

the BENE^{DICT}REPORT

6000 Lake Forrest Drive NW, Suite 550, Atlanta, GA 30328-5901 • 770 671 8228 • 770 671 0232 fax • 800 678 8227

A LOOK AT THE PREVIOUS YEAR...!

At the beginning of any new year, it is common to look back and refresh ourselves on what has happened over the last twelve months. With that in mind, here is a review of the first issue of the new year of *U.S. News & World Report*.

(Words in italics are direct quotes from the magazine. The numbers you see in parentheses are page numbers in case you want to dig further into the information and to keep the copyrighters off our back.)

A REVIEW OF THE JANUARY 16TH ISSUE OF U.S. NEWS & WORLD REPORT

A lot happened during the year...new Fed chief, problems with Iran, economic woes and very volatile stock market and the like. Here is a summary of the magazine's articles:

Tomorrow, A Look Ahead from the Nation's Capital... (15)

The President faces a stream of urgent domestic problems...Congressmen, bureaucrats and potent interest groups are all pushing him for solutions... Containment of hospital costs faces a tough battle... driven by protectionists in labor and business to require import quotas on goods that threaten jobs...the dollar sickness abroad will get more attention.

On the world scene, the challenge: How to resolve the make-or-break issue in Mid-East peace negotiation? (27)

In the interview with *the New Man at the Fed...* (29)

- Q. Are you suggesting that the economy is healthier than it seems?**
- A. Things are much better than most people realize...
- Q. Are you concerned about the recent decline in the value of the dollar in the world's money markets?**
- A. I'm very concerned about it. The dollar is undervalued, and an undervalued dollar creates problems. If the dollar continues to

decline, the oil-producing countries, which now price their oil in dollars, will want to switch to some other currency and that would hurt the United States tremendously.

Q. What should be done to strengthen the dollar?

A. Our policy should be directed to getting the exchange rates for the dollar back up to more realistic levels...the basic need is to improve our balance of trade and balance of payments.

An Economic Survey of Key Areas...Who Will Prosper...⁽³¹⁾

...South Florida is plagued by a huge supply of unsold condominiums...

...Stone Manufacturing Company in Greenville, SC indicated "We can't handle all the business because of expanding exports..."

...Alabama is becoming the Southeast's star performer with a diversified manufacturing base, plus expanding banking interests...

...in Chicago, thousands of workers have been idled because of problems in manufacturing and competition from imports...although the Great Lakes region still suffers from an aging industrial base and the loss of jobs to the "sunbelt," some experts see indications of a turnaround. Herbert Strawbridge, chairman of the Higbee Company in Cleveland, predicts that growing water shortages, more expensive energy and rising pay scales in the South will make that area less appealing than the Great Lakes in the future...

The debate standard feature of this issue focused on how the video screen is impacting our children. ⁽⁴⁹⁾

"...they exploit America's most vulnerable population..."
"...the parent, not government regulation, should control what kids see..."

Inside:

- A Look at the Previous Year...!
- More Happenings from Years Ago!
- Let's Drink Our Way...
- Hi, Honey!
- Struggling with too Much "FAT!"



About Using Alcohol as a Fuel for Automobiles... (51)
Why isn't (ethanol) alcohol used more in cars in this country?

The simple answer is that gasoline is cheaper. The U.S. Department of Energy claims that ethanol-grain alcohol of the type used in beverages costs more to manufacture than the gasoline that it replaces. And, a gallon of ethanol delivers only two-thirds as many miles as gasoline...

Can motorists expect to see ethanol blends at their local stations any time soon?

Not without government subsidies and mandates by government policies...

How stocks fared... (58)...The previous year was a volatile year on Wall Street...

AT&T¹, down 5%
Citicorp¹, down 30%
Chrysler¹, down 38%
PepsiCo¹, up 6%
J.C. Penny¹, down 33%
Schlumberger¹, up 13%

Trends that Shape the Future... (59)

...grocery prices are at high levels, the average bill for seventeen common items was up 3.4% from last month...leading the increase were meats, eggs and sugar...auto production plunged 9.2% last year...lagging sales are threatening to jam dealer's lots with unsold cars...

Finance: No Easy Cure for Ailing U.S. Dollar... (67)

...fundamental changes will be needed to make the dollar strong...the U.S. will be active, along with the other central banks, to "check speculation and re-establish order in foreign-exchange markets," according to the Treasury...behind this turn of events lay a year of almost steady losses for the dollar. It declined 18% against the Japanese yen and 11% against the European currency and more against the British pound... the basic cause of the weakness - the massive trade deficits of the U.S. The deficit pours more dollars into the hands of foreigners than they want to hold. Their selling - and the activity of speculators - is what drives the exchange rate down.

Finance Trends... (68)

Gold...investors rushing to buy gold during the dollar's decline sent prices sharply upward...

