reality is that the regulators need to know who is on each side of every trade, regardless of just how big or fast they are. If someone is doing something illegal there needs to be a path to find the culprits and put an end to the activity.

Logistically the way naked access works is for a Broker/Dealer to allow someone to "borrow" their trading codes and allow whomever they lend their codes to, to trade with them. Right now there isn't exactly a fair amount of accountability with the system the way it is today. This is absolute insanity from my perspective as in my world the responsibility remains with me anytime my codes are used. Of course we'd never lend anyone on earth our codes but in this world sometimes the big boys have a different set of rules than the rest of us who do most of the living and breathing and paying and dying in this world.

The new rules would require that if a Broker/Dealer allows a naked access trader to use his/her codes they must be responsible for the outcomes. Why that isn't in place today is absolutely beyond me! This of course would drastically reduce the amount of naked trading that goes on and big banks are beginning to line up and lobby against this proposed rule change as it'll cut into their profits. My heart bleeds for them, there is absolutely no reason they should get an exception from the rules.

We see similar exceptions and craziness going on in both ends of our society – the people on the very top of the country and those belonging to powerful employee unions are taking advantage of the rest of the population. There is absolutely no reason bankers should be getting big bonuses this year following the bloodbath of the past few years. There is no reason state/federal/union employees shouldn't be exposed to the same economic realities every other worker in the world is. There is no reason the lawmakers should continue to write themselves pay raises while the nation struggles through recession. I would assume these other naked exposures will get dealt with in the coming years. ☺

- Congratulations to the LaMonico & LaMonico-Sack families on the adoption of baby Philip! A wonderful new addition to the family! ☺
- Our condolences to the Cheney & Reynolds families on the passing of Brooke's father, Timothy Reynolds, a wonderful father, grandfather, uncle, brother and person!

Earthquake Within

We normally don't put anything about ourselves in the newsletter when things go badly around us as this publication is for you and our problems shouldn't be your concern. We're making an exception this time around as it is something you need to be aware of. A very dear friend of mine passed away on Sunday January 3rd, just a few weeks ago. His name was Bryan Place and he and I were very dear friends going back to the early 1990's. Bryan was a 39 year old husband and father of 4 precious children. He was also a super active and healthy guy who used to run marathons and always kept himself in the best of shape mentally, physically, and spiritually. He was a great guy to say the least. We both went to UCONN, worked together for years before starting our own firms, both built financial advisory practices and both were males who couldn't help ourselves but to compete on almost every level.

Bryan and I shared many things about our businesses with one another including what worked for us, what didn't what technology we used, etc.

Bryan and I had an agreement that I would buy his practice and take care of his family if anything happened to him and vice versa. We made this agreement in our early 30's assuming we'd never really need it since we were both healthy young guys who of course felt invincible as all young people do. We assumed we would retire some day later in life and look back on these deals and laugh. We figured we'd be helping our children takeover the businesses way down the road and they'd need such agreements in place. We never in a million years thought it would come to fruition and we'd be acting on them.

It's a painfully sad reality that alters life in a millisecond. This is as close to home of an example of why the planning we do is so very important even when we don't think it's going to happen to us. We're going to be purchasing Bryan's business as we had planned so please join us in welcoming a plethora of new people to our family of clients. Please keep Bryan's family and staff in your prayers, this time is extremely difficult for everyone in his world and you can never have too many prayers!

minimum distributions at age 70.5. The IRS mandates that all traditional IRA/Pension/403(b)/457 plan holders take required minimum distributions from their plans beginning when an investor reaches age 70.5. For most people, the first RMD (required minimum distribution) amount is roughly 7% of the account balance. If you had an account with \$500,000 in it, the first distribution would be \$35,000 or so and that would be added to your income for tax purposes that year. The reason for this rule is that the government wants to eventually tax this money, which for decades had been sheltered from any and all taxes. IRA's have tax deductible deposits and tax deferred growth so the only chance for the government to sink their teeth into these accounts is upon withdrawal. Many investors who don't accumulate large net worth's or pensions end up taking money out of their IRA's at very low or sometimes non tax rates so this Roth conversion frenzy isn't for everyone.

The Roth IRA works best for those who are in a low tax bracket today and expect they'll be in a higher tax bracket at some point in the future. Even if you're in a high tax bracket today if you believe the government will increase maximum tax brackets, there could be some merit to considering a conversion to a Roth IRA for you too. The throw of the dice is how long will rates stay up and what incomes will the rates hit. There are many moving parts in these conversations so feel free to reach out to us to have a conversation about whether or not this is a good idea for you to consider. The government is looking for good tax receipts with this new law, they're expecting that once they open the door to this millions will bite and they'll get tax revenue now that they ordinarily wouldn't get for many years or decades down the line.

Realize the new law permanently drops the income limit so you can convert anytime after 2010, but if you convert in future years the tax is due up front and cannot be spread across a few years as it can this year. Timing is also an important consideration here as well. It may make more sense to convert in the fourth quarter of the year to delay the timing of the required income payment. Conversely if you have an IRA that is down in value and you expect it to come up, it may be a good time to convert because the taxes you pay are on the amount you convert, not what it may grow to over time.

