

## GM's IPO

As of today Nov. 8, the much anticipated initial public offering of the new General Motors will happen on November 17<sup>th</sup> if things go as scheduled. This is a first, a major public company goes belly up, get's a government bailout, stock and bondholders are wiped out, and shares of the company are given to the employee unions and the government. Talk about rewriting the rules of the game, this is a joke. Normally when a bankruptcy happens, shareholders and employees are wiped out and bondholders are protected, that is how the capital structure is written in law. Apparently, the law doesn't matter anymore. This administration has decided unions are the chosen ones, so they get special treatment in this deal, as well as with other bailouts designed to artificially inflate public budgets. Unions are the main reason the company went belly up, they spent too much time writing work rules rather than making great vehicles and this is the result. Poor management at the top also was a big problem; they were unable, afraid or unsuccessful in tackling the unions and their unreasonable demands. Government will now have this battle with unions in the coming years as the unions have a stranglehold on public budgets everywhere. Binding arbitration needs to go away, unions cannot own towns, states or the governments they serve. Unions do not own our schools, municipal buildings or public places. They think and act like they do. This will change, but right now just try to use a school gymnasium without a custodian present, or try to volunteer your time to help the little league. If you're a union employee you will be told you cannot do it because of union regulations! Whoever agreed to these rules must have been drunk.

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## Medicare Roulette

There is a system in place today where people who are collecting social security, retirement or disability, get "free" medical insurance in Medicare Part A (hospital insurance) from Uncle Sam. Another part of the deal with social security is that you must pay for Medicare Part B, which covers doctors' services, outpatient care, physical therapy and some other benefits. Most people then buy a Medicare supplement which covers things Medicare Parts A & B don't cover. There are a lot of levels of these supplements, ranging from bare bones to more comprehensive plans, with prices commensurate with benefits.

Most people pay a monthly premium of \$96.40 per month for the Medicare Part B plan. Be aware that much higher premiums for Medicare Part B will be charged if a person reports income above a certain threshold. Call this a Medicare tax, call it a social security reduction, call it a penalty on success, no matter what you call it, it's not going away. I foresee it actually expanding as a way to phase out social security benefits entirely for those who earn a lot. Depending on the income limits used, and the types of income it applies to, this isn't necessarily a bad thing. Do people worth \$100 million really need to be receiving social security checks of \$1500 every month? Absolutely not, but the average Joe who had a big income year as a onetime deal shouldn't be penalized when making financial transactions. This is the situation we find ourselves in today, the average Joe is getting hammered and like Joe, few people realize how things work. As it stands today, types of income or certain unique events aren't taken into consideration when penalties are imposed. This is very odd, since the IRS tax code typically has exceptions for many situations and that's why the tax code document is 55,000 pages long.

A perfect example would be retirement plan withdrawals. In general, one is not allowed to take money from a retirement plan prior to age 59½, but it's not that simple. It is possible to withdraw before the age of 59½, but you are generally subject to income tax as well as a 10% penalty tax. However, there are a plethora of reasons that will exempt you from having to pay the penalty and still have access to your retirement plan prior to age 59½.



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## GM's IPO

(cont'd. from page 1)

The stock price of GM is set to go public in a range between \$26 - \$29 per share and if fully sold off, will raise billions to help repay the bailout. The money raised will go towards paying off Uncle Sam, he's owed \$49.5 Billion. The U.S. Government currently owns 63% of GM, which is why it's retained the new nickname, Government Motors. If the IPO is fully sold off, the government stake may be paid down to about 35%, depending on over allotments and actual allocations after the deal plays out.

After shedding tens of billions of debt in the bankruptcy, GM is actually making money this year, for the first time since 2004. The company so far this year has earned \$4 billion, but its sales of big ticket items is likely to slow. They've caught up on the production of pickups and luxury cars and demand for both is expected to be softening in the coming months and years. GM's estimates of profit moving forward are lower than what they've shown for the first nine months of the year. This is a risky deal, the IPO will not get them out of government and union control, and they'll need strong gains in the coming years to become a "free" company. I don't agree with how the deal went down, so I will not support funding the union and stealing from the bondholders.