Delinquent Mortgages...mortgage-loan delinquencies were 0.77 percent of all mortgages outstanding...

Tax Returns...a study of the Internal Revenue Service concluded that the present system of filing income tax returns by April 15 is preferable to any alternatives suggested...

More Output at Lower Cost - Test for U.S... (70)

...America is lagging in efforts to boost efficiency, make things cheaper at home and more competitive abroad...

... "Is productivity increasing in the U. S.?" Yes, but not nearly as fast as in years past... "Why should anyone be concerned?" Widespread increases in productivity make it possible for everyone to enjoy higher standards of living. If we all produce more, the nation as a whole gets richer, and the gains are spread around in the form of higher wages, larger profits and more leeway to meet social goals...

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**There you have it, a status report on the state of the world from the U.S. News and World Report of January 16, 1978! Really! This is the 1978 issue!**

One report not included was: *On his trip to Iran, the President (Carter) acceded to an agreement for the sale of eight nuclear reactors. In exchange, he expected a promise that Iran would hold down oil prices. Instead of the promise, he got a lecture on the need for the U.S. to conserve energy.*

Nor did we summarize the ads which included two brands of cigarettes and a Buick Regal for \$5,490 and a Volvo starting at \$6,649.

**Happy New Year!**

**Footnotes:**

<sup>1</sup>AT&T [T] - 52 week high/low \$42.97/\$32.70; 1-8-2008 \$39.16

<sup>1</sup>Citicorp [C] - 52 week high/low \$55.55/\$28.04; 1-8-2008 \$27.14

<sup>1</sup>Chrysler - Private

<sup>1</sup>PepsiCo [PEP] - 52 week high/low \$79.00/\$77.94; 1-8-2008 \$77.94

<sup>1</sup>J. C. Penny [JCP] - 52 week high/low \$87.18/\$36.84; 1-8-2008 \$34.57

<sup>1</sup>Schlumberger [SLB] - 52 week high low \$114.84/\$55.68, 1-8-2008 \$97.61

**MORE HAPPENINGS FROM YEARS AGO!**

As I was reviewing the 1978 U.S. News and World Report, I came across some other items that still seem to be in the news. Here are a couple of samples:

In their "The Case for Gold" authored by representatives Ron Paul and Lewis Lehrman in 1982, I found the following observations/predictions interesting:

- "...monetary order is of the utmost importance. Conditions are deteriorating, and the solutions proposed to date have only made things worse."
- "...the decade of the 1980's started with a destroyed mortgage market and bond market that will continue..."
- "Today, we have a permanent financial crisis at home and throughout the world because people no longer trust the American dollar."

### **In a 1975 story, Newsweek reported:**

*The evidence in support of these predictions has now begun to accumulate so massively that meteorologists are hard-pressed to keep up with it. In England, farmers have seen their growing season decline by about two weeks since 1950, with a resultant overall loss in grain production estimated at up to 100,000 tons annually... Last April, in the most devastating outbreak of tornadoes ever recorded, 148 twisters killed more than 300 people and caused half a billion dollars' worth of damage in 13 U.S. states. To scientists, these seemingly disparate incidents represent the advance signs of fundamental changes in the world's weather. The central fact is that, after three quarters of a century of extraordinarily mild conditions, the earth's climate seems to be cooling down. Meteorologists... are almost unanimous in the view that the trend will reduce agricultural productivity for the rest of the century. If the climatic change is as profound as some of the pessimists fear, the resulting famines could be catastrophic.*

### **Sound and Fury over Taxes**

A *TIME* 1978 cover story sounded almost opposite today's national election that seems focused on how the next President can raise income taxes...

That sound roaring out of the West - what was it? A California earthquake? A Pacific tidal wave threatening to sweep across the country? Literally, it was neither; figuratively, it was both. That angry noise was the sound of a middle class tax revolt erupting, and its tremors are shaking public officials from Sacramento to Washington, DC. Suddenly all kinds of candidates in election year 1978 are joining the chorus of seductive antitax sentiment, assailing high taxes, inflation and government spending.

### **War Without Boundaries**

The war has been raging for more than a decade on a global battlefield. And it threatens to grow more intense. The tactics of combat include assassinations, kidnappings, skyjackings and bombings, as small cells of urban terrorists attack the institutions of the world's industrial democracies. The principal victims are not soldiers but civilians: public officials and businessmen, as well as schoolrooms of children, planeloads of tourists and trains packed with commuters. *TIME*, October 1977

### **High Schools Under Fire**

Even outside the big cities, there is trouble everywhere. Morning at a West Coast high school. The first-period bell rings, barely audible above the classroom din. "O.K., everybody, settle down," says the soft-spoken teacher of the course called Modern Problems. Her two dozen students, grouped around seven tables, pay scant attention. She switches on a video machine by her desk; a neatly categorized outline flashes on the board.

