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Can BOTH the Tea Party and the Occupy Wall Street Movement be Right?

By Christopher W. Beale, CFP®

In this election year, the extreme messages from the far right and the far left are the loudest and seem to receive the most attention. I'll admit that I am generally a free market capitalist. I think of myself as fiscally responsible, but with a socially progressive side.

I think the Tea Party has a valid point when it requires our government not to spend more than we take in for revenues. This, to me, is simply common sense. Americans from all walks of life know this. The Tea Party calls for smaller government and less regulation. On the other hand, I can understand why Occupy Wall Street is calling for greater regulation and accountability in all areas, especially in the financial industry.

As a small business owner of a financial planning business, I think I am in a unique position to offer some real world perspective about this regulation and accountability piece. I own a Registered Investment Advisory firm, regulated by the SEC (Securities and Exchange Commission). I am a Registered Representative and Branch Manager of a FINRA (Financial Industry Regulatory Authority) Member Firm, therefore subject to the regulation of FINRA. Being domiciled in Connecticut, I am also subject to the regulation of the Connecticut Banking Department, Securities and Investment Division, as well as the Connecticut Insurance Department. My compliance cost went up 425% in 2011, much of that is due to the law sponsored by Representative Barney Frank and Senator Christopher Dodd.

Let me be clear that I am not advocating zero regulation. The examples in this article emphasize the need for regulation. I believe that hidden behind some tents and human microphones, alleged drug abuse, etc. the Occupy Wall Street movement has real legitimacy in demanding change. I just don't think more indiscriminant regulations and inefficient bureaucracy is the answer.

One example is the way my industry is fighting furiously (and successfully) against having brokers register with the SEC as investment advisors. Why? Because it would require brokers to give advice that puts the interest of the clients ahead of their own (and ahead of their Wall Street firms). Imagine if they would be held accountable for crimes they commit against their customers; if they were actually punished and forced to pay full restitution for their improper actions.

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2011 Year in Review

By Christopher M. Lee, CFP®

If you closed your eyes on January 1st, 2011 and re-opened them on December 31st, 2011, you would have seen the S&P 500 Index (the 500 largest US companies) price change decrease from 1,257.64 to 1,257.60 or a .003% drop. You would have thought that it was an unemotional and unexciting year for the markets. You couldn't have been more wrong. It seemed like every month there was something new to worry about. Of my 18 years in the business, this was one of the most volatile years that I can remember. After I reviewed some of the trials and tribulations that we endured in 2011, it was a wonder that we ended up close to breakeven. To name a few, here are some of the big headlines that we endured.

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Our website has been recently updated and renovated! Please take a tour of our new and improved website at

www.newenglandcapital.com

"A politician is a man who understands government and it takes a politician to run a government. A statesman is a politician who's been dead for fifteen years."

– Harry S. Truman, American President

Some of the new features of the website are:

Home – On our home page, you can sign up for our newsletter via email (if you are not receiving it via email already) by using the link (it is a big envelope on the home page). If you have friends or family that would like to receive our newsletter, please have them sign up on our home page as well.

Who We Are – This section lists all of the planners and staff of New England Capital Financial Advisors, LLC (NECFA) along with their bio's and email addresses.

Events – This section will list future events that we will be holding including seminars and client events. Right now we have posted recent pictures of *Christmas in The Village* as we have sponsored this event for the past six years and it is always held the first Saturday in December in South Meriden.

Resources – This pull down menu is where our NECFA newsletters will be housed. You will find the page lists the current and archived newsletters as well. Under the *Resource* pull down menu, you will also find a **Calculator** section that lists many financial planning calculators and tools for you to use. We also have a **Links** section that will take you to the present custodians that you have with NECFA.

Disclosure - This section contains our disclosure document that is required by the SEC. All future updates to our *Firm Brochure* will be posted on the website as well.

Contact us – This section now shows a map of our office as well as an email address to contact us.

Client Access – This is our most exciting new addition to the website! This link gives you access to your own personal on-line storage folders. You can store your key documents online including your employer retirement plans, insurance policies, wills, tax returns, and trust documents. This new *Client Access* (or client vault) offers extraordinary security. Files are encrypted while they are uploaded or downloaded and they are stored using high encryption (encryption is the process of transforming information using an algorithm to make it unreadable to anyone except those possessing special knowledge, usually referred to as a key).

We will also be able to upload documents from our office right to your personal folder (so you can easily retrieve them), including meeting notes, applications, summaries of your accounts, and important tax documents.

You will also have the availability to share certain limited documents with your other professionals (ie Attorneys and Accountants) as well.

If you are interested in this service you will need to get set up with your own specific User ID and password. We will need to send you a "Welcome Email" with instructions. If you wish to get set up on this, please call Elma or Ann at our office at (203) 935-0265, or email them at elmadautovic@newenglandcapital.com or anncarabetta@newenglandcapital.com and let them know that you want "Client Access".

Can BOTH the Tea Party and the Occupy Wall Street Movement be Right?
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Hogwash you say; Wall Street firms are punished for their malfeasance. For example, Citigroup, parent company of brokerage giant Smith Barney (no relation to Barney Frank) was fined $95 million in a recent settlement of a case that goes back to the 2008 market meltdown. The case involved Smith Barney brokers, selling mortgage debt instruments to their customers. At the same time Smith Barney traders were betting heavily that the same mortgage packages would be big losers! Internal e-mails from one trader described the transactions against the investments the company was selling to its customers as “the best short ever”. Meaning these traders would make money for Citigroup when the value of the mortgage instruments went down in value. Citigroup/Smith Barney was taking the exact opposite side of the bet that they were selling to their customers. The SEC investigation resulted in an estimate of $160 million in fees and trading profits to Citigroup’s bottom line.

