

# THE CURRENT STATE OF THE ECONOMY



July 2010

## In This Issue

Important Articles and  
Must Read Information if  
You Want to Survive the  
Next Decade.



### *The Road Not Taken*

TWO roads diverged in a yellow  
wood,  
And sorry I could not travel both  
And be one traveler, long I stood  
And looked down one as far as I  
could  
To where it bent in the  
undergrowth;  
Then took the other, as just as  
fair,  
And having perhaps the better  
claim,  
Because it was grassy and wanted  
wear;  
Though as for that the passing  
there  
Had worn them really about the  
same,  
And both that morning equally  
lay  
In leaves no step had trodden

I have information that will change you and your family's life forever, and I'll tell you something. If you don't know this information, it will place you and your family in serious financial jeopardy.

"Putting pen to paper lights more fire than matches ever will." -Malcolm Forbes

## Ideas & Views Of Our Current Financial Position- July 2010

Can you believe it? Half a year has already gone by and the second half will zip by even faster. Because things are happening so fast, it is becoming increasingly important that we stay current. This is a very dangerous time! We, as a country and as individuals, will face many challenges in the coming years. How will we fund Social Security, Medicare, and Medicaid, as well as federal, state, and city pensions and other retirement benefits? Every single one of these programs is dramatically under-funded. How will we also cover the rising costs of healthcare reform, interest on the debt, infrastructure maintenance, energy costs, and recovery from natural disasters? Where will we get the money? Do you think income taxes of all sorts will increase? Do you think benefits will be reduced? How will that impact your expenditures in the future? If we can't raise the taxes enough and we can't lower benefits enough, will we have to print the money needed? What impact will that have on our economy? How do you feel about all of this? For those of you who reach out and comment on a regular basis, thank you. Please send me an email or call, I would really like to know how you feel.

Now, for July, I don't want to overwhelm you. I am only including one or two really important articles with each thought. I want you to have a spectacular summer preparing for one of the most tumultuous, volatile periods in history. The next ten years will be filled with almost overwhelming challenges. I believe it will be up to us as individuals and families to turn these challenges into opportunities. That is the purpose of this newsletter: to provide you

black.  
Oh, I kept the first for another  
day!  
Yet knowing how way leads on  
to way,  
I doubted if I should ever come  
back.

I shall be telling this with a sigh  
Somewhere ages and ages hence:

Two roads diverged in a wood,  
and I-  
I took the one less traveled by,  
And that has made all the  
difference.

Robert Frost (1874-1963).

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of knowledge and is being  
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[info@mathenvadvisory.com](mailto:info@mathenvadvisory.com)  
and we will put it up with a  
notification that it's there.

with news you can use to take action. Unfortunately, the newsletter is a bit like those abdominal exercise machines you see advertised on television. It's not magic; it won't give you a six-pack if you let it sit in the closet. Similarly, receiving this newsletter every month is not enough to make you successful. You actually have to use it! You have to get out there and share the things you are learning with your friends and family and take action. Remember, Warren Buffett said, "What we learn from history, is that we don't learn from history." I love that. What has changed about your situation that is going to prevent you from getting wiped out again during the next market downturn? It's coming folks. It's coming fast. Keep reading.

One final thing before I start: have you ever heard the phrase "the third rail" used in politics? I had many times, but was not entirely sure what it meant. We are about to deal with a number of "third rail" issues in this country and I wanted all of you to really understand the term. When I worked in the World Trade Center's Tower 2 in NYC, we would take the light rail trains and subways in and out of the building. They actually have three tracks: two that guide the train and a third rail, which powers them. This third rail carries thousands of volts of electricity, likely resulting in death by electrocution for anyone who touches it. "Third rail" political issues are similarly charged. The "third rail" has become a metaphor in politics for a program or topic that is so untouchable that any politician who dares to broach the subject will almost certainly suffer politically. Examples are changing social programs like welfare, health care or Social Security. Raising taxes and immigration reform are a few more. The next decade will be filled with "third rail" issues that will require great courage from the people who address them. Let us all hope and pray for that kind of courage from the leaders of our country and our world. Without it, we face an uncertain future at best. Let's get started!!