Have you already copied this down?" she asks, pointing to

the topic headings. A few heads bob yes, several more shake no; the rest of the students merely carry on with their private conversations. The subject of the day is not terrorism, energy or Watergate. Aptly enough, the topic is "The Problems of American Education."

What the teacher might have taught her class, had they been willing to listen, is that American education in the '70s is in deep trouble. And, almost by definition, any problem with public education is a big one. No where are the difficulties more acute than in the 25,300 public high schools, junior and senior, in the U.S., which enroll 19 million students and carry a million teachers on their payrolls. To maintain the U.S.'s vast public education establishment, from elementary schools to colleges, taxpayers will spend \$144 billion this year — a 152% increase over the past decade. Those billions add up to more than the country spends for national defense.

But never have more Americans worried about whether they are getting their money's worth from the institutions that were once the symbol of the nation's dedication to democracy. Although confidence in the schools is hard to measure, a majority of Americans seem convinced that the quality of public education is on the decline. *TIME*, November 1977

## **LET'S DRINK OUR WAY TO A FAT RETIREMENT!**

**"Americans spent \$68.1 billion on carbonated soft drinks last year."** (Beverage Digest, reported by [www.health.msn.com](http://www.health.msn.com), 2006.)

**Americans contributed, and this included the company match, \$66.0 billion to their 401(k) retirement plans.** (FUNDAMENTALS, by the Investment Company Institute.)

Some of you may not see what this can mean, but here is how I see it:

Americans, as a whole, have proven they are not good voluntary savers. Saving for most people seems similar to eating healthy food... "if you disguise it, I may eat it." And, savings amounts to: "If you hide my savings, I won't spend it... maybe, but most likely I will borrow against it."

Let's put this all together. We love to swig soft drinks and we don't like to save. So, let's just impose a *retirement tax* on soft drinks. If we tax each one-dollar of soft drinks sold with a one-dollar tax, we will more than double the amount that Americans put away for retirement. How simple! But, you say, wouldn't this hurt the soft drink manufacturers? Well, it would raise the cost of soft drinks, but don't we always find money for our habits? Can you imagine anyone giving up their soft drinks for a few dollars a week?

But, let's not stop at soft drinks. What if our *beverage retirement tax* was applied to the newer sweetened drinks, called sports drinks or some other name? Bingo, more money in our retirement pot. How about coffee? Lots and lots more money for our golden years. But, why tax only the teetotalers?" Let's add our new *beverage retirement tax* to beer and wine. Oh my gosh! In no time at all our new national retirement program that is funded by our *beverage retirement tax* makes social security look like a pittance. No more squabbles about whether social security should be reformed, privatized or whatever; no one would care. There would be so much money available for retirement that it may put all the financial planners out of business!

**Whoops...maybe we should make that tax a ten-cent tax instead of a one-dollar tax!**

## HI, HONEY!

Over the last several months, they had talked several times about preparing for retirement. It's not something they had ever previously spent much time thinking about. He had been putting a little in the retirement plan at work and she had collected brochures on fun travel spots. Retirement was appealing to them but, apparently, preparing for retirement was not.

The morning after blowing the fifty-seven candles out on his birthday cake he broached the topic with his wife, "Hi, Honey, I've been thinking about it and it looks as though I'm going to have to work another ten years before we can retire." They aren't numbers people, but they did realize that their monthly debt payments and living expenses take almost everything he brings home from work now and social security benefits will be no where near as much as his take-home pay.

This was a difficult realization for him because, prior to this, any thoughts about *retirement* involved fishing and just doing whatever he wanted to do...day after day...a man's dream life. She also had to confront the reality that she had been avoiding since her best friend's husband passed away fourteen months ago. What if my husband dies? What will I do?

They decided that morning that they were going to start preparing for retirement, together they would forge forward!

"What do we do?  
Where do we start?  
We don't have any extra money.  
What are we going to save?  
Who can help us?"

Where do they go for help? Most investment sales people don't want to deal with people with NO money to invest, insurance agents want to sell a policy and bankers, well, no one knows what they do nowadays. Maybe an accountant, but successful accountants realize that this is a big project, with a very uncertain future and is not likely to be a good relationship for them. Maybe a real financial planner, but most of them are busy helping couples who have the flexibility AND resources to do positive things with their lives.

But, let's assume they found someone to give them some financial guidance. What might their new retirement plan look like?

