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New England Capital Times

New England Capital Financial Advisors, LLC

Registered Investment Advisor

The Moment of Truth

By Christopher W. Beale, CFP®

I consider myself a realist when it comes to financial and economic issues. If you have read my commentaries and newsletters over my 28 year career, you know I prefer to see the glass half full. But I do have a concern that has been nagging at me for several years and is causing me much anxiety. I am concerned that our nation's budget deficit is too high (\$1.3 Trillion this year) and national debt is too large (\$14 Trillion). I am most concerned that there is no plan currently in place to address these issues!

Here's the basic Accounting 101 lesson that everyone should know. An income statement shows income minus expenses which creates your profits (or losses). This holds true for countries, businesses or households. The United States has \$2.3 Trillion in income and will spend \$3.6 Trillion in expenses. This is a loss or deficit of \$1.3 Trillion. We will borrow this money to fund our deficit by issuing IOU's (selling Treasury Bonds).

Right now individuals and other countries still want our IOU's. This is good because we need to write \$1.3 trillion in new IOU's to fund the 2011 short fall. If we look at other countries around the world, the US is still the best house in a bad neighborhood. But for how long? What if these individuals and countries didn't think we would repay our IOU's? First, they would demand a higher return, or interest rate for the perceived risk of lending us money.

Before you start to think that this is really not your problem, know that when the US Treasury pays more interest, we all pay more. Interest rates for business loans, consumer loans, and mortgages follow the rates that the government pays its lenders. For example, by the late 1970's and early 80's, when the government paid 15% to bond holders, 30 year mortgage rates rose above 18%, and consumer loans even higher. This affects all our daily lives.

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The 5 Laws of Gold

By Christopher M. Lee, CFP®

In my previous article (January, 2011, Volume 16) I talked about "what separates the rich from the rest." I referenced a book entitled *The Richest Man in Babylon*, written by George S. Clason in 1926. I reviewed the "7 Cures" that gave sound financial principles in acquiring money; saving money, keeping money, and making your money earn more money. (If you did not read it and wish to do so now, please visit our website at www.newenglandcapital.com and the link will be on the homepage.)

The book tells of a story about "the richest man in Babylon" in his later years of life and wanting to leave his wealth to his son, Nomasir. He does not want to just give his son the wealth as he is fearful that he will not know how to handle the wealth wisely. So he sends his son out into the world with one bag of gold, a tablet carved with the "Five Laws of Gold," and directions to come back in 10 years and give an accounting of what he accomplished (over that time period) to his father.

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The Moment of Truth

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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 *Smash* 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 *Smash* 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.

“We are at our very best, and we are the happiest, when we are fully engaged in work we enjoy on the journey toward the goal we’ve established for ourselves. It gives meaning to our time off and comfort to our sleep. It makes everything else in life so wonderful, so worthwhile.”

— Earl Nightingale
Motivational speaker
and author

We pay more for mortgages and car loans. If business borrowing costs increase, these increases will be passed on in higher prices for the goods and services we buy. Also as it gets more expensive to borrow, companies will not expand or hire additional workers.

I may not have all the answers to solve this, but I have read a report that provides a plan or blueprint to address this. The report, issued on December 1, 2010, is called “The Moment of Truth” and it was written by the National Commission on Fiscal Responsibility and Reform. This is the bipartisan commission formed by President Obama and co chaired by former Senator Alan Simpson (R-WY) and Erskine Bowles (D and former White House Chief of Staff of the Clinton administration).

“We had 105 different lobbying groups coming in to see us,” said Alan Simpson. “All of them agreed that America is on an unsustainable, predictable course. And all of them said ‘Don’t touch our loopholes and incentives.’” Like any debtor who gets in over his head, Congress faces painful choices. They can either make very difficult decisions now- and possibly alienate voters-or kick the can further down the road to leave a bankrupt country for our children and grandchildren.

I believe our elected representatives are more interested in attacking each other than attacking the problem. I believe that if we don’t solve this problem soon, within 4-6 years, the bond market will solve it. That situation will not be pretty. We are at a crossroads. We can look like Greece, Ireland and Portugal in the near future where decisions will be made for us by the international financial community, or in the words of Colin Powell, former Joint Chief of Staff and Secretary of the State, “Our past can be our future. It is our destiny to be the light on the hill, create great opportunity for the rest of the world, and show them the way to do it themselves.”

The time has come to put everything on the table; Social Security, Medicare/Medicaid, Defense spending and war costs, tax rates, and the elimination of very popular tax deductions. Wouldn’t it be great to simplify our tax code at the same time we balance the budget?!

