



For All That Wealth Secures™

Special Points of Interest

- What people think about the market (sentiment) and economic realities are two very different things.
- How the tax law changes will effect the federal government next year.
- Honoring our military sons
- Newton's science of gravity can't predict the stock market!

Market Sentiment vs Economic Reality by Michael C. Lantz, CPA/PFS, CFP®

Wow there is a lot going in the world of finance these days. It seems like all the news is bad. Then of course we have seen some major volatility in the stock market and the DOW has preformed negative over the last month.

I've attached an article written by my friend Jim Parker at the Dimensional Fund Advisors. He addresses the market in relation to the economy. While it's a fact that there is much uncertainty, I wanted my customers to know it's not panic time yet...if ever.

From Jim Parker:

Investors who pay close attention to daily media headlines about the financial markets could be excused for thinking the world is coming to an end. But there's a flipside to this story.

To be sure, current concerns about sovereign debt and the damage to public sector balance sheets wrought by the financial crisis of 2008 are very real. But markets have a way of working through these risks, as we are seeing now.

In the meantime, amid all the doomsday talk, it's worth reflecting on the fact that securities markets and the real economy are different things. And on the latter front, there is much more encouraging news at the moment.

In its twice-yearly report on the global economy, released in late May, the Paris-based Organization for Economic Co-operation and Development said the world economy is recovering faster than expected from recession.¹

The OECD, which brings together 31 developed economies, lifted its projections for global economic growth to 4.6 per cent in 2010 and to 4.5 per cent in 2011. In the previous report, released in November, its growth assumptions were 3.4 per cent and 3.7 per cent respectively.

Interestingly, the new projections are higher than the average annual rate of growth the global economy registered in the decade before the crisis.

It should be noted that the organization *did*

(Continued on page 2)

What We Can learn From

Ronald Reagan

“Politics is supposed to be the second oldest profession. I have come to realize that it bears a very close resemblance to the first..”

Tax Hikes and the 2011 Economic Collapse

The following is the article appearing in the Wall Street Journal on June 6, 2010 written by ARTHUR LAFFER, Ronald Regan's chief economic advisor and strategist to the greatest economic growth in our US history.

People can change the volume, the location and the composition of their income, and they can do so in response to changes in government policies.

It shouldn't surprise anyone that the nine states without an income tax are growing far faster and attracting more people than are the nine states with the highest income tax rates. People and businesses change the location of income based on incentives.

Likewise, who is gobsmacked when they are told that the two wealthiest Americans—Bill Gates and Warren Buffett—hold the bulk of their wealth in the nontaxed form of unrealized capital gains? The composition of wealth also responds to incentives. And it's also simple enough for most people to understand that if the government taxes people who work and pays people not to work, fewer people will work. Incentives matter. People can also change the timing of when they earn and receive their income in response to government policies. According to a 2004 U.S. Treasury report, "high income taxpayers accelerated the receipt of wages and year-end bonuses from 1993 to 1992—over \$15 billion—in order to avoid the effects of the anticipated

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Market Sentiment vs Economic Reality (con't)

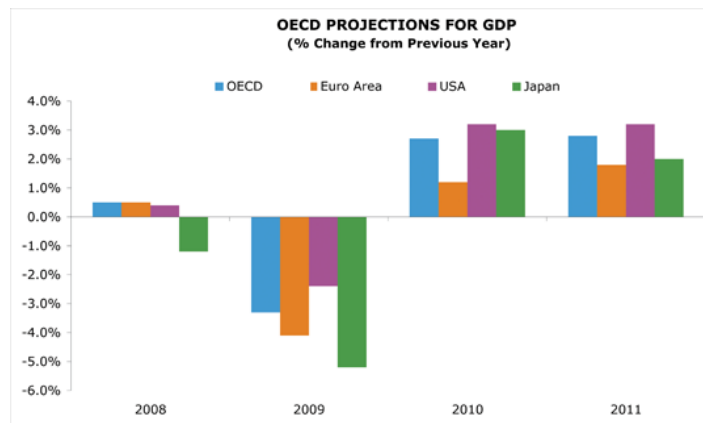
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"One must not forget, however, that the US consumer is currently the engine of worldwide growth so you can't find a solution to the problem overnight. It is a lengthy process that will only take place gradually."

Dominique Strauss-Kahn

point to risks around these growth forecasts, particularly from instability in sovereign debt markets (as we are seeing now) and the risk of



overheating in emerging markets.

But the overall message was one of cautious optimism. Unemployment looks to have peaked, the OECD said, international trade flows are rising again and many governments are beginning to repair their fiscal positions.

It is also worth pointing out that while Europe and the US sort out their problems, the Asia Pacific region is booming, thanks to the rapid industrialization and modernization of China and India. Latin America has also emerged from the global crisis in relatively good shape, a fact noted recently by the International Monetary Fund in praising policy reform there.²

Australia has been a beneficiary of the strength in emerging markets, with strong commodity prices underpinning incomes here. In fact, so rapid has been the expansion that Australia's central bank has led the world in raising official interest rates, six times since October.

