

JUNE 2012

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the **BENEDICT** REPORT

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FEAR OF TOMORROW!

I'm sitting here looking out the window early on a Saturday morning. The sky is bright and clear and the trees outside are a spectrum of lush greens.

During my recent travels the airports were crowded, the highways congested and restaurants were packed. Apparently the economy is improving and improving rapidly.

But, that's not what people tell me or I get questions about. So many people are struggling. Washington is going to spend us into the poor house. What's going to happen in Europe? Are we really going to have high inflation? Why does everything seem to be going wrong?

Will you tell me in plain English what is happening in the world?

Well, here goes. I'm not quite sure where this is headed let alone where it's going to end. I'm pretty sure it will ramble and stutter...maybe even trip and fall. Let's take a look at the big picture view of what appears to be happening...from my perspective. (You are welcome to quit reading anytime you feel I am rambling too much or my views are too off track. There is no exam at the end!)

I believe 2008 was a pivotal year. I believe that most of the things that happened, things that we took for granted, things that were permanent, no longer matter. We are not just on a new highway; we are on a new type of transportation and we haven't figured it out yet. But, I think we have seen this before. ..

I have always used 1968 as my symbol of the world changing. From the end of World War II until the late-1960's the United States pretty much controlled the world's manufacturing. We had no competition... UNTIL. Suddenly, it seemed, the Japanese automobile plants...bright, new, modern plants and the Korean steel mills...bright, new modern mills,

started providing competition with our decades old factories. Their workers were eager and hungry and ours were a little fat and happy. They wanted new opportunities and we wanted to hold on to what we had with the assurance that things will always be better.

We created massive new social programs in the mid-1960s and the costs were just starting to enter the system by 1968. The Vietnam War was no longer a far-away skirmish; it was a massive engagement having dramatic social and economic consequences.

Today's decade reminds me of the 1970's. During that time our manufacturing sector was in denial, the war was still dragging on with no end in sight, our national debt was skyrocketing. We also had very significant social issues happening: African-Americans were struggling to enter the mainstream and women were struggling to enter the workforce. The Hippies of the late 1960's were infiltrating deeply into our educational system, dramatically changing the future.

We had wage/price controls to control inflation and we took the U.S. Dollar off the gold standard. The Federal Reserve seemed more in-the-way than powerful and our national government leaders seemed disjointed and ineffective.

We put "quotas" in place to slow down the import of Japanese automobiles; we put "tariffs" on imported steel. We put a "new car buyers credit" on the tax return to spur new automobile purchases and later in the decade we offered a "new home buyers credit" to fix the battered housing industry.

The 1970's was a decade of change; wait, maybe it was a **decade of fighting change!**

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Let's flash forward to the current decade. I believe we are smack dab in the middle of a monstrous sea of changes in our lives, our country and the world. We feel the change, but we can't get a good focus on it. Because it is new, it is frightening and we try to cling to the past. But, the past we are trying to cling to is no longer there... **Remember, everything changed in 2008.**

We are feeling like someone with their head in the cloud...we sort of know what is going on around us but it's not as clear as it used to be.

All of this has been compounded by the massive expansion of the federal government over the last ten years, especially the last few years. And many of us are asking for more government...we want the government to stop the change for us. But that creates even more stress. Think about it, the world is so very dynamic, it is evolving in many different directions at once and the speed of change seems to be accelerating.

Then we have the giant institutions...governments, unions, imbedded industries, etc. that historically have been very resistant to change, trying to gain more and more power to stop the change.

This is drama that the old English playwrights couldn't top. This is big and this is real. And, every one of us has a front-row seat. In fact, almost every one of us is part of the drama. How exciting, how eventful...how stressful, how scary!

Tomorrow will not be like yesterday. Tomorrow will be tomorrow and yesterday will be yesterday. If you want to create a very stressful life for yourself, try to keep tomorrow from happening. I think it would be better to embrace the new dawns with enthusiasm, enlightenment and energy. We will see new technologies we can't even dream of right now that will help us in almost all areas: health care, energy, transportation, communication, education and the list could go on and on.

But, some of the 1970's struggles are still with us, only different. Minorities are now part of the mainstream and women are now integrated in the workforce and our universities, but some of their leaders are fighting to hang-on to their under-privileged status. It is not as much fun being part of the mainstream and therefore part of the problem.

The social programs created years ago were never adequately funded and are creating a massive financial strain on the system. But, we are hanging on to them like we are hanging on to yesterday. Fixing

this may be painful to watch.

Unlike the 1970's our manufacturing sector is past the denial stage and in some areas is already embracing tomorrow. This may be exciting to watch.

Change is so difficult, even when it is so evident.

Is there anyone out there who thinks that the Post Office has a workable game plan? We all know the Post Office has to change dramatically. Yet close on Saturday? No, No, No...we have always done it that way. OK, are you willing to pay extra for Saturday delivery? No, No, No, we've never had to do that before. I sense a little "yesterday" in this drama. We all know about how this is going to end; why are we going to take two decades of drama and wasted funding to get there? Fighting to save an endangered species.

