

# THE COMPASS



## Tea Leaves

Volume 8 Issue 8  
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### Important Financial Dates

#### August 15

- 941 deposits due

#### September 15

- 941 deposits due
- Federal 3rd qtr. estimated taxes due
- All Corporate extension must be filed

#### October 1

- Deadline to establish SIMPLE IRA retirement plans

#### October 15

- Personal, Partnership, Trust & 5500s tax returns on extension due

#### October 31

- 3rd qtr. payroll tax returns due

**FREE Rollover Helpline**  
888-323-3456

We all witnessed the fiasco the knuckleheads in Washington exhibited earlier this month with respect to raising the debt ceiling. Effectively they increased the debt by \$2.0 tril (which has to be paid off), lowered the US credit rating and have locked in 0% interest rates for the next two years. None of the fiscal or monetary tactics have helped get the economy growing or reduced unemployment. In fact most of the recent economic metrics have shown the economy slowing into a stall speed and significantly increasing the probability of a double dip recession.

Everybody wants to grow the economy to reduce the unemployment and bring in more tax revenue to the federal government. None of the boneheads in Congress can agree on a common plan. The current administration just wants to spend more and increase the deficit and debt. The opposition wants to significantly cut spending and firmly against any tax increase. The probability of getting any majority vote from the Super 12 Committee is as plain as the tail on a goat. Most educated people outside the beltway agree there needs to be significant spending cuts, reduced entitlements and a simplified flat tax across the total population. Fat chance of this happening during this administration.

So where does that leave us. The only answer is the federal banks printing presses. As the money supply increases, the direct result is inflation. This will result in a deteriorating dollar and erosion in your purchasing power. What can you do to protect yourself? Build a diversified portfolio of commodities, foreign currencies, inflation protection bonds and high yielding US multinational dividend stocks and/or bonds. Call Bob Dubee at Quest (888)323-3456 to see how your current portfolio would survive this coming stress test.

## What Happens When the Next Big Crisis Hits?

If the US economy goes into a double dip recession, would your portfolio take a dive? How would it react when the tsunami hits from a European sovereign going bankrupt? What happens when China's economy has a hard landing? What if there is a flash crash? What if there is a cyber attack on the US financial system? What happens if California, Illinois and New York go bankrupt?

The above are hypothetical. We all witnessed the fiasco with the boneheads in Congress and Senate last month with increasing the debt ceiling. Right after that was the S&P rating agency dropping the US from AAA to AA+. Based on the metrics, they should have dropped it a lot more. Then we had the wild ride in the market that dropped the DJIA 17% and the S&P 500 18.8%. How did your portfolio perform? How could you position yourself?

There is a new "black swan in a box" software tool called "Hidden Levers" that can perform some of the best "stress tests" for small investor portfolios. It has analyzed the 10 yr. and 2 yr. correlation between 130 economic indicators and the entire universe of US stocks, ETFs, ADRs, 20,000 mutual funds, 300 closed end funds, 28 indexes and 15 currencies. This model then examines how changes in the economic metrics, change the value of a given security, or a whole portfolio.

Quest Financial Services, Inc. may be one of the few RIA firms with access to Hidden Levers to be able to run unique stress tests on your portfolios. This will be complementary for current Quest clients with portfolios  $\geq$  \$250k. If you are not a Quest client, but are interested in running a stress test, call Bob Dubee at (888) 323-3456.

## Controlled Chaos

As Labor Day approaches, we traditionally send all of our kids back to school. No more trips to the amusement parks. August was certainly a month for roller coasters. Market makers, both high frequency computer trades and broker dealers, delivered heavy and volatile market surges and plunges. This was the first real test since the May 8, 2010 "Flash Crash" when the market dropped almost 1000 points in a few minutes. That event wiped out \$1.0 tril in equity value so quick that many retail investors still remain out of the market.