It gets worse. In the boilerplate language used when settling with major Wall Street firms, the SEC allowed Citigroup and Smith Barney to neither admit nor deny the charges. Thankfully, according to the Wall Street Journal, United States District Judge, Jed S. Rakoff questioned not only the size of the fine but also whether there wasn’t “an overriding public interest” in determining whether the SEC’s charges were true.

If we followed similar logic, I could break into my neighbor’s house and steal his $1,600 TV. After getting caught, I would get to keep the TV but have to pay him $950 without admitting that I did anything wrong. Of course I would promise to be more careful in the future and maybe even suggest better ways for the police to act in the future.

Do I think there should be government regulations? Of course I do, but I believe government regulation (in all industries, not just the financial industry) should be more streamlined, focused, efficient and most importantly FAIR. Of course I think the people who argue that we have too much regulation (and government) are absolutely right—and so too are those who don’t think we have sufficient, effective regulation. What we need is a fair distribution of the regulatory burden—which is very far from the situation we are in now.

2011 Year in Review
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The euro zone mess – The government-debt crunch rattled Europe's financial system and weighed on the global economy. Portugal became the third European country, after Greece and Ireland the year before, to require a bailout as its borrowing costs soared. Investors grew worried that countries with much larger debts, such as Spain and Italy, would also need help.

U.S. credit downgrade – The inability of political leaders to come up with a long-term plan to reduce the federal budget deficit led the credit rating agency Standard & Poor's to take away Uncle Sam's sterling AAA credit rating for the first time. The political bickering enraged voters, spooked investors and led to the lowest consumer confidence level of the year.

The U.S. economy – The Great Recession may have ended, but the economic recovery continued to disappoint. For the first six months of the year, the economy grew at an annual rate of just 0.9 percent. Growth improved to a two percent rate in the third quarter and a three percent growth rate is forecast for the fourth quarter.

Japan earthquake – An earthquake and tsunami that crippled the Fukushima Dai-ichi nuclear reactor, owned by Tokyo Electric Power Co., cut off supplies of crucial Japanese parts and idled factories thousands of miles away. Auto companies, especially Toyota and Honda, were hit hardest. Inventory of certain models, especially hybrids, fell short at dealerships, reducing sales and sending retail prices higher. The worst nuclear accident since Chernobyl led countries around the world to reconsider nuclear power.

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“Success is peace of mind in knowing you did your best.”

-John Wooden, Coach

“The only limit to our realization of tomorrow will be our doubts of today.”

-Franklin D. Roosevelt American President

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Gas prices – Gasoline prices hit annual record: The retail price of gasoline averaged $3.53 per gallon for the year, eclipsing the 2008 record of $3.24 per gallon.

MF Global fallout – The downfall of MF Global and Jon Corzine: The former governor, senator and co-chairman of Goldman Sachs lost control of a small brokerage firm he agreed to run in 2010. Saddled with huge debt and risky bets on European bonds, MF Global was forced to file for bankruptcy protection.

Beyond those headlines, Borders, Saab, and American Airlines all filed for bankruptcy in 2011. With all this negative news, the markets saw big movements (volatility) and by the end of the year, we had six months of positive returns and six months of negative returns (five of which were in a row).

S&P 500 - Monthly 2011 Returns			
Month	**Monthly Return**	**Month**	**Monthly Return**
January	2.37%	July	-2.03%
February	3.43%	August	-5.43%
March	0.04%	September	-7.03%
April	2.96%	October	10.93%
May	-1.13%	November	-0.22%
June	-1.67%	December	1.02%

What does all this mean for you, the investor? The first thing to do is to focus on the long term perspective, not the short term headlines and noise. Negativity sells and the media knows it! These ups-and-downs are no fun going through them – especially when you have five months in a row of negative returns like we did in 2011. Due to this media pessimism, our phones were the busiest in August and September this year. Investors that tuned out the noise and stayed the course saw a S&P 500 increase of almost 12% (from October to December) to finish the year. What you need to do is to focus on your long-term goals <u>and not the short term turbulence and noise!</u>

With the Eurozone mess, the first ever downgrade of the US government, a sluggish economy, and even a major earthquake and tsunami the market just about broke even for 2011. That is amazing!

So, what is ahead for 2012? Let's look back to what the "experts" said last year. In the 12/20/10 issue of Barron's, 10 Wall Street equity strategists forecasted where the S&P 500 would finish for 2011. 9 of the 10 prognosticators predicted the S&P 500 would end the year at 1,325 or 5.3% higher (source: Barron's).

13 Wall Street bond market forecasters predicted on 12/20/10 where the yield of the 10-year Treasury note would be on 12/31/11. 12 of the 13 strategists believed the yield, which was 3.29% as of 12/31/10, would be at least 3.50% as of 12/31/11. The actual 12/31/11 yield was 1.88% (source: Barron's).

With that being said, I do not know what the markets will do in 2012, what the new (possibly good) headlines will be, or who will be the next Borders or Saab. But what I do know is that the market has historically rewarded long term investors who do not react based on emotion (mainly fear and greed), and will reward those who stay the course and have a well-diversified, risk assessed portfolio. Cheers….and here's to a healthy, prosperous, and uneventful 2012!

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<u>www.newenglandcapital.com</u>