Like the 1970's there is a growing feeling that our political leaders are not up to the task. Or, it may be that the voters, the American people, are trying to elect "leaders" who promise that tomorrow will not happen. Our spending/deficit situation is by far the biggest political and economic problem. Getting this under control will make our transition into "tomorrow" so much easier, but are our leaders addressing this issue? It's time for the public to demand real answers.

Maybe we should all buy a rubber stamp with a Dinosaur on it. Every time we see an institution, an action, a company, a worker, a politician or anything that is part of yesterday that is refusing to become part of tomorrow, it should get a big DINO stamp put on it.

Things have changed since 2008. I think the entire world was unprepared, certainly our leaders were unprepared. But maybe it is the American people who are unprepared. The "baby-boomers", on the whole, seem very unprepared for their next stage of life, our current health-care system is unprepared for the massive increase in demand and it appears our primary educational system is very unprepared for "tomorrow."

We need leaders who accept that things have changed. We must "invest" to make our country financially, militarily and societally strong. We must re-build from within and we must realize that even a super-power must live within its means.

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It is a global world. We may want to retain our isolation from what is happening globally but it is going to be very difficult. So many of tomorrow's problems transcend national borders: cyber-attacks, water, terrorism, adequacy of food and security, economic issues, illegal drugs, etc.

The world must cooperate, but good cooperation requires strong leadership. The U.S. used to provide that strong leadership, but we are now living in a world of transition. Who will provide that leadership in the future?

The TOMORROW I see is a good tomorrow!

I see a global economic boom that will dramatically surpass anything we have seen before. If you attended our recent Lunch with Benedict, you heard me say that the amount of spending on infrastructure throughout the world over the next decade will be greater than the entire cost of World War II. New highways, new hospitals, new schools, new water systems, new communications systems and the list goes on.

People worldwide are demanding better governance. I didn't say this will always be pretty, but it is happening. People have access to information at a level we have never seen before. For years we would say "information is power." Everyone has the information now; how we use it is what makes it powerful and this new power is not limited to the chosen few who have access.

The world is changing rapidly and the big institutions of yesterday are fighting that change with all their energy. The good news is that, of all the institutions in the world that have shown the ability to adapt and change, the United States government has historically lead the way.

The other good news since 2008 or so is that it appears most of the world's problems are now out in the open, on-the-table so to speak. We need leaders who will help us solve these problems...we need an American people who care and who educate themselves about the issues of the day. And, as much as I criticize our leaders, I think I should be chastising the people. But, I also believe we will find a leader(s) who can help us see and understand "tomorrow" which will empower all of us to be more involved and ready for the journey.

What is a fair amount of taxes?

I've been getting questions about the "Buffett Rule" which has apparently become a campaign issue. I say this because I try to avoid anything that hints of a political campaign. I saw none of the debates, I didn't even read about them.

The so-called "Buffett Rule" apparently would make sure that the ultra-rich pay at least a certain level of taxes. That's fine with me and probably with most of them...who cares? They will still have enough left over to support their lifestyles and what little extra the government receives in taxes will be a *drop in the bucket*. But, the idea of taxing the other guy always plays well in a campaign.

Let's forget the ultra-rich as there are very few people in this category anyway. For the rest, what is a fair amount of taxes from their earnings?

Our current President has labeled any household making \$250,000 as "rich." (Households with this Income would be about 2.5% of all families.) Now I'm quite certain if you are working hard at a \$15 per hour job, anyone making \$250,000 is definitely "rich" in your world. Basically, my adult lifetime of working with people and money, tells me that almost everyone thinks that someone making more than they do or having more than they have, is "rich."

So let's assume this level of earnings makes you "rich," what is a fair amount of taxes to come out of your earnings?

For purposes of this discussion we have included all taxes that come out of earnings: federal income taxes, social security taxes, Medicare taxes and state income taxes. (All the assumptions are detailed below.)

If you are a single employee earning \$250,000, you will pay about \$90,516 in these taxes. If you are self-employed, your tax hit is about \$100,967. Is that fair?

If a married couple earns \$125,000/each (\$250,000 combined) as employees, their taxes will be about \$87,758. If both are self-employed the tax hit is about \$105,034. Is that fair?

Is this a fair amount of taxes coming out of their earnings? I don't know, but it does tell me there is a definite limit as to how much more we can tax this group, even though I do not know exactly what that limit is...

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ASSUMPTIONS: Maximum earned income subject to Social Security taxes of \$110,000. Social Security tax rate for an employee of 6.2% and for self-employed of 12.4%. Medicare rate for employee of 1.5% and for self-employed of 2.9%. State income tax of 6%.

What can we do to get our deficit under control?