- A list of spending. They have to know where their current money is going.
- Immediately increase the 401(k) contributions to the maximum allowed. They have to find the money available to do this...it will build their retirement fund and it will reduce their current income taxes.
- Make additional principal payments on the home mortgage so it will be paid-off by age sixty-five.
- Sell their small place on the lake. Or, sell their home and move into the small place if it is within commuting distance. People with no retirement income cannot afford the luxury of two homes; even if one home is quite modest...it still sucks money each and every month.
- Throw away the credit cards.
- The wife needs to look for employment; even part-time or low salary employment will help.
- Most importantly, change their attitudes from the focus on what you want to have to enjoying what you already have. It is a mindset.

They felt better. They had a confidence they didn't have before. They could see their future and they liked what they saw.

Then the husband came home from work, "**Hi, Honey, I lost my job!**"

**The moral of the story: Don't wait for a cake full of candles, gray hairs and pink slips to start your retirement planning.**

## STRUGGLING WITH TOO MUCH "FAT!"

*VERONICA Atkins, widow of Atkins diet doctor Robert Atkins, lives nicely on approximately \$25 million a year from a marital trust. (New York Post, May 8, 2007)*

In what is quite common estate planning, apparently Dr. Atkins left much of his wealth to a trust that provides his wife with a lifetime income. Then, upon his wife's eventual death, the remaining principal would be distributed to other beneficiaries. The wife would be what is called the

**income beneficiary** and the beneficiaries of the remaining balance would be called the **remaindermen**.

Life should be pretty simple, wouldn't you think, when you have over \$2 million **per month** coming into your checking account? But, apparently Mrs. Atkins' life is anything but simple.

Before his death, apparently, Dr. Atkins created a will, which created this marital trust upon his death. In it he named three individuals who would be the co-trustees. So far, so good, so simple!

However, a few days after Dr. Atkins death, Clive Metz, an entrepreneur, whom Mrs. Atkins had met on a Caribbean cruise, called and offered to be the trustee of her \$600 million trust. (Old friends always want to help during a time of grief.) He also offered that the co-trustees could be two of his friends. To avoid a nasty dispute and to honor Mrs. Atkins' wishes, the trustees who had been appointed by Dr. Atkins' will offered to resign at which time Mrs. Atkins appointed three new individuals to be trustees.

Life was apparently good for all involved until Mrs. Atkins met a new man, Alexis Mercentes, whom she married in a private ceremony in March 2007. Shortly after the wedding she asked the trustees for a distribution of \$100 million of the principle from the trust to be used for personal reasons. They refused to honor her request. Now, she's trying to dump them as trustees and the suits have started. The New York Post story continues with this report about Mr. Mercentes.

*...Court papers say Mr. Mercentes "continuously and intentionally exerted undue influence over Mrs. Atkins, a woman unprepared for an opportunist skilled in the art of seduction." The report to the court says Mersentes "has a reputation for hunting rich and single ladies, preferably widows."*

It gets better...Mrs. Atkins apparently told the court that, since she found out that her three current trustees had a \$15 million life insurance policy on her life, she now is in fear for her life and has had to hire armed guards to protect her. (Maybe she knew this previously because it is very difficult to get an insurance policy on someone's life without them knowing about it and taking the physical exams, etc.) (Investment News, May 14, 2007)

### **Life is good among the rich and greedy!**

What could Dr. Atkins have done to reduce some of the struggle?

- ◆ I like the idea of giving her the authority to change the trustee(s). However, maybe he should have restricted this the first year or two after his death to give her time to adjust to her new life. Also, he may have indicated that any new trustee should be a professional trust company or some other guidelines that limit her choices...to help reduce the influence of her new boyfriends.
- ◆ He also could have given the trustee more guidance as to when principal distributions are allowed from the trust. Trustees have to walk a tight rope balancing the interests of both the income beneficiary and the remaindermen interest. It does help if the creator of the trust indicates within the trust document which side he should favor in the event of conflict between the two interests.
- ◆ It is not uncommon for widows, or widowers, to want to be able to share this "wealth" with their new mate. If Dr. Atkins wanted this to be a power his wife could have, he should have mentioned it in the trust.

**If the good Doctor could look down from above and make changes, do you think they would be to give his dear wife more access to the funds? Life is good!**

### **OUR OFFICE**

**Philip C Benedict, CFP®**  
**Travis M James**  
**Mark A Beaver**  
**Christopher P Hall, CFP®**  
**Ashley A Thompson**  
**Jean B Wilson**  
**Kristen D McElwaney**

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The primary author of The Benedict Report is Philip C. Benedict, CFP<sup>®</sup>, an Investment Advisor Representative and Registered Principal with **LPLFinancial**, a registered investment advisory firm and member of FINRA/SIPC. Travis James, Mark Beaver, Chris Hall, CFP<sup>®</sup> and Ashley Thompson provide technical assistance. Jean Wilson handles the layout and editing of the newsletter and Kristen McElwaney assists with the mailing.

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6000 Lake Forrest Drive, Suite 550  
Atlanta, GA 30328-5901  
770.671.8228