Please go to www.fiscalcommission.gov for a complete read of the commission’s report. It makes recommendations that have made all sides very upset. That’s why I like it—nonpartisan. We are all in this together and all must share in the sacrifice. The Preamble to the Moment of Truth report states that “America cannot be great if we are broke. Every modest sacrifice we refuse to make today only forces far greater sacrifices of hope and opportunity for the next generation. We believe that neither party can fix this problem on its own, and both parties have a responsibility to do their part. The American people are a long way ahead of the political system in recognizing that now is the time to act. The National interest, not the special interests, must prevail. The era of debt denial is over and there can be no turning back. We sign our names to this plan because we love our children, our grandchildren and our country too much not to act while we still have the chance to secure a better future for ALL our fellow citizens.”

Lest you think I’ve become a pessimistic, crabby, 50 something, let me close with the introduction to Matt Ridley’s book, *The Rational Optimist*. “Life is getting better-and at an accelerating rate.” It continues, “Food availability, income and life span are up; disease, child mortality and violence are all down-all across the globe. Though the world is far from perfect, necessities and luxuries alike are getting cheaper; population growth is slowing; Africa is following Asia out of poverty; the Internet, the mobile phone, and container shipping are enriching people’s lives as never before.” Although cynicism and partisanship are currently fashionable, these facts are undeniable.

What Separates the Rich from the Rest?

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When Nomasir comes back to the house 10 years later, he tells us the stories of his trials and tribulations. He tells how he lost all of his money betting on a fixed horse race (unbeknownst to him) along with buying a business that went under due to a lack of due diligence. When Nomasir was at rock bottom (and had to find labor), he re-read the tablet containing the “5 Laws of Gold” which are as follows:

Gold comes gladly and in increasing quantity to any person who will put by not less than one-tenth (10%) of his/her earnings to create an estate for his/her future and that of their family. Here we get back to a financial planning rule of thumb. Many clients ask us how much they should be saving. Here’s your answer – 10% of your income.

Gold labors diligently and contently for the wise owner - who finds for its profitable employment, multiplying even as the flocks of the field. Simply put, as the years pass, it multiplies itself in surprising fashion. Get your gold (money) working harder for you! Compound interest is an amazing thing when it comes to your investments. If you have some assets not invested with us and want them to work harder for you, call us!

Gold clings to the protection of the cautious owner who invests it under the advice of wise men and women in its handling. Let professionals help you with your investments. Do not be foolish with your hard earned money.

Gold slips away from the person who invests it in business with which he/she is not familiar, or which are not approved by those skilled in its keep. Again, be wise with your money. Do you remember how many people jumped into the real estate market flipping houses 5+ years ago because “everyone was making money in real estate?” We all know how those “hot investments” turned out.

Gold flees the person who would force it to impossible earnings or who follow the alluring advice of tricksters or who trusts it to his/her own inexperience and romantic desires in investment. Be aware for easy money or a quick return on your investment. Sometimes people call our offices looking to make a quick buck on a stock. Most times it is pure speculation rather than quality research. On a stock like that, you are better off going to Foxwoods – at least there you will get a free drink while they take your money!

In the end, Nomasir ends up proving his worth to his father as he saves 10% of his wages and invests it wisely. With the wisdom of the above mentioned laws of gold, Nomasir was able to make a success for himself. Knowledge is power. By following these *5 Laws of Gold* and the previously discussed *7 Cures*, there is no reason why you or your loved ones can’t be financially independent and successful!

“Tis better to be silent
and be thought a fool
than to speak and
remove all doubt”

– Abraham Lincoln,
US President

“Money is of no value.
It cannot spend itself.
All depends on the
skill of the spender.”

–Ralph Waldo
Emerson, Philosopher

Source: Clason, George S. *The Richest Man in Babylon*, New York, NY, New American Library, 1988

How do you know if you have enough life insurance?

When your life situation changes, your life insurance needs may also change. How do you know if you have enough coverage?

When was the last time you reviewed your life insurance needs and compared them to your existing coverage? If it's been more than five years since your last life insurance checkup, it's been too long!

Benefits of a Checkup:

- Realign your insurance needs with your current life situation
- Ensure appropriate and accurate beneficiary designations
- Ensure your policy doesn't lapse because of a change in interest rates
- Take advantage of newer more cost effective life insurance plans.
- You may be paying too much or over-insured.

Checkup Triggers

It's time for a review if you have experienced any of the following:

Marriage	Major career change
Loss of a spouse	Retirement
Marriage or divorce of one of your heirs	Inheritance
Birth or adoption of a child or grandchild	More than five years since your last review

We can assist you with your life insurance review. Please call Elma at our office today to schedule your review.

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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

NECFA News...

Chris Lee has been named President of the all volunteer board Jump\$tart, who's mission is to provide financial literacy in grades K-12 in the state of CT!

Congratulations, Chris!