Detroit competitor Ford has earned \$6.4 billion so far this year in the first nine months of operation and they're doing exceptionally well. They do have a mountain of debt as they didn't partake in any bailouts or bankruptcies. They avoided any government intervention by staying liquid and leveraging every asset they owned pre-meltdown. Both companies are making great products today, and their reliability is gaining on that of the foreign competition. The foreign competitors are having problems of their own as they've grown too fast and let their hallmark quality go by the wayside in some instances. Toyota, which used to be the undisputed king of quality, has allowed ego to get in the way of high standards and they now have a lot of product quality issues as they were in a race with GM to become the world's largest automaker. Honda is arguably the best positioned auto maker today, they've kept their lineup tight and quality as good as it gets. They continue to plod on as they always have, without any surprises coming out of the slow and steady company. Europe's automakers have fallen way behind in reliability as of late, and many of their vehicles, although beautiful, luxurious and world class, are no longer recommended because of reliability nightmares. It'll be interesting to see how the auto race plays out, Japan no longer dominates reliability, Korea and the U.S. are once again competitive and Europe is falling behind quickly. ☺

## RMDs Are Back

We all had a year off from thinking about taking the required minimum distributions from our IRAs and other qualified retirement plans last year. These distributions are commonly referred to as RMDs or MRDs, but they both mean the same thing. Acronyms mean required minimum distribution or minimum required distribution, and can be used interchangeably. This year the requirements are back to normal after a one-year reprieve so be sure to have this on your radar screen, it must be done before 12/31/2010. RMDs are not required for Roth IRAs.

The rule says that an individual must take out the required amount before April 1<sup>st</sup> of the year after they turn 70½. I know, typical lawyer complicated rule, but it is what it is. Here is the real deal, if you turned 70½ this year, you can wait until April 1<sup>st</sup> of next year to take this year's distribution, but you'll need to take another one for 2011 as well, during the course of 2011. This means if you wait, you'll need to take two distributions in one year. Alternately, you can take one by 12/31/10 and another by 12/31/11. If you didn't take last year's distribution, you're good to go, but make sure you've taken one this year, or plan to do so prior to year end. We've sent out letters to all of our clients who have qualified plans with us, making sure the requirement is satisfied. Most of our distributions are done. The penalty for not following the rule is you pay a tax of 50% of whatever you should have taken, so don't take this one lightly.

When calculating the distribution, it is necessary to add up all of the IRA accounts you have and then do the math on the total. Many people make the mistake of only counting the balance in one IRA and taking the RMD from it, while ignoring the others. You can take your distribution from any one account, but the amount to be distributed should be based on the combined balance of all of your accounts. Don't combine spousal accounts when making these calculations, only Mr. Smith's accounts count towards his distribution amount and only Mrs. Smith's accounts count towards calculating her distribution amount. The formula for making the calculations remain the same, you can find it online at the [www.irs.gov](http://www.irs.gov) site with their tables or through interactive calculators at [www.fidelity.com](http://www.fidelity.com) or a plethora of other sites. When you make your calculation, use the account balance as of 12/31/2009 for 2010's distribution, not the 2008 values. If you're not sure of the calculation, contact us and we'll make it for you. We've already done this if your assets are here, but if you need help we're happy to do so. Just because we skipped last year, doesn't mean we can skip the year for our life expectancy calculations. Also, if you took a distribution last year by accident, there are no provisions for you to roll them back into your accounts to avoid taxation. For those with inherited accounts using the five year schedule, it's still the same amount but because of the freebie last year it's now a five year schedule stretched over six years. ☺

## Noteworthy News!!!

- Congratulations to Sean & Jennifer Delaney on the birth of baby Aiden, the first for the family! Congratulations also to Walt & Cindy Brutting, who finally have a grandbaby to spoil! ☺
- Congratulations to Joe & Jeanne Zalasko on the purchase of their new home in sunny North Carolina. Further congratulations to Jeanne on her retirement! ☺
- Congratulations to Chuck & Maria Armstrong on the purchase of their new home! ☺
- Please keep in your prayers several members of our family of clients who have received bad news this month with medical diagnoses of cancer and disabilities.

## No More Naked Access

Following the “flash crash” from May 6<sup>th</sup> of this year where the market free fell 1000 points for about a half an hour, the SEC has justly responded. The cause of the flash crash was a series of big trades by a money management firm by the name of Waddell & Reed on their long short fund, trying to simultaneously grow a portfolio and protect it from downside swings. They were using a sophisticated trading system that uses speed of trades to make money, going in and out of positions with high volume and frequency. This practice has allowed a lot of small firms to benefit from this available trading system technology and avoid the supervisory rules. The new SEC rules now prohibit traders from having naked access to a brokers computer codes without requiring the Broker-Dealer to filter their trades through the supervisory systems or going through any pretrade checks. Prior to the new rule there was an explosion in such trading algorithms. Now firms are still allowed to trade, but broker’s supervisory systems need to be in place and fully functioning. Trading firms see this as a bogging down of their activity, but that’s just too bad. Prior to the rule, 30% of naked trading was happening through the unsupervised system that is now a thing of the past.

