

George E. Bates
George D. Bates
Mark Jones
(815) 332-4020
(800) 223-2137

8437 Northern Avenue
Rockford, IL 61107

Beckie Ethell

(217) 525-8833

901 South Second Street
Springfield, IL 62704

This newsletter is a publication of Bates Financial Advisors, Inc. This newsletter is not an offer to buy or sell securities or insurance. Any results shown here are not guaranteed and may, in the future, be better or worse than indicated. Many mutual funds or other investments include sales charges or have operating expenses. For more information on such charges, consult a prospectus. Information and sources referred to are believed to be accurate. If you have any questions or comments, contact Bates Financial Advisors, Inc., 8437 Northern Avenue, Rockford, IL 61107. (815) 332-4020 or (800) 223-2137.

(continued from page 3)

4. Stay on top of updates – Reputable software firms continually update their software to ensure the highest levels of security. Be diligent about installing these updates.

5. Pay attention to time stamps – Look for the “last login” date/time stamp when you log into americanfunds.com or other sites that provide one. If the stamp does not correspond to your most recent visit, follow up with the company.

Learn about other steps you should take to protect your information on our website at americanfunds.com/protect.

From a recent American Funds newsletter. I thought this might be helpful.

www.batesfinancialgroup.com



BATES

Briefings

Summer 2012



from George's Desk

In an election year, it is very easy for people (like me) who are interested in politics to get caught up in the ideology in which they believe.

To be totally upfront, I am one who believes that less government is the best government. Do not get me wrong, I did not say that there should not be any government. Human greed, a trait that most human beings share (more or less), demands some agreed upon constraints. We have too many examples where when given a chance, typically through a business organization, people will try to gain a monopolistic position and then use their position to exploit others, usually financially. Thus, rules and regulations have an important, even essential, role in a democracy.

Having said that, and I believe it wholeheartedly, I cannot think of one government program that is both effective and economically efficient. If you know of one PLEASE let me know, but consider both of these criteria.

Recently, the President made a statement to the effect that businesses would not succeed if it were not for government. What he did not say is that without successful businesses there would not be any government. Why, because without business, people would not have jobs, and without jobs people would not pay taxes, and without taxes there would not be a government.

Apparently he does not realize, having had no business experience, that though government has built the highways and streets (just to name one accomplishment of government) which are important for most people to do business, those highways and streets have been paid for by the collection of taxes from those businesses and the people that work in them. In fact, everything that any government does is only possible because businesses, and the people that work for them, pay out of their earnings. It is taxes that pay for those government activities.

While I am on the subject of government and spending, I would like to share with you some financial facts that I recently read: When President Bush proposed a budget for 2009 (the first year of President Obama's administration) it included a 3% increase in federal spending. However, when Mr. Obama became President with a veto proof majority in both houses of Congress, the budget and federal spending were increased 17.9%. He cannot blame his predecessor for that.

Another startling fact is that under President Obama's administration the federal government spending has averaged 24.4% of GDP (gross domestic product or the total of all U.S. business revenue). This is the highest of any President since World War II.

In contrast, federal spending averaged 19.6% during President Bush's two terms, 19.8% during President Clinton's two terms and 19.7% for the 60 years between World War II and 2008 (remember that we fought two wars, experienced a Presidential assassination, a disgraced President and Vice President resigned from

(continued on page 2)

BATES

Financial Group, Inc.

- **Business Succession Planning**
- **College Expense Planning**
- **529 Plans**
- **Estate Planning**
- **Financial Planning**
- **Income Tax Planning**
- **Income Tax Preparation**
- **Insurance**

Life
Health
Long-Term Care
Medicare Supplement

- **Retirement Plans**
IRA/SEP-IRA Plans
403(b) Plans
Keogh Plans
401(k) Plans
Pension and
Profit Sharing Plans

- **Stock Brokerage**
Stocks and Bonds
Mutual Funds
Annuities
Treasury Bills, Notes
and Bonds

Call us at
815-332-4020 or
1-800-223-2137

office, an oil embargo that led to price freezing, and any number of other economic challenges and traumatic events.

I am painfully aware that President Obama has had to deal with a very difficult economy, but I would argue probably no more than what Ronald Reagan inherited. Just a reminder: In 1981 we had 13% inflation, 21% interest rates, unemployment over 10% and what the economists called "stagflation" meaning high inflation and a stagnant economy. Furthermore, the stock market, as measured by the Dow Jones average, had bounced up and down between 1000 and 600 without ever going above the 1000 it first reached in 1965. For the 15 years prior to President Reagan's inauguration the stock market had shown no gain. He was able to dramatically raise economic growth, reduce inflation and interest rates, and reduce unemployment with a new tax law that greatly reduced income tax rates and reduced the federal budget 5% in his first year in office. All in spite of a recalcitrant congress.

I am VERY aware that a number of you who receive this letter support President Obama, and I certainly support your right to so. However, I personally believe that the financial crisis this country is facing is in part due to the policies he has enacted. I believe the facts that I have stated above support that belief.

His refusal to take serious leadership on reforming Social Security, Medicare, and Medicaid not only raises questions about his judgment of the financial abyss, that these programs are leading to for our country, but also the magnitude of debt he is saddling on future generations.

What is currently going on in Greece, Italy and Spain is where we are headed if we do not radically change our spending at every government level.

