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A Small Step Back from the Cliff

By Christopher W. Beale, CFP®

January is always a good time for making predictions as well as looking back at past predictions. As of this writing, (January 2, 2013) I'm happy to say that The Mayan's were wrong, the world didn't end on December 21st and we are still here today! The other significant prediction for last year was that our elected leaders would act to stop us from going over the Fiscal Cliff before December 31, 2012. Technically we did go over the Cliff, even though as of this writing, both the Senate and the House of Representatives passed the bill to stop the automatic tax increases and spending cuts. How many of you got both predictions correct? Maybe congress waited so long because our Senators and Representatives believed the Mayans would be right. They really thought the world would end on December 21, 2012, so why would they worry about a deadline occurring on January 1, 2013?

To remind you, the Fiscal Cliff refers to roughly \$600 billion in tax increases and spending cuts that automatically occurred as we were celebrating at midnight on New Year's Eve. Please refer to my newsletter article of October 2012 which can be found on our website: www.newenglandcapital.com.

So what does it all mean? Assuming the President signs the bill, some taxes will be raised while spending cuts will be delayed. According to the bill, tax rates will be raised on individuals earning \$400,000 or more and couples making \$450,000 or more. The capital gains rates will also increase on this group on top of the 3.8% new tax on all unearned income. Tax rates will increase on estates valued at \$5 million or more. All workers will see a 2% increase in taxes as payroll tax rates will increase from 4.2% to 6.2% which will decrease their take home pay accordingly. Approximately \$109 billion in across-the-board spending cuts set to start this week from the Pentagon and domestic agencies will be delayed for two months. Can anyone say "kick the can down the road again"! Other issues are addressed in the bill including the alternative minimum tax, certain tax credits, unemployment benefits, and Medicare reimbursements.

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20 Years Ago.....

By Christopher M. Lee, CFP®

It is hard to believe that 20 years ago I was getting ready to start a new part time job doing work for an independent financial planner in Wallingford. I was in the process of switching majors at CCSU from Accounting to Finance and I still was not sure what I wanted to do with my life. I knew that I wanted to work in the business world but not sure where or how. All I knew is that I wanted a challenge. I was geared up to the task that Michael J. Fox persevered and endeavored in the 1987 movie *Secret of My Success*, where he works his way up in Corporate America from the Mailroom all the way to the Boardroom.

I was dating a girl at that time who was working for a financial planner in Wallingford and she decided that she wanted to quit her job as the world of finance and investments was not stimulating enough for her. I asked, as she was going to give her two weeks notice, if I could accompany her to apply for the job before it became available. Low and behold the interview, with a gentleman named Chris Beale, went well and I got the part time job! Thus my career at New England Capital began on January 3rd, 1993.

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“Anyone who has never made a mistake has never tried anything new.”

-Albert Einstein,
Theoretical Physicist

“I’d rather regret the things I’ve done than the things that I haven’t.”

- Lucille Ball, Actress

A Small Step from the Cliff

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The potential effect on the markets is uncertain although the S&P 500 did rise about 1.7% on Monday in anticipation of a compromised bill and about 2% on Wednesday after the passage in the House. (Just a side note: when did compromising become a sign of weakness rather than a sign of mature adult behavior?) While there's too much uncertainty for me to make a short-term prediction on the market direction, I do have some thoughts on 2012. I think investors should remember the resiliency of the markets in face of macroeconomic and geopolitical uncertainty in 2012. We dealt with many risks and uncertainties last year including the danger of a hard landing in China, the continued European debt crisis, tension over Iran's nuclear program, and the possibility of a Congress induced US recession. Still the S&P 500 returned 13% for 2012.

The passing of this bill doesn't eliminate uncertainty going forward. Actually while we may have detoured off the path which led us to the Fiscal Cliff, we are now on a new path. On this path we must forge through a new deadline of automatic spending cuts, passing a federal budget and raising the debt ceiling (and potentially another downgrade to our nation's debt), all within the next two to three months! Congress has only done the easier of the two jobs. Raising revenue is much easier than cutting spending for politicians.

In my opinion, these risks are all manageable risks, but the problems are inherently political. Basically we have to decide what we're going to do about taxes. Are we going to raise them and if so, how much and on whom? We must decide what we're going to do about restraining healthcare spending, which was less than 10% of the Federal budget in 1960 and is 25% today heading to 33% in the next 10 years. We must decide what to do about defense spending which was \$700 billion last year. This is more than the next 17 largest defense budgets around the world. If we can get healthcare, defense and revenue settled the next largest expense, interest on our debt, starts to take care of itself. The average US citizen needs a better understanding of our Federal budget. Maybe it's just too big or maybe million, billion and trillion sound too much alike. Humorist Dave Barry said we shouldn't talk about millions, billions and trillions of dollars. We should talk in terms of golf balls, watermelons and hot-air balloons instead. While there are risks now, they are neither unsolvable nor unprecedented. Investors have always faced risks and I believe always will. For most investors, risk avoidance by not investing in the future is a terrible decision. What is needed is not risk avoidance, but risk management. That is accomplished through proper financial planning. Please call to review your accounts and to assess your situation for a Happy New Year and a happy future.