This new system will have no impact on us or many money management firms that don’t participate in high volume trading. This new rule will provide for a more consistent playing field where volatility will be reduced by taking certain players out of the game. The small shops that had access to the systems will now need to invest heavily in new technology and protocol that complies with the new rules. Bigger firms will likely be unaffected, but will have to ensure they no longer allow naked access and even sponsored trades will have to flow through the proper pretrade checks and supervisory review. ☺

## Medicare Roulette

*(Cont’d. from page 1)*

Here are the applicable exceptions to retirement plan withdrawals:

- A series of equal and substantial periodic payments (we refer to this as a 72t distribution, which can be done at any age)
- Taken after separation from service after age 55 (not IRA’s)
- Taken under a Qualified Domestic Relations Order (QDRO)
- Paid to taxpayer for medical care in excess of 7.5% of AGI
- Paid to taxpayer for death or total disability
- Taken to pay for health insurance premiums while unemployed
- Taken to pay higher education expenses
- Taken to pay for a first home

Note: Each of these exceptions has another list of sub exceptions to each one of them. We don’t have the space here to show them all, but you get the idea.

Circling back to Medicare Part B premiums, there is no list of exceptions to get away from this tax or penalty. Here is the bottom line, if you earn over the prescribed limits, which are \$85,000 for an individual and \$170,000 for a couple in 2010, your costs for Medicare Part B insurance premiums are going up. The normal cost of \$96.40 per month will be increased with an excise tax of \$44.00 - \$243.00 per month per person. The maximum Medicare Part B premium is \$354.00 per month for individuals with income of over \$214,000 and \$708.00 per month for couples with income of over \$428,000. This means as a couple, you could be paying up to \$708.00 per month for Medicare Part B if you had a big income the prior year.

Now the thing to realize is that any income event can trigger this higher tax situation. Many people incorrectly believe only a job or earned income of some type will cause this, but any income event will cause this to happen. We see this happen often with people who sell stocks or real estate and have large capital gains, when they exercise stock options, when they take large withdrawals from their IRAs or retirement plans. There are a lot of ways this can impact you so be aware of this as you go through the year because you won’t see any impact until the following year.

Another often confusing subject is Medicare and Medicaid. These are two very different animals. Medicare is health insurance, Medicaid is when the state pays for your long term care needs after you’re broke. Don’t assume long term care is covered by Medicare, it isn’t. Most of us will need long term care insurance to protect against a long term medical need that is not acute. Nursing homes are a last resort, but many people have help at home, and this isn’t covered by Medicare. Nobody wants to be on Medicaid, so plan ahead. It wasn’t raining when Noah built the arc! ☺



## Money Quiz

This month's challenge is to tell me what percentage of assets the market value of owner-occupied housing represents for the average American. Last month's quiz was won by Mark Danaher. The returns of the S&P 500 from 1960-2009 under a Democratic President and Republican Congress were 21.3% annually, and this is a very promising statistic. The winner will enjoy a meal on us at Ruby Tuesdays. © 110110:09

## Greed from Both Ends

I've spent a lot of time lately illustrating how unions are ruining many aspects of our great country by using politics to dominate budgets of companies and governments alike. We now focus on how the top layers of management add to the same type of greed and stupidity that infuriates the public and causes unions to behave the way they do. Unions figure that if the executives are going to get outrageous pay packages, so are their members. The reality is executives deserve to be paid a lot more than the average worker, but abuses are clear. There are typically a handful of executives in a company versus hundreds to hundreds of thousands of rank and file workers. Executives are typically performance based, so if they don't perform they don't make most of their money and that is how it should be. There have been plenty of abuses of this over the years with re-pricing of stock options and other sly tactics.

Lately as we dig through the annual reports of public companies, shareholders are outraged by the home-loss subsidies given to corporate executives. Many corporate boards are now under extreme pressure to end home-loss relocation benefits because of the way many corporations are abusing them. Typically a company pays an executive a certain allowance to move if (s)he needs to move for corporate purposes. It's commonplace for an executive to be paid for moving expenses, travel, realtor and other professional fees. The outrage comes when an executive has to move again, the company buys the home for what the executive paid and takes a bath on it when it is sold. This isn't a problem for low level executives who don't make outrageous pay packages. For those people, this type of perk is truly necessary to make the move. The insanity comes in when an executive makes \$10 or \$15 million a year and the company is spending a million or two subsidizing an outrageous housing error. This is something that companies have no business doing and it needs to stop, ASAP! ☺

## Benevolence

People are mostly good. Often bad deeds and bad people tend to get most of the attention in our world, but I believe people are inherently good and helpful. I've been helped in my life hundreds, if not thousands of times, and in the end I hope to give more than I've received. While we look out at the world I hope we are grateful for what we have and feel blessed, and work towards helping those who are less fortunate than we are. Today there are many ways we can do this, and there is no shortage of need.