### CONTENTS IN THIS ISSUE:

- 1: WHERE IS THE TRUSTEES REPORT?
- 2: THE STATE OF THE STATES IS PERILOUS
- 3: NATIONAL DEBT: TO INFINITY AND BEYOND!
- 4: INTEREST ON THE DEBT WILL BE OUR BIGGEST BUDGET EXPENDITURE
- 5: FIVE WAYS TO BE IN THE 87 PERCENT TAX BRACKET
- 6: ENTITLEMENTS ARE FOREVER
- 7: PAY TAXES! DO IT NOW!
- 8: NEGATIVE SURPRISES FOR HEALTH CARE REFORM
- 9: \$6 TO \$12 PER GALLON BY 2015?
- 10: DEATH OR NO INCOME! WHICH IS WORSE?
- 11: SHOULD YOU CONVERT?
- 12: DANGER AHEAD FOR CANADA!

## #1: WHERE IS THE TRUSTEES REPORT?

The Social Security and Medicare Trustees report is usually available between April 15 and May 15. It is now July, and we still have not seen it. Many think that the report will not be issued until mid-August. Maybe they hope everyone will be on vacation and not notice! I am certain this report will be astonishing because of how much change has occurred in just one year. Keep an eye out for it! One thing is certain! There will be important changes to our entitlement programs and none of them will be good. One of the articles says that the report will show all our young people paying a 16.6 percent tax for Social Security. If you include Medicare Part A, the payroll tax burden increases to 25.7 percent. If you add Part B and Part D of Medicare, our children will be paying 37 percent by 2054. That is before federal, state, local and property taxes! This is an untenable situation. Other recommendations include massive benefit reductions and an increase in the retirement age to 70 years old. Please watch for this report. It will be available at [www.socialsecurity.gov](http://www.socialsecurity.gov) and of course, I will send it along as well.

Title: Are Overdue Reports Concealing ObamaCare Impact On Medicare?

[\(Investor's Business Daily, July 7, 2010; section A, page 13\)](#)

Title: Work A Little Longer

[\(Investor's Business Daily, July 9, 2010; section A, page 10\)](#)

## #2: THE STATE OF THE STATES IS PERILOUS

Time magazine ran a great cover story in their June 28, 2010 issue, which said that if the federal government is in financial jeopardy, the states are in an even more precarious position. This is true for several reasons. First, the states are financially dependent on the federal government to support some of the programs that are mandated by the federal government. However, the federal government is under no legal obligation to continue providing that support; they can change the rules whenever they want. So as Washington, DC gets buried under the entitlement programs it has to fund, it becomes more and more likely that cuts will come from the revenue-sharing that the feds do with the states. We are already seeing this in the proposed cuts in federal revenue being provided to the states for Medicaid. Another problem is that while the federal government can print money, states cannot. This is a serious problem, because revenues and outlays for states and local governments are larger than at the federal level. Where will the states get the money to survive? They will tax more, and they won't just be called taxes. They will be fees, surcharges, licenses, etc. None of these are deductible on federal returns. Also, states will borrow more. This will increase stress on future budgets as they try to make the interest payments on their debt. Finally, states will cut benefits. We are already seeing reduced pension benefits, reduced retiree health care benefits and reduced contributions to future retiree pensions. All of this again says that there will be higher taxes and lower benefits. That means people will pay more out of pocket

and have less discretionary income to buy goods and services. What impact will that have on stock markets, standards of living, etc?

Title: The Other Financial Crisis

[\(Time, June 17, 2010; page 22\)](#)

Title: States come to grips with pricey pension promises... ..after the feds show the way

[\(USA Today, June 15, 2010; section A, page 8\)](#)

Title: In Budget Crisis, States Take Aim at Pension Costs

[\(The New York Times, June 19, 2010\)](#)

### #3: NATIONAL DEBT: TO INFINITY & BEYOND!

This article from Market Watch provides amazing information in a small amount of space. First, it clearly shows that our country is now \$13 trillion in debt. The Congressional Budget Office now provides information that our reduced deficits of "only" \$800 billion will be short lived, and that we will be running annual deficits of \$1 trillion or more from 2016 going forward. Even the author said they were not totally against deficits and debt if they were for something productive. Look at this graph issued by the Congressional Budget Office. Then read the headline of this article. Do you get the point?