****NEW INCREASES TO PLANS!****

2013 IRA and Retirement Plan Contribution Limits

Roth IRA & Traditional IRA 2013 Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$5,500	\$6,500

401(k), 403(b), and 457 Contribution Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$17,500	\$23,000

Simple IRA Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
\$12,000	\$14,500

SEP IRA Limits	
Max Dollar Allocation	Max Considered Compensation
\$51,000	\$255,000

20 Years Ago.....

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I remember being eager and ready to take on the world when I started that first day working with Chris Beale. After all, I was armed with loads of wisdom that the world had taught me at the golden age of 20.....or at least the wisdom I thought I had. I had no idea what the next 20 years had in store for me!

I didn't know it at the time, but I was extremely lucky as I was working with one of the best planner's and investment advisers in the state. Not only was I was able to learn finance and investments from him, but he openly shared his core beliefs and life experiences as well. PRICELESS! Upon graduating college I joined Chris in teaching Financial Planning to adult education classes throughout the state. How great was this? Not only do we get to help clients during the day achieve their life goals, but now we got to teach it at night and arm people with one of the most powerful gifts - knowledge!

Chris had been working out of his home at the time and his family was about to get bigger (ala Jonathan) so it was time to move to a bigger office which we did on Main Street in the Yalesville section of Wallingford. Things were going well with the business and things were also going well for me personally. I had gotten married in 1998 and two short years later, my first son, Joseph came into my life. It was also during those years at that office that we lived through 9/11 together along with the tech bubble of 2000. As time went on there, we continued to grow and add more staff – which is where the marvelous Darren Tapley came into the picture! We eventually outgrew that office and made our last move to South Meriden – where we added more staff and the wonderful Ann Ocone along with the newest addition, Michelle Acanfora!

I took some time this week and looked back on those last twenty years to get some perspective. It is amazing how much life changes, yet stays the same. Every year there seems to be some sort of media induced craze that gets investors to panic (fiscal cliffs, Y2K, presidential elections, energy crisis, terrorists, great recessions, and the housing bubble to name a few), but in the end we have always made it through. That's not to say it hasn't been a bumpy ride, but we have made it through. This is life. As for me, I have had some bumpy roads as well as I got divorced a couple years back. It was something I vowed I would never do, as my parents had done – but followed down that same path. BUT – life works in mysterious ways and I have recently met the love of my life and we are engaged to be married next year. We are blending together two families and have merged her 2 children and my 2 children together. Talk about perspective and the newly acquired wisdom that comes with that!

The reason that I am sharing this personal information with you is that life can get messy. Life is more than black and white numbers on a piece of paper as there are emotions involved. As Chris and I are both CFP® practitioners, we must be knowledgeable not just in investments, but also insurance planning, employee benefits, State and Federal income tax planning, estate tax, gift tax, and transfer tax Planning, asset protection planning, retirement planning, and estate planning as well. This is just one piece of the puzzle though, as there is also an emotional aspect. We know that every client and situation is different – and that there are moving parts behind the scenes of everyone's own finances. Chris and I know this – and this is where the years of experience and wisdom come into play. There are so many complex and different financial planning issues that Chris and I have solved throughout the years with answers coming from working through them and others through our own personal experiences as well.

Back at that golden age of 20, I would have never guessed that these past 20 years would have been such a roller coaster, filled with so many highs and lows – both in my career and personal life. It is hard to believe that I could have been so naïve at 20 years old to think I knew so much. Boy was I wrong. As I reflect to where I have been and where I am going, I am truly blessed! I am thankful for all that I have around me. I have no idea where the next 20 years will bring me and our firm – but I am eagerly awaiting it. Now tighten up those lap belts....and get ready!

“Our greatest weakness lies in giving up. The most certain way to succeed is always to try just one more time.”

-Thomas A. Edison:
American inventor
and businessman

NECFA News...

- We have a new face of New England Capital! Michelle Acanfora recently joined us! She will be assisting us by answering the phones and setting appointments among other duties. Please make sure you say “Hi” to her when you call!
- For those clients who are not exclusively at Schwab, Fidelity or National Advisors Trust, you may have noticed that we have changed our Broker/Dealer to PKS (Purshe Kaplan Sterling Investments) out of Albany, NY. We made this change effective January 2nd 2013. The reason for the change is that we wanted to better align ourselves with a bigger more robust Broker/Dealer that PKS can offer us (for back office support). Please call us with any questions you may have.
- If you are tired of receiving paper copies of statements, prospectuses, and our quarterly reports – please call our office and ask for Ann who can help you go paperless!!
- For our Schwab, Fidelity and National Advisors Trust clients, we have recently made upgrades to our “trading software” to automatically rebalance your accounts! If you have any trading questions or issues please contact Chris Lee.

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