In our little piece of the world, Cupcake and I do the best we can helping our church, the local food bank, the MS society, girl scouts, our public schools and the Bryan M. Place Charitable Fund. You can help in many ways; you can give your time, talents or energy. Everyone has causes and charities that are close to their hearts, and all causes do good for those in need. When people retire, they often spend a lot of their time on charity work; the rewards are second to none. The fact that people in our world today don't have food, heat or clothing is truly pathetic.

We have found that when you give to a charity that is close to home, and smaller in size, more of the gift actually goes to the cause and less to administrative costs. We give locally to our United Way, but more specifically to the Fish Food Shelter so every dollar goes directly to the feeding of those in need. Another example is the Torrington Community Soup Kitchen; every dollar donated goes directly to feeding the hungry. Many of us could do with a little less food, so giving some away may help. All of the food banks are in real need, so if you have extra, please share it with those in need.

Certain causes are not possible to support on a local level so the support must go to a national organization. This isn't a bad thing, but history shows that as an organization grows it becomes less efficient. Medical research is often best done by national firms because international aid isn't likely to be effective without such organizations. This isn't to say the big groups are not doing a great job for those they serve, but less of the gift gets to the bottom line in monster organizations. When you're solicited for a gift from any organization, it makes sense to ask them how much of the gift will go towards the cause. I was solicited over the phone a year or so ago for a police organization and when I asked how much would actually benefit the police I was blown away that only 50% went to the cause. This was because 50% went to the solicitor making the phone call. You can bet that I didn't make a donation there. When you give locally, you typically can be sure almost your entire gift goes to where it is needed most. Many local organizations will allow you to further drive your gift to a specific area of a local need, as the food bank does with our local United Way. You can never be too benevolent! ☺

## Inspirational Quotes

- A smooth sea never made a skillful mariner. ~ anonymous
- Don't ask for a light load, but rather ask for a strong back. ~anonymous
- Who indeed can harm you if you are committed deeply to doing what is right? ~ I Peter
- Great spirits have always encountered violent opposition from mediocre minds. ~ Albert Einstein
- Accept challenges, so that you may feel the exhilaration of victory. ~ Gen. George S. Patton
- We are like tea bags – we don't show our own strength until we're in hot water. ~ Sister Busche
- Minds are like parachutes, they function only when open. ~anonymous



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

## Kid's Korner

Kids need extra attention and instruction today with how to use their electronic devices that they all love so much, and simultaneously be polite and respectful to other kids and adults they interact with during the course of the day. My kids are driving me crazy for an iPod touch, and I don't object to them having it as they really are good kids. Cupcake and I are debating this new toy, and it's a tough call. They clearly don't need it, but of course all of their friends have them so the pressure begins. This weekend Hannah was using my cell phone playing a game, which is what she'll do with an iPod touch if she gets one in addition to playing her favorite music. I don't object to her playing a game or listening to music, in moderation. What I do object to is when someone is speaking to her, she's speaking back to the person but not looking at them, instead she's focusing her face in the phone. That is so rude and disrespectful it drives me crazy. She's only ten, but we've had this same issue with babysitters who were 15-19, these kids are texting or otherwise thumbing their electronic devices and not paying adequate attention to the person in front of them. ☺

### Connecticut Directory (860) 673 1942

Mike = [mike@fiscalwisdom.com](mailto:mike@fiscalwisdom.com)

Nancy = [nancy@fiscalwisdom.com](mailto:nancy@fiscalwisdom.com)

Betsy = [betsy@fiscalwisdom.com](mailto:betsy@fiscalwisdom.com)

Andrea = [andrea@fiscalwisdom.com](mailto:andrea@fiscalwisdom.com)

Michele = [michele@fiscalwisdom.com](mailto:michele@fiscalwisdom.com)

Maureen = [maureen@fiscalwisdom.com](mailto:maureen@fiscalwisdom.com)

### New York Directory (315) 682 0348

Teresa = [teresa@fiscalwisdom.com](mailto:teresa@fiscalwisdom.com)

Mark = [mark@fiscalwisdom.com](mailto:mark@fiscalwisdom.com)

Jackie = [jackie@fiscalwisdom.com](mailto:jackie@fiscalwisdom.com)

Tom = [tom@fiscalwisdom.com](mailto:tom@fiscalwisdom.com)

Josh = [josh@fiscalwisdom.com](mailto:josh@fiscalwisdom.com)

If anyone you love or care about would benefit from receiving our 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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Visit us online at [www.fiscalwisdom.com](http://www.fiscalwisdom.com)

Connecticut Offices (860) 673-1942  
CT Toll Free (800) 843-4513  
New York Office (315) 682-0348  
NY Toll Free (888) 693-8390



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## Mike Chadwick's Money Matters

New Britain Avenue. Unionville, CT 06085  
860.673.1942  
Torrington, CT . Manlius, NY

## Chadwick Financial Advisors 15 Place Financial Advisors