According to the Numbers in this week's Barrons:

2007	# of days S&P 500 moved $\geq$ 3%	1
2008	"	42
2009	"	23
2010	"	8
2011 YTD	"	7

Volatility is back. This is traditionally measured by the VIX. Traditionally this index is  $\leq$  20. As volatility increases it increases. In August, it was  $\geq$  40 for the most part. Volatility is good for high frequency computer traders that can make millions of dollars on a fraction of a point in seconds. Traders love the volatility also, if they are on the right side of the trade. Just remember it takes two to make a trade, and for every winner, there is a loser. According to the IRS, 85% of all traders lose money. Think you are good enough? Knock yourself out.

For long term investors, you need a game plan. Diversification, stop limit orders, stop loss orders and a stomach that can let you ride the volatility for the long run. Call Bob Dubee at Quest Financial Services, Inc. for the right balance that meets your risk tolerance. Leave the roller coasters for the kids at the summer amusement parks.

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## Long Term Care Insurance Buying Tips for Smart Shoppers

### What Intelligent Buyers Need to Know

Is it smart to plan ahead and to be prepared? We think so... And in this day and age, few can deny the wisdom of owning long term care insurance protection to assure a carefree retirement. It only makes sense to hedge your bets. Few want to spend down assets prematurely for unexpected, prolonged care or be a burden on their family. People do not want to lose control of their money. Most folks want to provide for their future well-being.

That's why Americans are planning ahead to protect themselves. Forgive the slang, but the street-wise tip of the savvy, financial advisor is simply this: "Regarding long term care insurance - Get it, or sweat it."

But long term care insurance policies are complicated at best, and the consumer is often overwhelmed in the insurance decision process. It's important to have intelligent guidelines to follow and even more important to have knowledgeable guidance from someone who specializes in LTCi. If you are going to buy long term care coverage, then BUY SMART!

### **Eight Tips for Buying Better LTC Insurance**

Read the Fine Print!

Several features exist by which to distinguish a truly competitive long term care insurance policy. (Note: These features are in addition to the typical policy features such as guaranteed renewability, no prior hospitalization required, bathing included as ADL, care coordination, inflation protection, visiting nurses/aides/chores/companions covered, etc.)

### **High Ratings**

You want your long term care insurance carrier to have a rating of no less than A- by A.M. Best, the industry rating service.

## **Eight Tips for Buying Better LTC Insurance cont.**

### **Name Recognition**

In long term care insurance, "Name Recognition" and "High Visibility" are not necessarily indications of the highest quality policy. The financial ratings and actual legal wording of each carrier's contract must be analyzed objectively to determine exactly what the carrier is allowing itself to be liable for. Although LTCi is becoming more standardized than in the past, a more highly recognized company may actually get away with a less competitive offer by virtue of the "goodwill and professional reputation" associated with its name.

One can not make a general assumption on how a carrier will behave based solely on past claims administration. Each contract clearly states the conditions under which the company will pay. Long term care insurance carriers do not stay in business by giving money away indiscriminately, so this is certainly no place for sloppy or wishful thinking on your part. Always read your entire LTCi contract and get complete clarification from your agent.

### **Avoid the Nursing Home**

Any comprehensive Long term care insurance coverage should bind the carrier to pay out not only for skilled nursing facilities (SNFs), but for assisted living facilities (ALFs) as well as home care. Why? Because an SNF (usually called a "nursing home") is the setting of last resort. No one wants to go prematurely into a SNF environment, and they will make every effort to remain at home or with family.

When staying at home is no longer practical or possible, one will typically want to live in an assisted living facility (ALF) for as long as possible. ALFs go by several names: Adult Care Home, Residential Care Home, Christian Science Facility, Alzheimer's Unit, Domiciliary Care Facility, Adult Congregate Living, Community-Based Residential Facilities, Board & Care Home, etc.

Some long term care insurance policies limit benefit payments for ALFs. This financial situation may encourage the family decision makers to place the client into a SNF prematurely.

### **Look for Liberal Long Term Care Insurance Policy Wording**

Committed long term care insurance carriers take a higher road. It may seem a small point, but good policy wording will be very clear about paying full benefits for ANY level of facility, whether ALF or SNF. The better long term care insurance contract will contain a clearly broad definition of ALFs, as well as home-care, which will hold the long term care insurance carrier liable to pay for ANY state-licensed care facility.