Title: National Debt: To infinity & beyond

[\(Market Watch, June 3, 2010\)](#)

### #4: INTEREST ON THE DEBT WILL BE OUR BIGGEST BUDGET EXPENDITURE

I watch Niall Ferguson on the Bill Maher show all the time. I like him. He is intelligent and articulate and very liberal. The reason this article is so amazing is that even self-identified liberals are starting to take notice of the ridiculous financial decisions being made at the federal level. He says that "in six years, debt payment will exceed defense spending," making it our largest expenditure. He also believes our country's economy is very vulnerable right now. An article like this shows that MATH does not have a political affiliation. The MATH says we have a problem. If the government can't or won't act, then we, as individuals, have to take it upon ourselves to become self-reliant. We have the tools to help you do that.

Title: Niall Ferguson: The US Has 6 Years Before Debt Payments Surpass Defense Spending.

[\(Yahoo Finance, July 6, 2010\)](#)

### #5: FIVE WAYS TO BE IN THE 87 PERCENT TAX BRACKET

The article describes this as the perfect storm of taxes. Here are 5 examples of how to get taxed 87 percent in our country. First, move to New York City and make \$500,000. Second, invest your savings in shares of a large, prosperous American company. Third, wait

until 2011. Fourth, collect dividends. Fifth, buy cigarettes. You will see when you read the article that these scenarios will have negative income tax implications on Americans with smaller incomes as well. You must take action while there is still time.

Title: How to Get Taxed 87% in America

[\(Smart Money, June 25, 2010\)](#)

#### #6: ENTITLEMENTS ARE FOREVER

Twenty-three states, led by California, are in a legal battle to use all available methodologies to balance their budgets. They are being told by the federal court that they do not have the right to cut Medicaid benefits; they can only fund the shortfall by raising taxes. It's absurd isn't it? The court's doctrine will entrench the open-ended entitlement state, as law, in perpetuity. There is so much that people do not understand about programs like Medicaid and healthcare reform. Where will the money come from? If there is not enough money, what will happen to the benefits? What if doctors, hospitals or nurses don't want to participate because of low reimbursements? Will we force them to? There are so many unanswered questions. Please read this article. Be prepared to be offended by its absurdity. We must regain control of our financial futures.

Title: Entitlements Are Forever

[\(The Wall Street Journal, May 29, 2010; section A, page 12\)](#)

#### #7: PAY TAXES! DO IT NOW!

We are faced with new paradigms in the financial world every day. If I had a dollar for every time I told a client to defer paying income taxes I would never have to work again. The new paradigm, however, says that the correct advice is to pay taxes on everything you can now and put the money into vehicles that you can access without later taxation. This applies to both federal and state income taxes and capital gains taxes. What makes this article so compelling is that it is written by the editor of Forbes. This article is impressive, easy to read, easy to understand, and takes less than one minute to get the message.

Title: Pay More Taxes Now!

[\(Forbes, July 19, 2010; page 8\)](#)

#### #8: NEGATIVE SURPRISES FOR HEALTH CARE REFORM

Former Congressional Budget Office director Doug Holtz Eakin has been saying since before the health care reform bill was passed that it would add to the deficit, not reduce it. He explained some financial tricks that were used to get the bill passed. One of the big ones was the \$275 billion doctor fix that the health care reform legislation just ignored. That alone pushed the legislation \$135 billion dollars into the red. Another example is the CLASS Act only counting premiums but not including any claims being paid. The law added many more changes, yet allocated no money to pay for them. Here's the punch line: the current CBO director Dr. Douglas

Elmendorf now agrees with Doug Holtz Eakin. Here is the final sentence from his presentation: "Putting the federal budget on a sustainable path would almost certainly require a significant reduction in the growth of federal health spending relative to current law (including this year's health legislation)." The director of the CBO is bluntly refuting the information and policy claims made by this administration. Read these two articles and you will understand this question: How can we pass a new healthcare reform entitlement program if this legislation adds to the deficit, especially if we already can't afford Social Security, Medicare and Medicaid? If you're like me, you should be up in arms!

