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Special Interest Articles:

Is 75% a Passing Grade?

By Christopher W. Beale, CFP®

With half of the first quarter school marking period gone, the intermediate progress reports came to the Beale house this week. 75% is not a passing grade in the Beale house. Abby and I believe that for those who have been given much, much will be expected. Fortunately for our two boys, out of 15 possible classes between them, all grades were either A's or B's except one. Thus the arrows in our quiver, [potential reductions in sports play, TV, Facebook, and the newest weapon of "borrowing the car" are on hold]… at least until the next report cards come out.

But is 75% a passing grade for our economic outlook? How would you feel if I told you, in my opinion, I think the US economy has a 25% chance of relapsing into a recession? Would you prefer it expressed a different way: a 75% chance that the US economy will continue to grow without a recession? Let me state my argument for continued growth, then give equal time to the 25% double dip chance. The Conference Board's Leading Economic Indicators (LEI) have increased. According to the Conference Board the 10 LEI's are:

- Average weekly hours worked in manufacturing
- Average weekly initial unemployment claims
- Manufacturers' new orders (consumer goods and materials)
- Suppliers/vendors deliveries
- Manufacturers' new orders (non-defense capital goods)
- Building permits for new private housing units
- Stock prices
- Money supply
- Interest rate spreads (10 year Treasury bonds less federal funds)
- Index of consumer expectations

In the last three months the LEI's were up 0.3% in June, up 0.6% in July and up 0.3% in August. In our office this is not cause for us to party like it's1999, but it is not causing the fear of 2008 either. I stated in a recent newsletter, "I don't think this recession is a normal recession caused by an over heated economy and excess business inventories that are common at the end of a normal business cycle." This recession is a financial,

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Coming Soon!

We are putting the final touches on our newly revamped website! It will still be at www.newenglandcapital.com but will have a new look with more content and features.

Please keep your eye out for notifications from us about the completed site!

Raising Financially Independent Children

By Christopher M. Lee, CFP®

"I want! I want! I want!" How many times have you heard that from your children (regardless of their age?) Don't you wish that you had a way to turn that flowing faucet of "gimme" into a thoughtful human being who understands what it takes to earn a dollar and the importance of spending it wisely? (By the way, if you are a grandparent reading this article, please pass it on to your children to read as well.)

This subject is very near and dear to my heart. Yes, I do have two boys ages seven and eleven now, but this need to educate our next generation of children is very important to me. So much so, that I am currently president of the non-profit organization Connecticut Jump$tart, which oversees financial literacy in the state of Connecticut in grades K-12. My board consists of members from the Department of Education, State Treasurer's Office, leaders from banks and credit unions, teachers, and Junior Achievement. Knowing the importance of teaching kids these very important values, our board has unsuccessfully tried to implement a mandate requiring students to take a financial literacy class as a requirement to graduate high school.

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Is 75% a Passing Grade?

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excess credit recession that happens about once every generation. These recessions are messier and take longer to recover. The recoveries are lumpier and spottier, and can look and feel like a new recession or double dip. Growth happens in fits and starts. Growth rates can vary widely from region to region, industry to industry; and thinking globally, from country to country.

While we are thinking globally, lets discuss what I think is one of the biggest threat to actually going into a new economic recession, or my 25% chance of a double dip. Did anyone ever think an economy the size of the state of Georgia could cause such world wide market volatility on almost a daily basis? While the Greek economy is about the same size as Georgia, the ramification of its default is the cause for concern. Greece is insolvent! There, I said it. It can't meet its obligations nor the budget targets set by its European counterparts. Its choices are to default or to get bailed out by the other Euro zone countries. France and Germany have the most to say about this but they must also convince all Euro Zone 17 countries that this is the right thing to do. The real issue is not Greece defaulting (that probability is already priced into the market); it is the perception of the financial markets of what happens next. Specifically, who will be next: Portugal, Italy, Spain, Ireland???