You generally have three options for paying the income tax and avoiding the penalty and interest scenario with underpaying. You can pay 100% of last year's taxes, or 110% if your income is over \$150,000 for those married filing jointly. Another option is to pay 90% of the income in the current year, which will result in lower payments from your paychecks or estimates for the current year. Lastly, you can pay quarterly and estimate how much you'll owe on the conversion added to your regular income for the year. Remember converting will drive up your Federal as well as State income tax bills so plan appropriately. A great opportunity indeed but one which will require much thought prior to acting on it. ☺



Money Quiz

This month's challenge is to tell me how good or how bad the first decade of the 2000's (1/1/00-12/31/09) was for the DOW investors in aggregate. Last month's quiz wasn't won, it's time to sharpen your pencils, and you're not playing with kids here. ☺ The shortage of doctors by 2020 will be 85,000. The winner will enjoy lunch/dinner on us at Chili's. ☺ 010410:08

Political Pain

I've never seen a time in my life before when the general population was so upset at the elected leaders of our great country. Whatever happened to service to the country being an honor and the chance to make things better for everyone, not just a select few? Our system seems so corrupt today we may be better off starting over. Kick them all out and start with a fresh slate of people who are there to do the right thing. Politics isn't supposed to be a career, just a chance to serve. The only ones getting served today are the politicians and their select few donors or lobbyists who are making big donations to the electoral process.

Clearly we need to change the political process as it is today; things seem to be getting much worse politically, not better. How is it possible that the vote of a key legislator can be "purchased" by allowing the state represented to never have any responsibility for Medicaid in the future if they get his vote? I'm obviously no lawyer but that doesn't seem legal to me. 13 attorneys general seem to agree with me on that front. How can special interests be so conveniently carved out of painful choices that need to be made? Why are some people allowed to be in the political process for 30, 40 years? What good can come of that? We clearly know what bad can come of it so it is time to spend time and really understand candidates prior to voting. What the television commercial or postcard you receive suggests is not a fair representation of who the individual really is. We're all so busy it's hard to find time to put towards such efforts, but we really cannot afford to keep doing what we've always done and expect different results. That would define insanity.

Homeowner Protection

Most of us own homes and even though they're not the big money makers the dim bulbs in Washington want us to think they are, we still enjoy our lives within the four walls and a bath we call home. To keep our homes protected, it's critical we carry the proper insurance policy to guard against disaster. We certainly know there is no shortage of disaster in the world today so it's common sense that this policy needs to be the right one with the right options.

We suggest all people carry homeowner's policies with a high deductible of \$1,000.00 over a low one of \$100.00 or \$250.00. The reason for this is that as you raise your deductible your premiums go way down. Most of us don't use homeowners insurance often, if at all! Have you ever made a claim on your policy? I've made one homeowners claim in my life when a hailstorm ruined my roof. My deductible is higher than many, but the money I've saved over the years and decades of lower annual premiums has made up for my higher deductible tenfold. I'd rather you keep the money than give it to an insurance company.

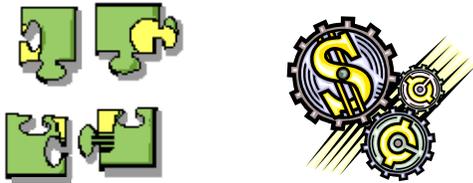
If a massive tragedy struck your home, how well prepared are you for the storm? Most of us are not at all prepared so we suggest you keep a video or picture diary of everything you own. This will take some time to compile so plan on spending a Saturday morning creating an accurate inventory of what you own. Think about this, if your home burnt down last night, could you come up with an accurate inventory of what you owned? I doubt it – think of the stuff we accumulate over time all around the house. The rooms we're always in would be easy pickings, but what about the basement, attic, garage and barns? I'd never be able to do it accurately.

We have a video record of what we own. I recorded all around the property and did an audio on each item as we recorded it. I have a special affinity for high end electronics and all of that is accurately recorded with manufacturer, model number, etc. When a fire strikes and the house burns down, the insurance company asks for receipts. How backwards is that? Your receipts were in the house that just burnt down so how on earth would you compile such a thing? Once you've made this video or computer diary of what you own, now comes where to store it. You cannot put it in the house because if it burns the proof is gone along with everything else. The safest place for such a thing is either in your safety deposit box at the bank or in a fireproof, waterproof safe in your home. The safe must be both fire and waterproof so the contents are protected from both the fire as well as the thousands of gallons of water that are going to be sprayed at the fire. We keep our sentimental things such as pictures, videos, etc. in the safe so if we did have a catastrophe the memories can continue to live along with us. The sentimental items are likely the most valuable things you have anyway, much more than any physical item! ☺

Inspirational Quotes

Kids Korner

- In the absence of clearly defined goals, we become strangely loyal to performing daily trivial minutia until ultimately we become enslaved by it, to it, Robert Heinlein
- Open every door of opportunity, and if it is locked, kick it down, Heather Stewart
- Enjoy where you are, on the way to where you are going, Joyce Meyer
- When it comes to finances minds are like cement, all mixed up and permanently set, unknown
- There are two ways to face the future, apprehension or anticipation, Jim Rohn



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

Tangential thinking is plaguing the kids today. The kids are so inundated today with so many electronic gizmos and everything for the kids is a now issue, can they still think normally? If it's not video games or the internet it's cell phones and texting. I had no idea some kids text 15,000 text messages per month. We had a teenage friend over this past weekend, and that is exactly her number, 15,000 per month. I felt compelled to do some math on this and it boils down to 500 messages a day. To get more granular data that is 31 messages per hour or one every two minutes. This is nuts! I called it crack; this issue is crack for kids. Not physically harmful of course (unless they do it while driving ☹), but certainly capable of changing the way we think and behave. How is this behavior going to help in school or work when you have to be able to concentrate and think for hours and days on end, not seconds or minutes? Think about it and see how your kids behave. ☺ ☺ ☺

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