New England Capital

New England Capital Times

New England Capital Financial Advisors, LLC
Registered Investment Advisor

July, 2011

Volume 18

Special Interest Articles:

Playing Chicken with the Debt Ceiling

By Christopher W. Beale, CFP®

If you want to know how Washington works, you need an insider to guide you.

Chances are, you've been a little dismayed about what you're seeing in Washington these days. Not only are the two parties constantly bickering at each other, but they seem to be blocking each other from getting anything done. That may be a great thing under normal circumstances, but at a time when there are so many major problems to be solved, gridlock doesn't seem to be the ideal solution.

That's why so many financial advisors were interested to hear what David Gergen said when he spoke at a major industry conference in Salt Lake City. Gergen has worked for both Democratic and Republican presidents, and has managed to keep an insider's view of Washington. In his view, are things really as bad as they seem?

Gergen told the audience that, despite all the bickering, both sides of the aisle see the current debt crisis through the same basic filter. "People in Washington basically agree on the nature of the problem and its consequences," he said "which are outlined in the theories proposed by economists Ken Rogoff and Carmen Reinhart."

Rogoff and Reinhart's influential book, entitled *This Time It's Different*, looks at various debt, fiscal and economic crises in different countries around the world over a period of several hundred years. Their conclusion is that the most crippling economic scenarios play out over a familiar pattern.

(Continued on Page 2)

Why Make Time for a Mid-Year Financial Checkup

By Christopher M. Lee, CFP®

There is an antidote to the anxiety and uncertainty that often mounts as the calendar advances through summer, fall, winter...and inevitably, the Holidays! It's called the *mid-year financial checkup*, and it won't require a doctor's visit, just a quick troubleshooting self-exam to confirm you're on the right track financially in key areas like credit rating, debt management, tax liability, and retirement planning.

As 2011 approaches its midpoint, the little bit of time it takes to perform such an exam could save you plenty of money and spare you lots of angst later. The benefits are plenty, and you can do it more quickly than you might think.
Start your checkup by requesting a free credit report from a website such as www.annualcreditreport.com. Then review the report for any inconsistencies or new developments that need addressing. The goal is to nip small issues in the bud, before they become big problems.

(Continued on Page 3)

Playing Chicken with the Debt Ceiling

(Continued from Page 1)

First, you have a financial crisis, and the government throws a ton of money to end it. "But then," said Gergen, "you have thrown so many resources at the problem that it moves from a financial to a fiscal crisis, because the government had to borrow so much to stop the financial crisis. And it is how they handle the fiscal crisis that determines their long-term well-being as a country."

The book also outlines some danger zones. If public debt grows larger than 60% of the size of the country's economy, you start to enter a danger zone. "At that point, you really need to deal with the problem or you are moving into deeper water," said Gergen.

If the debt level reaches 100% of GDP, the country moves into the danger zone. Its economic growth rate goes down at least a percentage point, and creditors (think: China) begin to get nervous and demand higher rates on their government bond investments. Borrowing costs go up, adding to the problem, and the lower economic growth rate lowers tax revenues, making it harder to pay down the debt, which then sends the whole situation into another round of still higher borrowing costs and lower economic growth.

Gergen noted that since World War II, U.S. government debt has generally run about 38% of America's Gross Domestic Product--what Rogoff and Reinhardt would call a healthy range. This last year, we reached the 60% level. Under the government's current trajectory, we might hit that 100% level in less than a decade.

Both Republicans and Democrats want to avoid that scenario, which is the good news. The bad news is that they disagree on how to do it. "There are two ways to address the problem," Gergen told the audience. "You can cut spending, or you can raise revenues. Spending is 25% of GDP right now. The Republicans want to get that down to 21%, the Democrats want to cut but not that far, and they both want to cut different things." To make up the difference, the Democratic leadership wants to raise taxes on upper-income Americans; the Republicans want to maintain the current tax rates.

