Quest Financial Services, Inc.

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The Compass

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Important Financial Dates

June 15

- 941 deposits due
- Federal 2nd qtr. Estimated taxes due

July 31

- 2nd qtr. payroll tax returns due
- File Retirement Plan Information returns (5500) or extensions

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

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Pickles to Candy

The other day I was picking up some stuff for a weekend cookout. In the pickle aisle I was amazed at the wide choices of pickles – dill, sour, kosher, sweet, bread & butter, and gherkins. All of a sudden I remembered some comments from a national news reporter earlier in the week, who remarked on all the "pickles" the clowns in Washington have gotten us into right now.

Let's start with the international ones. Not only are we still in Iraq, but also have a quagmire in Afghanistan that has no end. Now Obama has the US involved in Libya. To what end? After the Egyptian uprising, all the mid-eastern countries have taken the lid off the cauldron and all the tribes and Islamic fanatics are trying to grasp power. The pro-US leader of Yemen just left the country this weekend after the rebels shelled his palace. This will leave a void there to be filled by Islamic zealots. At least we know why we are in the Middle East. Oil.

China and the Pacific Rim countries are having sporadic growth and exporting their inflation of commodities and goods to the rest of the world. Just look at gold, copper, oil and cotton.

Now look at Europe and the PIGS which we have addressed several times in the last year. This past week after the IMF head got caught with his pants down in New York City, Jean Claude Treche has announced that the Greek bondholders will have to take a haircut. Most knowledgeable analysts think they will only get about 25% back. If you were German, how would you feel? Can Portugal, Spain and Italy be far behind? For a similar analogy, let's come home.

As a segue let's look at California, Illinois and New York, who have irresponsibly run up a collective deficit of almost $60 billion dollars. They seriously want Washington and the other 47 states to bail them out of their irresponsible, progressive spending promises. Since when is a jail guard in California worth $100,000/year pension, or a town selectman worth a salary of $800,000? If you don't believe these examples, look up the news on Google in the last 5 months.

Now turn to real estate. The Case/Shiller report released last week just reported housing valued dropped to a 9 year low. This is driven by the 1.5 million housing foreclosures currently on the market, dragging down all values. This is a direct result of the Community Reinvestment Act of the Jimmy Carter Administration in 1977, picked up and perpetuated by Clinton and Barney Frank to give a mortgage to anyone who could fog a mirror. Most of the current foreclosures are due to loans to people who could never have qualified for a mortgage with normal underwriting standards. The HUD, GNMA, FANNIE MAE regulators never looked at or enforced reasonable underwriting standards. If you don't believe this, read any of the books just written documenting the 2008 financial crisis.

Pickles to Candy cont.

Over the last few years, Washington has tried throwing all kinds of tax money at the economy. There was the $350 billion for Tarp, the bail out of GM, Chrysler and AIG, and the $800 billion stimulus of “shovel ready projects” that was a dismal failure. Last year the government injected another $600 billion in QE2 (Quantitative Easing). Last December Congress cut another $100 billion in reduced FICA. All of these funds have totaled $2.8 trillion on the Feds Balance Sheet. A number of analysts are concerned that when the Fed starts to reduce their Balance Sheet it will become highly inflationary. Do any of these Washington career pols know what to do?

Unless you are hiding under a rock, the prime news every day is about the increasing US government debt ceiling of $14.3 trillion dollars. We are witnessing an ideological showdown. The current administration wants to kick the can down the road by increasing the debt ceiling by $2.0 trillion and hoping we can grow our way out of it. At least Representative Ryan’s plan provides a clear way to cut spending by $4.0 trillion over the next few years. Does this sound like Greece? Can you imagine if we had to take a 75% haircut of US government treasuries? On the current course, we will, either directly or indirectly. The government wants to pay today’s debt with future printed dollars. Just look at Germany in the 1920s or Zimbabwe over the last few years. Inflation is our greatest threat. Just look back to 1970 when we had 21% inflation during the Carter Administration. This is a fact. Look at history. My 1981 mortgage was at 15%, compared to today’s 4.0%. When Ronald Regan got elected in 1982, he put Paul Volker in charge of the Federal Reserve and shut off the printing presses. Inflation fell 20 straight years from 21% to 1.0%. President Regan is quoted as saying the government is not the solution to the problem; government is the problem.

Obama will not listen to his own Simpson/Bowles Commission of November 2010, on tactics to fix this deficit. Why? To protect his electorate? Is that why he wants to give citizenship to the 15 million illegal immigrants?

Now let’s address the gherkin pickle – the unemployment. On Friday, only 54,000 jobs were created in May, down from a 240,000 average in the prior three months. The unemployment rate increased to 9.1%. Most analysts agree the real unemployment, when considering workers dropped out or under-employed, is approximately 16%. No wonder no one is buying houses and their values are falling. We are all paying the price.