Title: Financial Tricks, the Deficit and the HealthCare Bill

[\(Fox News, July 8, 2010\)](#)

Title: CBO Director Elmendorf Destroys A Core Presidential Health Care Argument

[\(Business Insider, June 2, 2010\)](#)

#9: \$6 TO \$12 PER GALLON BY 2015?

It has been forgotten for a while, but I am going to resurrect it. Oil prices more than likely will be \$150 to \$300 per barrel sometime between 2015 and 2020. If you believe the American economy faces difficult challenges now, add \$150 to \$300 per barrel oil to the mix and you have some real issues. How can you use this information? Will energy costs affect where they work and how much? Should they live closer to where they work? What will happen to our stock market? Is there a way to take advantage of those higher prices? How do you feel about these issues?

Title: Barreling Toward Peak Oil

[\(Bloomberg Business Week, May 31-June 6, 2010; page 86\)](#)

# 10: DEATH OR NO INCOME! WHICH IS WORSE?

The Allianz Life Insurance Company of North America just released a study that was very alarming: more than six out of ten people surveyed fear outliving their income more than death. Nine out of ten feel that the U.S. is facing a retirement crisis yet most have very little understanding of how much money and income they will require in retirement. What was really interesting was how inaccurate people were in calculating how much money they would need to provide their required retirement income. We have a strategy that even if you run out of money, you will never run out of income! Isn't it time you understood what is available to you?

Title: Outliving Savings Is Fate Worse Than Death

[\(Boomer Market Advisor, June 6, 2010\)](#)

Title: Outliving Your Money Feared More Than Death - Allianz Life Study Reveals Boomers Guessing at Retirement Needs

[\(Insurance Broadcasting, June 6, 2010\)](#)

## #11: SHOULD YOU CONVERT?

This is an important article because it gives you some things to consider when deciding whether to convert IRAs and 401(k)s to Roth IRAs. I have a set of guidelines that I use to determine if a Roth IRA conversion is in the best interest for you. Generally, I will not convert if you have to pay more than 15 percent income tax. I never convert higher than the 25 percent bracket and you also must be able to pay the taxes from other non-qualified resources. Why? First, what if a decade from now the government does away with the income tax and replaces it with a value added tax and/or a national sales tax? Then you paid income taxes on that money for no reason. Could they make Roth IRAs taxable someday? Maybe, however, I doubt it. You would have a revolution in this country. The government relies upon self compliance and if they changed the tax law after the fact I don't believe it would be well received. I do believe, however, that they could use the income from Roth IRAs to make other income taxable (like Social Security), or make our clients subject to alternative minimum tax, or cause a reduction or loss of the standard deductions, itemized, or personal exemptions by having your total, not just taxable, income exceed a certain limit. I believe Roth IRA conversions have merit as long as you consider these and other issues discussed in the article.

Title: Is a Roth IRA Safe From Taxes?

[\(The Wall Street Journal, June 23, 2010\)](#)

## DANGER AHEAD FOR CANADA!

America's economic problems will probably overwhelm the rest of the world's economies. I believe you will see an even worse downturn than October, 2007 to March of 2009. If you read my newsletter, you will note that we have a myriad of challenges and we don't seem to have the creativity or energy to address them. The key word for Canadians becomes "Safety". This is a very dangerous time. Safety should be the highest priority for everybody. With all the great things Canada has done, it has still not prevented them from going into debt and running deficits at the national level. Every province in Canada now has a deficit: these will grow dramatically in the future. First, because of what happens in the United States and then because of demographics; Canada is getting old fast. Almost 30 percent of the population will be over 65 years old within the next two decades. This does not bode well for most industrialized countries, but especially for Canada. "Safety" is the order of the day. If I ask you, you will surely reaffirm that safety is your number one objective. So I might as well ask, is safety your number one objective? Mine too.

Title: The elephant in the room

[\(Telegraph-Journal, July 3, 2010\)](#)

Have a GREAT summer! You will hear from me again in about 3 weeks.

Your Friend,

Matt

Contact us at Matheny Advisory Group. We're  
looking forward to visiting with you.

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