The European Central Bank (ECB) is the equivalent of our Federal Reserve Bank. The ECB has shown a willingness to intervene in the bond market to prevent contagion effects from hurting countries that are not insolvent. The ECB will probably also need to recapitalize European banks that hold Greek bonds, much like our Federal Reserve did during the 2008 crisis. I can't leave Europe with out noting that they are a significant trading partner of ours. If Europe tightens their belt, they may buy less US goods. People forget that we are the single biggest exporter in the world. We just happen to be the largest importer in the world by a little more.

This brings us back to problems at home like jobs. 9.1% unemployment is the official number. While we added 103,000 jobs last month, that number is not enough to lower the unemployment rate. While this is the key issue domestically, I think the next biggest threat in the US is self inflicted. In my lifetime I can not remember being so vulnerable to the whims of policymakers. I can not remember a time when the fate of global markets seemed to be in the hands of political officials and government bureaucrats. I feel a void of leadership in Washington (both sides of the aisle) that I haven't felt since watching the Watergate crisis unfold on the nightly news in the 1970's. Disagreement, debate, and healthy discussion is what made this country great, but nobody can figure out where the consensus is. Lack of unity is the greatest cause of uncertainly not just for individuals but in the business community, too. But please don't bet against the largest, the most innovative economy in the world. We have the economic, political and legal system in place to solve our problems. We need to be bold enough to do what we know is right for us now and for our future generations. Unfortunately, time for doing the right things is running out.

I again think a new recession is unlikely mainly because in order for a major economic contraction, there must be large excesses in the economy. I don't see many excesses any more. US companies are lean. All who have jobs know this because you are probably working harder and doing more with less. But consumer demand is up and retail sales activity is up. Businesses have under-invested over the last couple of years which should lead to greater business-to- business activity.

Even if I miscalculated and we go into another recession, please know that recessions are temporary. I believe you are more secure retiring today, at today's market values and in today's economy than if you retired at the inflated prices of 1999. Clearly we need to be cautious given the risks and policy changes ahead, but for those investors who need growth to achieve their long term life goals, we need to take a longer view of the outstanding opportunities available today. In choppy seas I know I will get sick if I look at each pounding wave, but if I can focus on the horizon in the distance, I feel more confident in knowing that I will arrive at my destination safely. History teaches,

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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 *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.

"Ask five economists and you'll get five different answers (six if one went to Harvard)."

– Edgar Fiedler
American Economist

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and my experience tells me, that eventually the economy recovers from even the most severe shocks and markets return to health. This next recovery is inevitable and seems to be visibly underway. I can see it somewhere behind the negative press, the partisan bickering and occasional but equally inevitable market panics. By the time the investing public figure this out, another bull run will have already made a dramatic surge. It is at that time that our happy, short term investor memory will have forgotten that stocks can go down as well as up. That's when you'll hear my nagging voice in your ear telling you about downside risk, rebalancing, asset allocation, diversification and estate preservation.

Know that Chris Lee, and I and our entire team are here to discuss how your portfolio is positioned for you now and for your future life goal achievements. Please call if you have any questions about your accounts, your financial plan, the content of this newsletter or any other issue. We would be happy to answer your questions on the phone or at our next meeting.

I don't expect perfection from my kids, but I do expect the best performance and grades they are capable of achieving. I think 75% is the best grade that this economy is capable of today. I'll continue to monitor the progress and make adjustments as needed.

Raising Financially Independent Children

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Over these past several years, with tough budget constraints, unfunded mandates don't make it very far with the State Department of Education. Connecticut Jump$tart has a new push to make a financial literacy class a graduation requirement town by town, rather than a top-down state mandated requirement. We are making progress, but this process takes time.

With that being said, it is not enough for the children and young adults to learn financial literacy just in school. **You are the ideal teacher for your children**. You know what sparks their interests. If you don't talk to your kids about money, who will?