Why aren’t businesses hiring? It is uncertainty! The issues are health care, taxes, regulation, deficits, and inflation. No politician or academic advisor in the current administration has ever made a payroll or created a real job. They just keep kicking the can down the road. The European socialistic tax and spend policies are not the answer. As Rick Santelli of CNBC quoted, “Barack, Harry, Nancy and Barney – are you listening?” To quote Bill Clinton in 1992, “It’s the economy, stupid.” A fine pickle they have gotten us into.

On exiting the supermarket at the cashier, the light went on over Marblehead. The answer to the pickle problem was right there in a box on candy. The solution comes from outside of Washington. Two candidates have the experience, brains and chutzpa to lead us out of this pickle. Both have worked in private industry and know how to create jobs. Both have straightened out gargantuan messes (Salt Lake City Olympics and balanced a $4.3 billion Minnesota deficit without raising taxes) to be successful. Both have been governors that have successfully reduced spending and put their respective states on a solid financial foundation. One could almost say they are from St. Louis, the “show me” state, but they are not. They are from Massachusetts and Minnesota. Mitt and Tim have the knowledge, experience, and balls to lead this country back to greatness before it is too late. Romney and Pawlenty is the answer. The candy at the counter is “Good and Pawlenty”.

If you don’t agree, come up with a better team. As most of my clients know, my favorite saying is “I’m from Missouri.”

For an answer to the US government tax and spending problem, reference the ten step prescription government financing on our questfsi.com website.

For suggestions to position your portfolio and preserve your future purchasing power, reference several of our prior newsletters on our questfsi.com website.

Rx for Government Finances

Part 2 of 3

As the circus goes on in Washington about the upcoming vote to increase the debt ceiling, each party is digging their heels in. One party wants to grow tax revenue to solve the problem while the opposing party wants to slash spending. In our prior April newsletter we presented the first of three articles to recommend a simple, straightforward solution to address the US government spending and funding problem. The first article addressed a cure for the three major entitlements of Social Security, Medicare, and Medicaid. This article Part 2 is to cure the tax revenue.

The cure for the federal income tax is very simple. Do away with it. Remember when you were young and had an Etch-a-Sketch toy, you could just shake it and erase what had been drawn? You would get a new clean page and be ready to start all over again. Five years ago the IRC (Internal Revenue Code) had almost 17,000 pages. At last count it is approaching 71,684 pages. Shoot it, kill it, burn it.

Replace the IRC with a simple VA (Value Added) Tax similar to what has been in Europe for the last 50 years. It can be compared to a simple sales tax put on all purchases. It would encompass a much broader base then those paying income taxes. Anyone in the underground economy would have to pay the VA tax on any items that they consume. Another group that currently pays no income taxes would be all of the felons that derive their income from illegal activities. They too would be forced to pay a VA tax on any of their purchases or services that they consume. Finally, all of the privileged income or tax exempt groups would also be added to the base of a VA tax on all of their consumption. Individuals would need to pay approximately 9% VA tax on all purchases to balance the federal budget. Corporations would be assessed an 18% income tax on their net operating income which is a significant reduction from the current 35% corporate tax rate.

Because the IRC was a progressive tax structure with increasing rates as income went up, there could be certain exemptions for low income individuals. If food, medicine, clothing, energy, or rent (or the cost of a primary residence) were excluded, the result would be to increase the VA tax to 18% on all other purchases. To protect charitable organizations, a VA tax credit could be issued for all charitable contributions.

The total Rx for Government Financing is on our website questfsi.com under Resources, Quest Resources. The third and final article in the next newsletter will address how to permanently fix the US government structure to keep it financially responsible.

Will Social Security Retire Before I Do?

People have traditionally seen Social Security benefits as the foundation of their retirement planning programs. The Social Security contributions deducted from your paycheck have, in effect, served as a government-enforced retirement savings plan.

However, the Social Security system is under increasing strain. Better health care and longer life spans have resulted in an increasing number of people drawing Social Security benefits. And as the baby boom generation (those born between 1946 and 1964) approaches retirement, even greater demands will be placed on the system.

In 1945, there were 41.9 active workers to support each person receiving Social Security benefits. In 2009, there were only 3 workers supporting each Social Security pensioner. And it is projected that by 2030, there will be only 2.2 active workers to support each Social Security pensioner.[1]

You should consider that as your income gets higher, Social Security replaces a proportionally smaller percentage of retirement benefits. It used to be that you could receive full benefits only after you reached age 65. But in 2003, the age to qualify for full benefits began to increase on a graduated scale. By 2027, the age to qualify for full Social Security benefits will have increased to age 67, where it is scheduled to remain.

That means in the future, you will probably have to wait longer to qualify for full Social Security benefits to start replacing a *smaller* percentage of your pre-retirement income.

Your long-term retirement planning program should recognize Social Security benefits as playing a more limited role when calculating required retirement income. Indeed, some financial professionals suggest ignoring Social Security altogether when developing a retirement income plan.

This material was written and prepared by Emerald.
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