- Tax the rich
- Tax the oil companies
- Eliminate waste
- Pull out the safety-nets
- Tax Wall Street
- Eliminate the military
- Tax everyone except me and eliminate all spending that doesn't impact me

It seems to me that nothing is more important politically or economically to our country right now than addressing our out-of-control deficit. But the deficit is a simple function of spending and revenues. We either have to cut spending or raise revenues or a combination of the two.

BUT, I don't think the American public (voter) is ready to address either option...yet. We are sitting in front of the television watching sports, playing our video games, texting our friends, Facebooking our other friends, etc. We don't want to change anything, thus we are silently sitting in denial waiting for a major crisis.

I think the main problem is that the American public is too detached from the revenue/spending process. As an example, let's ask Phil Benedict if he is in favor of more income taxes?

"Hell No! All the extra revenue is going to disappear in that big black sewer hole under Washington, D.C. I see no hint of any plan to get spending under control."

Obviously Mr. Benedict is not confident that increased taxes will be used prudently as there seems to be no "governor" on the spending system.

What about a total re-vamp of our system of paying for government, one that gets Joe America involved in both revenues and spending? I don't have all the answers, but here are some ideas to get you thinking:

Isolate the Medicare/Medicaid taxes from the general income taxes. My idea is a separate *national retail sales tax* that is specifically for the medical programs. This way almost everyone contributes just as almost everyone benefits. If medical care costs go up, the rate of sales tax goes up. This just might be a better way of controlling medical costs than numerous government watchdog agencies. It may also create strong social consciousness of healthy living habits.

Keep social security taxes like they are, but "fix-it" you great leaders. (Maybe after you get the rest of the tax system repaired/revamped/re-whatever, you can then focus on creating a 21st Century retirement program.)

Have a flat income tax rate on all income for National Defense. I don't know what this rate would have to be, but let's just assume it is 2%. Everyone in the country pays 2% of her/his income each year for National Defense. What happens if our leaders want to play war in some part of the world...they have to raise the rate of tax and every person in the country is impacted!

Have a flat income tax rate for all other government expenditures. Let's say this is 12%. What if government spends more? Then they have to raise the rate on each and every earner in the country. I think this may be an effective way to control government spending.

What about all the tax deductions and credits and the other various tax preference items? There are none. No deductions, no credits, no capital gains, nothing except - if you earn a dollar from any source, you pay the tax. What about the really poor, won't this hurt them?

We cannot design a revenue generating system around the poor if we are to propel this country into 21st Century leadership. We can create some other programs for the poor, but let's keep the tax/spend numbers clean and simple.

More thoughts on the FEAR OF TOMORROW!

I had an article here about how the markets usually become very volatile beginning in May and then throughout the summer. Jean told me that I write about that every year and everyone knows it. She wants to hear more about the lead article on yesterday and tomorrow.

Let's talk a little about both topics and we will start with Europe which appears to be an economic mess AND a societal mess. Governments have promised people what they want...less work, high wages, lots of vacation and early retirement. The problem is most countries cannot raise enough revenue to make this happen, thus they have been relying on borrowed money to finance their lifestyles. In 2008, everything changed and the debt bubble burst. But, many, many governments in Europe and throughout the world are trying to pretend that things can go on as usual. And, their populace/ voters want things to go on as before.

Much of Europe is clinging to yesterday. Anyone on the outside knows things will have to change...things have already changed...but it is very difficult to let go of yesterday, especially when you are afraid of tomorrow. But, eventually economics puts parameters on our utopian dreams. It is difficult to think the financial markets will be anything but very volatile until investors believe that the leaders have Europe under control. The real risk to investors may be that this plays out like a slow-motion train wreck and people eventually tire of the drama and give-up. **Be prepared!**

In this country our federal government, many state governments and many families are still living way beyond their means. They are clinging and will cling as long as they can, but eventually economics will win out.

Many of our major institutions have a big DINO stamp on their forehead but they don't know it and if they did, don't want to believe it. I was at a college campus recently and noticed the big, new dormitories that were being built...with money borrowed on thirty-year bonds is my guess. Pretty dormitories where each student has her/his own room and a big lobby area for gathering. DINO. Do we really think that decades from now higher education will be a bunch of young adults housed together in an institutional setting? I don't think so. Maybe the college leaders haven't heard of the Internet yet.

I tried to find a contact in the Georgia Department of XXXX, which I won't mention by name. I went to the website and found that it is a massive organization made up of all sorts of divisions, departments, sections, etc. Has this Department had a massive re-structuring in decades? How much of this Department is really necessary? DINO. My guess is that, if this were a private business, it would be less than one-third of the size.

We are in volatile times as we witness the struggle getting to tomorrow. But as investors it appears we have a couple of big things going for us. It appears, despite all the drama, that the emerging middle class in the developing countries will keep growing rapidly and provide the purchasing power to create a strong global economy. And it appears that the one group that is already in *tomorrow* is the large global corporations. It is these globally dominating companies that form the foundation for most of our accounts.

Just my thoughts...thanks for reading!

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