How you approach a five, ten or sixteen year old about money can be very different. The first thing I want to discuss that seems to come up quite a bit is whether or not to give your child an allowance. Some parents believe allowances should be given without expectations of chores completed, school grades maintained, or good behavior. They believe that allowances are given unconditionally. Other parents believe an allowance should be compensation for work done, so children don't get stuck in "entitlement" mentality. You may have certain chores that are expected of your children regardless of allowance, but also offer extra chores that might earn your children more money when completed.

This is more of a philosophical question as to which approach you want to use. Kids have access to money whether they receive an allowance or not. I will tell you though, that those kids who do receive an allowance seem to better understand money because they gain more control over it.

Once you have decided whether or not to give an allowance, the next question is, how much? I have seen parents give allowances based on one dollar for every year the child ages. A recent survey reported that the average weekly allowance of children between the ages of six and eight was $4.80. The average allowance of those between 12 and 17 was $16.60. Some factors you may want to consider when setting allowance amount and schedule include:

The age of your child. Usually younger children have fewer needs for spending money. As children age, their spending increases, as well as their ability to practice some of the lessons they've been learning during the allowance process. Remember that it is okay for your kids to make mistakes during this process. It is much easier to correct these mistakes at a young age, rather than waiting until they are out of college with $5,000 in credit card debt on top of their student loan debt.

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"If the present Congress errs in too much talking, how can it be otherwise in a body to which the people send 150 lawyers, whose trade it is to question everything, yield nothing, and talk by the hour?"

-Thomas Jefferson
American President

"Children have never been very good at listening to their elders, but they have never failed to imitate them.'

-*James Baldwin*
American Novelist

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The purpose of an allowance. Either for completion of chores or just given the money. If your children's allowances are used to compensate them for chores, make sure to compensate them immediately (once a week is fine) to reinforce the pay-for-work concept.

Your own income. Your children's allowance should fit into your own budget.

The expenses you want your child to be responsible for. Some items that parents may include in allowance expenditures include: snacks, books, gifts, school lunches, savings, computer games, toys, donations, etc.

I will share an idea with you that I do with my children. They get weekly allowances based on their ages AND the successful completion of their chores (also without me reminding them). I do leave the money out for them to see at the beginning of the week to remind them of what could be theirs. After they have completed their chores, they get paid on Saturday afternoons, BUT they do not get to keep all of it. Each child has three jars of money. A short term jar labeled "spending," a long term jar labeled "savings," and finally a "charity" jar. Each week, 10% must go into the savings jar (after all, this is what we ask our clients to do, save 10% of their income), 10% into the charity jar, and the remaining 80% for spending. After the "savings" jar starts to accumulate some money, you can either open a savings account at a local bank or credit union or open up a 529(c) College Savings account for them. This will teach them the power of compound interest! Also, let the kids pick the charities they are interested in and then let them give the money. I remember the first time that my son, Joey, gave money to St. Jude's and his joyous feeling of helping out another child.

This was just a glimpse of some things you can do with your child. Other important topics include:

- **Involving your children in the finances of everyday life.** Talking about everyday costs gives your kids a chance to see how money comes and goes.
- **Developing your children's budget** helps your children create plans to make it from allowance to allowance. It will also help them to set goals!
- **Working for others**. What are the implications of your children working for others? What will they earn and how will your child benefit?
- **Checkbooks and balances.** As your children get older, when the money is flowing both ways, it's time for them to have a checkbook.
- **Credit Cards.** Children are exposed to credit cards at a young age. Teach them the importance of paying off the balances on time and not using it as a loan device.

Remember, just talking about money with your children can make them more financially aware. According to recent surveys, Americans who had conversations about financial matters while growing up are more likely to save a significant portion of their annual income. Most kids learn about finances by observing their parents. You are their role model and yes, you have the ability (and responsibility) to raise financially independent children!

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