In closing, I would like to repeat a story about government tax cuts that I included a few years ago in Bates Briefings.

A group of friends were talking. "I am opposed to those cuts," one friend declared, "because they benefit the rich. The rich get much more money back than ordinary taxpayers like you and I, and that's not fair." "But the rich pay more in the first place," the other argued, "so it stands to reason that they'd get more back." The first friend was unimpressed by this meager argument. Many people are a prisoner of the myth that the "rich" somehow get a free ride in America.

Nothing could be further from the truth.

Let's put tax cuts in terms that everyone can understand. Suppose that everyday ten men go to a restaurant for dinner. The bill for all ten comes to \$100. If it was paid the way we pay our taxes, the first four men would pay nothing; the fifth would pay \$1; the sixth would pay \$3; the seventh \$7; the eighth \$12; and the ninth \$18. The tenth man (the richest) would pay \$59.

The ten men ate dinner in the restaurant every day and seemed quite happy with the arrangement until the owner threw them a curve. "Since you all are such good customers," he said, "I am going to reduce the cost of your daily meal by \$20." Now dinner for the ten only costs \$80.

The first four are unaffected. They still get to eat for free. Can you figure out how to divvy up the \$20 savings among the remaining six, so that everyone gets his fair share? The men realized that \$20 divided by 6 is \$3.33, but if they subtract that from everybody's share, then the fifth man and the sixth man would end up being paid to eat their meal.

The restaurant owner suggested that it would be fair to reduce each man's bill by roughly the same percentage and he proceeded to work out the amounts each should pay.

So the fifth man paid nothing, the sixth pitched in \$2, the seventh paid \$5, the eighth paid \$9, the ninth paid \$12, leaving the tenth man with a bill of \$52 instead of \$59. Outside the restaurant, the men began to compare their savings.

"I only got a dollar out of the \$20," declared the sixth man pointing to the tenth, "and he got \$7!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar, too. It's unfair that he got seven times more than me!"

"That's true," shouted the seventh man. "Why should he get \$7 back when I only got \$2. The wealthy get all the breaks."

"Wait a minute," yelled the first four men in unison. "We didn't get anything at all. The system exploits the poor."

The nine men surrounded the tenth man and beat him up. The next night he did not show up for dinner, so the nine sat down and ate without him. But when it came time to pay the bill, they discovered something important. They were \$52 short!

That, boys and girls, is how America's tax system works. The people who pay the highest taxes get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up at the table anymore. There are a lot of good restaurants in Switzerland and the Caribbean.

P.S. I know this sounds very political. Unfortunately, political policy has a significant impact on our finances.

From *Investor's Business Weekly*:
I found the following info interesting:

The percentage of each past president's cabinet who had worked in the private business sector prior to their appointment to the cabinet. The private business sector is a real-life business, not a government job. Here are the percentages:

Theodore Roosevelt	38%
William H. Taft	40%
Woodrow Wilson	52%
Warren G. Harding	49%
Calvin Coolidge	48%
Herbert Hoover	42%
Franklin D. Roosevelt	50%
Harry S. Truman	50%
Dwight D. Eisenhower	57%
John F. Kennedy	30%
Lyndon Johnson	47%
Richard Nixon	53%
Gerald Ford	42%
Jimmy Carter	32%
Ronald Reagan	56%
George H. Bush	51%
William Clinton	39%
George W. Bush	55%
Barack Obama	8%

This info prompted me to ask the following questions:

1. Is it reasonable to assume that a person who has zero experience in running a business, and who surrounds himself with advisors, the vast majority of which also have no business experience, can be qualified to tell American businessmen how they should run their business?
2. Should it surprise us that people who have never had to pay attention to a profit and loss statement, would have no qualms about issuing thousands of rules and regulations, which businessmen then must comply with, with little or no thought to the cost of the implementation of those rules and regulations?

Common Mistakes Of Retirees

1. Being too conservative with money
2. Putting off planning for the future
3. Bailing out the kids
4. Paying too much in taxes
5. Following the financial advice of friends and family
6. Underestimating the cost of healthcare
7. Underestimating how long you will live

Financial Nightmares For Baby Boomers (Bloomberg)

1. Inflation
2. Parent-child sandwich (21% of care givers, parents moved in – those helping parents average spending 10% of income)
3. Scams
4. Gold Bubble burst
5. Not saving enough
6. Retiring too luxuriously
7. Too much concentration in company stock (18% in 2010)
8. Another stock market crash
9. Failure of family business
10. Living too long (42% underestimate how long they will live)
11. Rising health costs
12. Underwater mortgages (11.1 million underwater ending 2011)
13. Washington changes the rules.

FIVE WAYS TO PROTECT YOUR ONLINE INFORMATION

From time to time, it's a good idea to review the steps you can take to safe-guard your personal information. Start with these five reminders about smart online and computer set-up practices.

1. **Think before you click** – Avoid clicking on pop-up ads, downloading information from unknown sites, or clicking on links in emails from unknown sources.

2. **Be wireless wise** – Follow the manufacturer's security recommendations when setting up a home network to ensure it is properly encrypted. Only log in to fully encrypted websites when using wireless hotspots in cafes, airports, and other public places. (Look for https in the website address and a lock symbol at the top or bottom of a page).

3. **Keep your security software current** – Safeguard your computer and operating system with the latest antivirus and antispyware software.

(continued on page 4)