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# New England Capital Times

New England Capital Financial Advisors, LLC

Registered Investment Advisor

## Janus Looks Forward and Looks Back

By Christopher W. Beale, CFP®

The month of January is named after the ancient god, Janus, the god of doorways, transitions and beginnings. Janus is always depicted with two faces on one head, one looking backwards into the past and the opposite face looking forward into the future. With Janus like powers I would like to show you the market's past performance (this task is easy); while having some fun seeing what may and may not happen in the future (this task is impossible!).

2010 was another year of vindication for those willing to put their heads down and stay invested through the bumpy ride of the stock market. Buy and hold investors have been rewarded with two solid years of portfolio recovery. The total market as measured by the Wilshire 5000 rose 17.16% for the year. Almost all sectors rose in 2010. The Standard and Poors 500 rose 15.06%; the Wilshire Large-cap index rose 15.83%; the Wilshire Mid-cap rose 25.11%; and Wilshire Small-cap rose 28.94%. International stocks posted less robust gains as questions swirled throughout the year about the soundness of European debt and the banks that owned that debt. For 2010 the MSCI EAFE index of developed countries rose 4.90% and the MSCI index of emerging markets rose 28.70%. Commodities mostly went up, but different commodity returns varied. For example, agricultural commodities averaged a positive 34.19%, while energy was up 1.91% in 2010. The bond markets saw yields fall and bond values, which move in opposite directions of yields, go up. The BOA Merrill Lynch index of Treasury Bonds rose 5.9% as the yield on the 10-year note fell to 3.29%. The yield on the 2-year note fell to 0.59% (and actually fell to 0.31% on November 4<sup>th</sup>).

Unfortunately, our investment committee was not astute enough to position your entire portfolio in the world's highest performing market which was Sri Lanka's ASPI and its whopping 96% return. You can take comfort that we also didn't position you entirely in the Bermuda BASX index which fell 44.4% for the year.

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## What Separates the Rich from the Rest?

By Christopher M. Lee, CFP®

What separates the "rich" from the rest? What do they know that we don't know? What is their secret? Well, your wish has come true, as these answers will be revealed in this article.

A couple of weeks ago my partner, Chris Beale, recommended that I read a book he recently read (*The Richest Man in Babylon*, written by George S. Clason in 1926). In our practice, we have a lot of reading to do between the financial publications, portfolio manager updates, annual reports, emails, etc., so when Chris recommends a book he understands how much reading we already do, so it must be a good read.

What a great read it was! It was very refreshing, practical, and it made so much sense. It laid out a blue print that was easy to follow with actual results. In the book, you are taken back to Babylon, the cradle of civilization, whose basic principles of finance are now recognized and used throughout the world.

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## Janus Looks Forward and Looks Back

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The December 22nd report from the US Government's Bureau of Economic Analysis showed that the Gross Domestic Product rose at an annual rate of 2.6%. Once a recovery starts they typically continue until the economy overheats and the Federal Reserve has to take action to slow the economic activity. Therefore, it seems to me, highly unlikely that we will see a double dip recession.

This last sentence appears to be forward looking, so I need to change from my business suit to wizard hat and gypsy shawl and gaze into my crystal ball to predict the future. The best prediction that I can make is to tell you that no one can predict the future (of markets or otherwise). But I would like to review some predictions from last year from some much respected and widely followed analysts.

Jeremy Siegel, who is an author and professor of finance at the Wharton School of Business, predicted in 2008 that the US would avoid a recession. Professor Nouriel Roubini, a frequent guest on many Television financial shows told investors to avoid the stock market in 2009, warning of a further loss of 50%. It gets worse. Jim Cramer, the guy who screams at you on TV, predicted that Goldman Sachs would finish 2008 at \$300 a share and Google's share price would reach \$1,000. Goldman Sachs finished 2008 at \$84, and Google ended the year at \$307. Better still, Elaine Garzarelli, president of Garzarelli Capital, advised her investors to buy Lehman Brothers, Bear Stearns and Merrill Lynch, noting their attractive share prices. Two of those firms no longer exist, and the other was sold in a shotgun marriage to a large banking institution.

