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### **YOUNG PEOPLE NEED...** *(continued from page 2)*

to a minor. They will end up having to go through court to settle how to address the payout. This is exactly what you were trying to avoid by naming them beneficiary in the first place. One way to solve this problem is by establishing a trust and naming the trust beneficiary. Within the trust language, you can explain exactly how you want the

proceeds distributed to the children. This will avoid having to go to court.

It's always better to be over-prepared than under-prepared, especially when your children are involved. It's like John Lennon said, "Life is what happens to you while you're busy making other plans."

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# BATES

## Briefings

Fall/Winter 2009



*from George's Desk*

What a year! This has been a year like no other I can remember. The financial markets, the economy, and personal concerns have made this a year I will be happy to see end. But let me take them one at a time.

In the financial markets, we have truly been on a roller coaster. The stock markets started the first quarter with more precipitous declines. The bottom on March 9, 2009 resulted in a 56 to 57% decline from the peak in October 2007, the largest percentage decline in a bear market since 1929-1931.

Fortunately, there has been a remarkable recovery in the last 6 to 7 months in spite of a worsening economy, especially in the unemployment rates. Thankfully, most of our (yours and mine) stock and bond mutual funds have recovered more than half of the declines, though I still think it will likely be two or three more years before we fully recover. I am particularly grateful how well the funds we recommend have recovered compared to most of the major indices. Once again we have been rewarded for trusting the work of active investment managers compared to investing in index funds (passive management).

Unfortunately, all of the bad news may not be behind us. I think it is likely that we may have a short-term correction in the next few months, but I now believe we are in the process of a longer-term recovery.

Some of you have expressed displeasure that the money market mutual funds are paying little or no interest. Frankly, it is because the interest rates on high quality (safe) money market investments are extremely low. As of this writing, six-month treasury bills are yielding less than one-quarter of one percent and two-year treasury notes are under three-quarters of one percent.

Yes, the banks are paying a little more on short-term CDs, but that is because they are charging their prime borrowers relatively higher interest rates compared to the current inflation rate than anytime since the early eighties. In fact, one of the reasons they are charging their best customers higher rates on the money they borrow is that they are trying to recover their losses on the bad loans they made. To me that does not bode well for the economy, because when business has to pay higher interest rates it reduces their growth rate which reduces their ability to create jobs and limits their profitability.

(continued on page 2)

This year  
U.S. companies  
paid more foreign  
taxes than domestic taxes,  
reflecting the influence of  
global markets on the  
bottom line.

Source:  
Standard & Poor's

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## *From George's Desk...* (continued from page 1)

This leads to the next subject, the economy. To be perfectly frank, I am not very optimistic that our economy will snap back as quickly as predicted by some pundits. History does not support the idea that massive government spending programs help grow the economy or reduce unemployment.

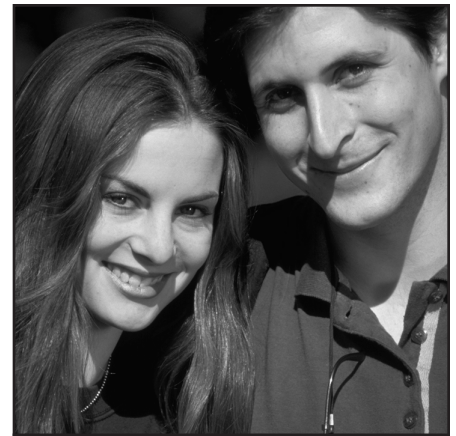
For example, the taxes to pay for the NEW DEAL became astronomical. In 1935 Congress raised the marginal tax rate to 79 percent and later to 90 percent. The then Secretary of the Treasury, Henry Morgenthau, is quoted in May of 1939 when national unemployment was at 20 percent as saying, "We have tried spending money, we have spent more than we have ever spent before and it does not work... We have never made good on our promises... after eight years of this administration we have just as much unemployment as when we started and an enormous debt to boot." Let me underscore this was not a Republican criticizing FDR; it was his own loyal Secretary of the Treasury. I am neither intelligent enough nor a God-gifted prophet to know whether the path our government is pursuing will be successful or not, I just observe that history would indicate it is not likely to be successful.

While on the subject of our government, many of you have heard me say that I believe it is time for all of us to get involved. This morning I heard the former US Comptroller General, David Walker, appointed by President Clinton and retained by President Bush, state that the Federal deficit just passed 12 trillion dollars, that the Social Security Trust fund is underfunded by 7 to 8 trillion dollars and the Medicare Trust fund is underfunded by a whopping 38 trillion dollars. Together totaling almost 60 trillion dollars, which exceeds the estimated total wealth of all US citizens by almost 10 trillion dollars.