Is there any hope? Gergen noted that a bipartisan committee headed by Republican ex-Senator Alan Simpson and Democratic former White House chief of staff Erskine Bowles has mapped out a way to reduce total government debt by $4 trillion, cutting spending by two dollars for every dollar of tax increases. A so-called Gang of 6 in Congress that included both liberal Democrats and Conservative Republicans was working on an alternative proposal, but that fell apart a week before Gergen spoke. A third group, chaired by Vice President Joe Biden, is still holding meetings.

Overhanging any negotiations, and making them more complicated is the debt ceiling limit, which will be breached on August 2nd -throwing the U.S. in technical default on all of its bond obligations. "[U.S. Treasury Secretary Tim] Geithner would like to get this resolved well before August 2nd, so as not to rattle the markets," Gergen told the audience. "The Wall Street folks are warning the people in Washington not to play with the debt ceiling, that any loss of confidence in the U.S. could be a big deal. Meanwhile, the Republican leadership thinks they'll get a better deal as they approach August 2nd and some Republicans think there may not be a problem if the negotiations go past August 2nd."

The silent party to these negotiations, the general public, seems not to understand the severity of the issue, Gergen said. "In recent polls, 60% of them think we should not raise the debt limit," he told the audience.

.

(Continued Page 3)

Important Email News!

Due to recent regulatory changes, we are now required to send securely (encrypt) any non-public personal information (Social Security number, account number, etc.) that is sent electronically.

In order to remain in compliance with these regulatory changes we have started to use the *Smarsh* encrypt email system.

The first time you receive a secure email from us, you will need to setup a new username and password on the *Smarsh* system.

Once registered, you will use the same login information for all additional encrypted correspondence. If you have any questions, please call the office and ask for Darren Tapley.

"Not until the pain of the same is greater than the pain of change will you embrace the change."

– Dave Ramsey
Financial Author

Playing Chicken with the Debt Ceiling

(Continued from Page 2)

In the long run, Gergen said, if Congress manages to address the debt issue responsibly, it could make America stronger. "Otherwise," he said, "it will be very bad news." Because of the political risks of taking action that might alienate the public, both Congress and the White House seem to prefer kicking the government debt issue down the road for 18 months, deferring any serious action until after the 2012 elections, which Gergen finds dismaying. "We're playing right close to the edge on this," he told the group. "This is dangerous stuff for our politicians to be playing with." He described it as one of the most serious issues he has seen in Washington in the last 30-40 years.

Why Make Time for a Mid-Year Financial Checkup

(Continued from Page 1)

Next, assess your debt situation and, if you have significant debt burdens, such as high-interest credit card debt, make paying down at least some of that debt a high priority. A lot of people don't realize that paying off a liability, like a credit card with an 18 percent interest rate, can be a better move financially than making a stock market investment that's going to yield, say, 3-10 percent annually.

Now take stock of major life changes that have occurred thus far in 2011 — marriage, divorce, the birth of a child, etc. — and, in consultation with your employer's HR department, have your W-4 tax withholding exemptions adjusted accordingly. Be sure you're neither overpaying nor underpaying with your withholding. Overpaying essentially means you're giving the IRS an interest-free loan with money you could otherwise be putting to constructive use; underpaying could put you on the hook for a major tax tab.

Addressing the emergency fund to be sure you have adequate liquidity to cover an unexpected event such as job loss comes next in the mid-year checkup. At minimum, that fund — housed in an easy-to-access interest-bearing vehicle such as a money market account — should contain 3-6 months of household income.

Next take stock of retirement savings. Maintain or even increase contributions to your retirement account(s), and if your employer offers a matching contribution, you definitely want to take advantage of that. If you are over age 50, you should also take advantage of the opportunity to make "catch-up" retirement plan contributions.