### **Go for the Tax Breaks**

Non Tax qualified long Term Care insurance policies have less restrictive wording, and for that reason alone, there are people who choose them. However, to be safe, the wise consumer should consider purchasing a tax-qualified long term care insurance policy rather than one that is non-qualified. It is not so much the possible deductibility of premiums that is important. It is that the benefits from qualified plans are guaranteed not to be considered as taxable income.

It's hard to believe, but the IRS still has not ruled on taxability of benefits received under a non-qualified plan. So there is a legislative risk that one would have to pay taxes on all benefits received under a non-qualified contract. Paying back taxes on benefits could be devastating for your family, as the benefits and the tax liability they may someday incur, could be substantial.

By law, all tax-qualified long term care insurance policies must conform to federal guidelines: A) There can be no "medical necessity" trigger for benefits B) For benefits to begin, it must be certified that one's condition will last for at least ninety days C) One must either have a "cognitive impairment" or require "substantial" assistance with activities of daily living.

### **The Crux of the Matter**

A competitive contract should have a specific, liberal policy definition of the phrase "substantial" assistance. Background: To receive tax-qualified Long Term Care status, a policy must state that in order to trigger benefits, one policy trigger must be a certification that the insured need "substantial" assistance with 2 of 6 ADLs (Activities of Daily Living - typically defined as eating, bathing, toileting, transferring, continence, dressing, etc. NOTE: It is essential that Bathing be included as an ADL, as bathing is the activity that one will likely need help with first - a policy that excludes Bathing as an ADL is NOT competitive in today's market).

## **Eight Tips for Buying Better LTC Insurance cont.**

### **Don't Settle for a "Hand's On" Contract**

Where long term care insurance policies differ most widely is in their definitions of the word "substantial". A conservative interpretation would mean personal, one-on-one, "hands-on" help from another human being. This wording may not allow benefits until much later on, when one is "on their last legs." A more desirable interpretation of "substantial" includes "directional" assistance ("Mr. Smith, now it's time to eat. Pick up your spoon now.").

Another desirable phrase is "stand-by" assistance (which means that a human being is nearby to monitor, observe and help if needed). Each of these desirable phrases should be included in any policy under consideration! Specific, liberal policy wording is definitely in the consumer's interest, as a liberal policy may pay benefits weeks, months or even years before the restrictive, "hands-on" policy - saving one untold thousands of dollars.

Again, beware of restrictive or vague definitions of "assistance". Think about it: A long term care insurance carrier may be sold, or it may get new management. Specific legal wording is crucial, because it is all that is enforceable in the contract. Vague wording is always vulnerable to unfavorable "interpretation" by whomever is in charge at claims time. Restrictive or vague definitions could leave a policy holder out in the cold when they can least handle it, costing them untold thousands.

That's NOT why we take out coverage! A knowledgeable, objective long term care insurance broker can help select a competitively-worded policy.

### **Be Prepared**

Every financial professional now has a moral, if not fiduciary, duty to recommend that each client consider long term care insurance protection - no matter what the client's age or net worth. Failure to do so may be grounds for a malpractice suit. Yet financial planners may not be the best person to help you make your Long Term Care insurance decisions. It's best to work with a LTC insurance specialist who handles many companies and has had years of experience in the field.

## **Shopping for Long Term Care Insurance? Compare the following:**

### **How long has the company been writing this insurance?**

What is their history on payouts?

### **Is there a company history of premium increases?**

How does this fit with your health insurance coverage?

### **How do they treat pre-existing conditions?**

What are their choices of daily benefit amounts?

### **Are benefits indexed for inflation?**

How is the inflation indexing calculated?

### **Under what conditions are premiums waived?**

What benefits are covered, besides basic nursing home costs?

### **What are their choices for payout/benefit years?**

What other optional benefits are available? At what cost?

### **What are the settings for covered care? Nursing home? Assisted Living Facility? Home care?**

How many days must you wait before benefits start (referred to as the "elimination period" or "deductible")?

Choices are: Day 1, day 20, day 30, day 60 or day 90?

### **... and finally: Premium costs.**

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