What about 2010's early predictions? The web site BusinessInsider.com checked out the forecasts of legendary Wall Street strategist, Blackstone Group economist Byron Wien. He forecast that in 2010, the U.S. economy would grow at a real 5% rate and the unemployment level would fall below 9%; the Fed would hike short-term interest rates above 2%, 10-year Treasuries would be yielding 5.5% by year-end, there would be zero gains in the S&P 500 and Japan would finish 2010 as the best-performing major industrialized market in the world.

The lesson here is to be extremely cautious about pundits, anybody who can predict the future and conventional wisdom about the markets. If we could predict the future with any accuracy, everybody would buy the stocks that were going up, raising the prices to the point where the returns would be essentially zero.

But...if you're feeling adventurous you can turn to the Rollins College web site, (<http://web.rollins.edu> and do a search for "forecast") where the predictions of professional forecasters, the Federal Reserve Board, economists selected by the Wall Street Journal, the Office of Management & the Budget, the Congressional Budget Office and the Wells Fargo organization are all laid out in a grid. They all expect economic growth for the next two years, gradually falling unemployment and low inflation. Let's hope they're right for a change.

### Sources:

GDP estimates, inflation and corporate profits: <http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

Wilshire index data: <http://www.wilshire.com/Indexes/calculator/>

Russell index data: [http://www.russell.com/indexes/data/daily\\_total\\_returns\\_us.asp](http://www.russell.com/indexes/data/daily_total_returns_us.asp)

S&P index data: <http://www.standardandpoors.com/indices/sp-500/en/us/?indexId=spusa-500-usdof-p-us-l->

Nasdaq index data: <http://quicktake.morningstar.com/Index/IndexCharts.aspx?Symbol=COMP>

International indices: [http://www.msccibarra.com/products/indices/international\\_equity\\_indices/performance.html](http://www.msccibarra.com/products/indices/international_equity_indices/performance.html)

Individual country data: <http://www.emerginvest.com/WorldStockMarkets/Countries.html>

Commodities index data: <http://www.standardandpoors.com/indices/sp-gsci/en/us/?indexId=spgscirg--usd---sp----->

Treasury market rates: <http://www.sfgate.com/cgi-bin/article.cgi?f=%2Fq%2Fa%2F2011%2F01%2F01%2Fbloomberg1376-LEB8301A114H01-09KUKTUG8JON51OV81P7VJ81UQ.DTL>

Dan Solin predictions: <http://www.dailyfinance.com/story/investing/financial-expert-dan-solins-three-stock-market-predictions-for/19267143/>

2011 economic predictions: Broad survey: <http://web.rollins.edu/~wseyfried/forecast.htm>

### Technology Tips.....

If anyone is interested in receiving statements via email (instead of paper copies), please contact Ann or Darren who will set you up with secure access.

It is possible to receive this newsletter via email as well. Please contact us if you wish to receive this via email in the future.

**In an attempt to keep our database updated, we ask you to send us an email to:**

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"The pessimist see difficulty in every opportunity. The optimist see opportunity in every difficulty."

— Sir Winston Churchill, Former British Prime Minister

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"Thoughts become things.....choose the good ones"

— Author Unknown

## What Separates the Rich from the Rest?

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Because of these principles, Babylon became the wealthiest city of the ancient world because its citizens were the richest people of their time. They practiced sound financial principles in acquiring money, keeping money, and making their money earn more money. The book starts off with Bansir, a chariot builder, who works long, grueling hours to provide for his family and lives payday to payday. Bansir confronts "the richest man in Babylon" to find out his secrets of success who gladly shares them with him, which I will share with you (and hopefully your loved ones). In the book they are listed as the "Seven Cures for a Lean Purse", which are summarized below. The stories take place 8,000 years ago, so you will see the words "coins, gold, and purses" referenced to money, but hopefully you will get the point:

**1st Cure: Start thy purse to fattening** - Simply put, for every 10 coins you earn, use 9 of them and save 1 coin every payday. Your coins (savings) will start to fatten at once and its increasing weight will feel good in your hand and bring satisfaction to your soul. No matter how much money you are used to making, you can develop this practice. You are in fact saving 10% of your income, which is a modern financial planning rule of thumb.