And finally, take steps now to manage your taxes. In consultation with a tax expert or financial planner, determine whether it makes sense to sell certain investments and make monetary gifts to take advantage of favorable capital gains, income tax, and gift tax policies before they change, a likely occurrence given the deficit-reduction push in Washington, D.C. Perform your mid-year financial checkup now and you're bound to sleep better, right on through the Holidays!

Balancing the Retirement Equation

Christopher W. Beale, CFP®

We've all read the headlines that show that most Americans are not financially prepared to fund their own retirement. The numbers look scary, and conjure up visions of thousands of elderly Americans sleeping on the streets covered with newspapers to keep them warm. But the difference between being able to afford retirement and not can be surprisingly thin if you know the right levers to push. A recent article in SmartMoney magazine http://blogs.smartmoney.com/encore/2011/06/13/how-4-years-of-work-might-make-or-break-retirement/?mod=rss_&link=SM_home_blogsum?CID=1228) illustrates the point. It starts out by noting that the average retirement age in America is 64 for men and 62 for women. Then it points out that if you were to extend that average worklife by just four years, you actually pull three levers at once.

(Continued on Page 4)

"It takes less time to do things right than to explain why you did it wrong"

-Henry Wadsworth Longfellow
American Poet

"Money will always flow toward opportunity and there is an abundance of that in America….. Human potential is far from exhausted and the American system for unleashing that potential remains alive and effective.'

-Warren Buffet
CEO of Berkshire Hathaway

Balancing the Retirement Equation

(Continued from Page 3)

You generate four years of additional income (and savings), which boosts the value of your retirement portfolio. At the same time, you take away four years of consuming your retirement portfolio, meaning that it will have to work less hard to support you in your retirement years. And finally, you raise the age at which you would take full Social Security benefits. For each $1,000 you could have received at age 62, you would receive $1,760 at age 70--and that amount is indexed to inflation, which means it retains its full purchasing power.

And if more Americans were to work additional years, they would add more to the Social Security system and release some of the its financial strains.

There are two other reasons to consider adding those four years to your worklife. First, people today are living longer, and have the ability to contribute their skills to the global economy much longer than previous generations. When Social Security was first conceived, the average worker lived only a year or two after collecting benefits at age 65. Today, the life expectancy in the U.S. is 78.7 years, and today's 65-year-old is often healthy enough to take ski trips and scuba dive--and supervise a corporate team as it takes on complex projects.

The second reason to work longer is to avoid something very serious, and never talked about: mental atrophy after leaving the workplace. In his excellent analysis of traditional retirement--entitled "The New Retirementality"--author Mitch Anthony demolishes the notion that your golden years are best spent on the golf course. The human mind is like human muscles; it must be exercised vigorously in order to maintain its full functionality.

You may not need to pull all these levers at once--indeed, we work hard to help our clients retire on their own terms. But the next time you see dire projections about Baby Boomers living on dog food, you might take comfort knowing that there are relatively simple ways to change those numbers--and possibly improve people's lives (and the Social Security system) at the same time.

New England Capital Financial Advisors, LLC

Registered Investment Advisor

79 Main Street
South Meriden, CT 06451
(203) 935-0265

See us at:

www.newenglandcapital.com

E-MAIL:

chrisbeale@ newenglandcapital.com chrislee@ newenglandcapital.com

darrentapley@ newenglandcapital.com anncarabetta@ newenglandcapital.com

elmadautovic@newenglandcapital.com

2011 IRA and Retirement Plan Contribution Limits

Roth IRA & Traditional IRA 2011 Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
$5,000	$6,000

401(k), 403(b), and 457(b) 2011 Contribution Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
$16,500	$22,000

Simple IRA 2011 Limits	
AGE 49 & BELOW	AGE 50 & ABOVE
$11,500	$14,000

SEP IRA 2011 Limits	
Max Dollar Allocation	Max Considered Compensation
$49,000	$245,000

Tax Tidbits...

The Tariff Act of October 3, 1913 created the Federal Income Tax in the United States. Congress has changed or amended this original law 40 times in the last 97 years.