How do we get involved? First, by communicating to our Senators and Representatives our feelings on what is going on. True, no ONE of us is going to change much, but collectively if we, by the hundreds of thousands, even millions, start expressing our opinions, those representing us in Washington will take notice. Though there is a lot more I could write, let me simply state that I believe several of the major issues facing our country are severe enough that the financial security of our country is as much at stake as our national security from our enemies.

On a personal note: my dear friend, mentor, and "second father" Bob Trumpy, lost his wife, Marion, of 67 years to Parkinson's disease. In addition, our daughter-in-law, Lisa, almost died from a bee sting in September. Finally, my extraordinary assistant, Barbara, is facing a major health issue which may keep her out of the office for part of the next several months (I know she would appreciate your prayers on her behalf).

I want to close by thanking each of you for your continued trust in us as we assist you with your financial affairs. I can assure you we are doing our best during these challenging times.



### **YOUNG PEOPLE NEED FINANCIAL PLANNING TOO**

*by Erica Amenda*

Unfortunately we never know for sure what to expect in our lives. People are surprised every day. Most have not planned to be prepared to deal with these unforeseen circumstances. And then the question becomes, why not? We insure our homes, insure our cars, insure our health, but do not insure for our children. What would happen to you and your children if your spouse were to die? What if something happened to both of you? Who would take care of your children? With what means would they be taken care of?

Most young people have not acquired enough savings to cover for one spouse's loss of income due to death. It is very important to insure against this possibility. Life insurance proceeds are paid income tax free to the beneficiary and can truly aid in the financial difficulties of losing a spouse. When you think about everything else you insure, why not insure yourself and the future of your family?

What about the money you have acquired? Young children should not be named beneficiary on your retirement accounts or life insurance policies. Most companies are not going to release proceeds

*(continued on page 4)*



# HEALTH CARE REFORM

by George E. Bates

Normally, I try to be as non-partisan as I can in my articles for this newsletter. I am sure that most of you know that I lean toward less government, not more. But, I must admit, I think we are currently experiencing the greatest intrusion into our lives and reduction in our individual rights than anytime in my lifetime.

In the last several months I have discussed with many of you some of the major issues our federal government is grappling with. Though we have not always agreed, I have much appreciated the opinions of those of you who have different viewpoints. I believe I learn from people who have different opinions.

Having said that, I would like to comment on the national debate with regard to reforming our healthcare system. I frankly believe it is so important, that, if done incorrectly, it has the potential of bankrupting our country.

Just this week I received a letter from my supplemental insurance company that effective January 1, 2010 the deductibles and co-insurance amounts for Medicare Parts A and B will increase. Of course that will result in Medicare paying less toward hospital and medical services next year.

Given the track record of the federal government's management of Medicare and the \$38 trillion of unfunded liability in that trust fund, I believe that

the government taking over virtually the entire health care program in our country does not bode well for any of us, most importantly our children and grandchildren.

It amazes me that the administration and the majority leadership in both houses of Congress refuse to include in the debate and the proposed legislation any serious discussion about solving the unfunded liability in Medicare or tort reform (which almost everybody I have talked to agrees should be included).

I have often thought that former President Clinton's idea that we have 50 laboratories in our Great Country called States in which we can conduct experiments on these major social and domestic issues was extraordinarily brilliant and practical. He did that with welfare reform and gained bi-partisan support for the far-reaching revisions. I do not know why we cannot do that with health care reform.

My major purpose in this article is to encourage each of you to communicate to your Senator and Representative in Washington your opinions on this subject. They ARE supposed to represent us, but if we fail to communicate our thoughts, they will be overly influenced by the special interest lobbies in our Capital. In addition, I welcome your views on this and other major issues and will from time to time include various opinions in any future articles. Thank you in advance for your participation.

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*According to the World Economic Outlook Report, published last month by the International Monetary Fund, emerging economies account for about 35% of the global economy on a GDP-weighted basis. Emerging markets' real GDP growth is expected to reach 5% next year, from 1.75% in 2009, powered by China, India and Brazil among others. The real GDP growth in the United States is expected to hover around 1.9%, while Japan's is about 1.4%. Eurozone advanced economies will probably grow at a rate of 0.9%, next year, according to the report.*

*Last year, 80% of people buying cars in China were first time buyers.<sup>1</sup>*

*This year, for the first time, China led the world in car sales.<sup>2</sup>*

<sup>1</sup> Source: The New York Times, April 24, 2008

<sup>2</sup> Source: USA Today, February 2, 2009