**2nd Cure: Control thy expenditures** - Do not confuse your necessary expenses with your desires. Moreover, I have seen people whose income goes up, their expenses go up as well (self included). Make a budget of your necessary expenses and include the 1/10th of your savings that is fattening your purse! Stick to it and make sure you pay yourself first!

**3rd Cure: Make thy gold multiply** - It is satisfying to keep the 1/10th of your savings, but it earns nothing. You need to put it to work wisely with the help of some financial professionals (Please see bylines listed above).

**4th Cure: Guard thy Treasures from loss** - This cure talks about not being foolish with your investments and looking to make a "quick buck". Remember when your grandmother told you that if something sounds too good to be true, it probably is? Secure the advice of those experienced in the profitable handling of gold. Let their wisdom protect your treasure from unsafe investments.

**5th Cure: Make of thy dwelling a profitable investment** - Believe it or not, your home is an investment. It may not seem like it now, but existing home prices in the US have historically appreciated around 5.4% annually on average (data from 1968-2009, Natl. Assoc. of Realtors). The gist behind this cure is to own a home versus renting, where you are not building an asset or equity.

**6th Cure: Insure a future income** - Provide in advance for the needs of thy growing age and the protection of thy family. This is obviously being able to have investments that provide income during your retirement years. This includes pensions, Social Security, and Long Term Care Insurance as well.

**7th Cure: Increase thy ability to earn** - The more wisdom we have, the more we may earn. An example of that is education on investments will/should reduce your fear during the down times in the market - which WILL happen - I can guarantee that. Those are the times to invest and to stay invested, when the market is down. I saw an interview on the world news last week, and an investor said that since the market has stabilized, she will start investing again. She missed a 37% increase in the S&P 500 over the past 18 months! Education would have hopefully helped her not to miss out on that potential increase.

Later in the book, they discuss The Five Laws of Gold, which I will discuss in my next article. In the meantime, please practice (or have your loved ones practice) the 7 Cures listed above. I would love to hear your feedback on the trials/tribulations along the way to the road of success!

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

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"When opportunity comes, it's too late to prepare"

— John Wooden,  
Legendary Coach

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"Money is better than poverty, if only for financial reasons."

— Woody Allen, Actor  
and Screenwriter

## By the numbers

GETTING OLDER - Life expectancy at birth of Americans has increased by 10 years in the last 60 years, reaching 78.3 years today. Thus since 1950, life expectancy at birth has increased by 2 months every year (source: Center for Disease Control) 3/22/10 issue, #13.

WORKING FOR THE GOVERNMENT - 1 out of every 6 American workers is employed by the government, either at the federal, state or local level (source: Department of Labor). 8/16/10 issue, #7.

NOTHING TO PAY - Americans filed 140 million tax returns for calendar year 2008 income. Through the use of deductions, exemptions and credits, 52 million tax returns of the 140 million total returns (or 37% of all refunds filed) paid zero federal income tax (source: Internal Revenue Service). 10/18/10 issue, #6.

NOT ENOUGH - Less than 1 in 5 working Americans (19%) is contributing enough money on a pre-tax basis to his/her retirement accounts to realistically project that he/she will be able to retire by age 65 (source: Nyhart, Tom Totten, Craig Harrell). 12/06/10 issue, #7.

THE TOP AND THE BOTTOM- The top 1% of US taxpayers in 2008 paid an average tax rate of 23.3% (i.e., federal income taxes paid as a percentage of adjusted gross income), resulting in total taxes paid of \$392 billion. The bottom 50% of US taxpayers in 2008 paid an average tax rate of 2.6%, resulting in total taxes paid of \$28 billion (source: Internal Revenue Service).

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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...***

It's a GIRL! Breanne "Bree" Margaret Tapley was born December 16<sup>th</sup> at Baystate Medical Center in Springfield, MA. She was 19 inches long and weighed 6 lbs 12 oz. Congratulations to Darren and Shannon on their first child!