Even for Europe, there is good news. The weaker euro is making European companies more globally competitive. For example, analysts have noted that carmakers Peugeot Citroën and Volkswagen have joint ventures in China, the world's largest auto market, and each benefit from importing cheaper components from their home market.³

On the policy front, also, the IMF has expressed confidence in the recovery thanks to the

unprecedented cooperation in the international community since the crisis began, through forums such as the Group of 20.

"We have seen China adopt a massive stimulus package geared towards reactivating internal demand, and moving away from its export model, and US consumers have started saving more, which also shows some change," IMF chief Dominique Strauss-Kahn said in a recent visit to Brazil.

"One must not forget, however, that the US consumer is currently the engine of worldwide growth so you can't

find a solution to the problem overnight. It is a lengthy process that will only take place gradually."

The point of all this is that there are grounds for hope and that the underlying economic situation is not as bad as the financial headlines of gloom and doom might sometimes portend.

For the ordinary investor, the takeout is that financial markets are fairly efficient in accommodating bad news, so that by the time you read about one event the markets have gone onto worrying about something else.

In the meantime, policymakers globally are working to ensure the world economy emerges from the crisis in better health. And there are indications from the economic data that the recovery is happening. While Europe and the US work through their problems, much of the rest of the world is doing relatively well, particularly the emerging markets in Asia and Latin America.

At the end of the day, sentiment is one thing, reality another.

1. 'OECD Economic Outlook', May 2010
2. 'Latin America Helps Shape Global Economic Recovery', IMF Survey, May 2010
3. 'Peugeot, Volkswagen Boosted in China by Weaker Euro', Bloomberg, May 26, 2010

Tax Hikes and the 2011 Economic Collapse *(continued)*

(Continued from page 1)

increase in the top rate from 31% to 39.6%. At the end of 1993, taxpayers shifted wages and bonuses yet again to avoid the increase in Medicare taxes that went into effect beginning 1994."

Just remember what happened to auto sales when the cash for clunkers program ended. Or how about new housing sales when the \$8,000 tax credit ended? It isn't rocket surgery, as the Ivy League professor said.

On or about Jan. 1, 2011, federal, state and local tax rates are scheduled to rise quite sharply. President George W. Bush's tax cuts expire on that date, meaning that the highest federal personal income tax rate will go 39.6% from 35%, the highest federal dividend tax rate pops up to 39.6% from 15%, the capital gains tax rate to 20% from 15%, and the estate tax rate to 55% from zero. Lots and lots of other changes will also occur as a result of the sunset provision in the Bush tax cuts.

Tax rates have been and will be raised on income earned from off-shore investments. Payroll taxes are already scheduled to rise in 2013 and the Alternative Minimum Tax (AMT) will be digging

deeper and deeper into middle-income taxpayers. And there's always the celebrated tax increase on Cadillac health care plans. State and local tax rates are also going up in 2011 as they did in 2010. Tax rate increases next year are everywhere.

Now, if people know tax rates will be higher next year than they are this year, what will those people do this year? They will shift production and income out of next year into this year to the extent possible. As a result, income this year has already been inflated above where it otherwise should be and next year, 2011, income will be lower than it otherwise should be.

Also, the prospect of rising prices, higher interest rates and more regulations next year will further entice demand and supply to be shifted from 2011 into 2010. In my view, this shift of income and demand is a major reason that the economy in 2010 has appeared as strong as it has. When

we pass the tax boundary of Jan. 1, 2011, my best guess is that the train goes off the tracks and we get our worst nightmare of a severe "double dip" recession.

In 1981, Ronald Reagan—with bipartisan support—began the first phase in a series of tax cuts passed under the Economic Recovery Tax Act (ERTA), whereby the bulk of the tax cuts didn't take effect until Jan. 1, 1983. Reagan's delayed tax cuts were the mirror image of President Barack Obama's delayed tax rate increases. For 1981 and 1982 people deferred so much economic activity that real GDP was basically flat (i.e., no growth), and the unemployment rate rose to well over 10%.

But at the tax boundary of Jan. 1, 1983 the economy took off like a rocket, with average real growth reaching 7.5% in 1983 and 5.5% in 1984. It has always amazed me how tax cuts don't work until they take effect. Mr. Obama's experience with deferred tax rate increases will be the

reverse. The economy will collapse in 2011.

Consider corporate profits as a share of GDP. Today, corporate profits as a share of GDP are way too high given the state of the U.S. economy. These high

profits reflect the shift in income into 2010 from 2011. These profits will tumble in 2011, preceded most likely by the stock market.

In 2010, without any prepayment penalties, people can cash in their Individual Retirement Accounts (IRAs), Keogh deferred income accounts and 401(k) deferred income accounts. After paying their taxes, these deferred income accounts can be rolled into Roth IRAs that provide after-tax income to their owners into the future. Given what's going to happen to tax rates, this conversion seems like a no-brainer.

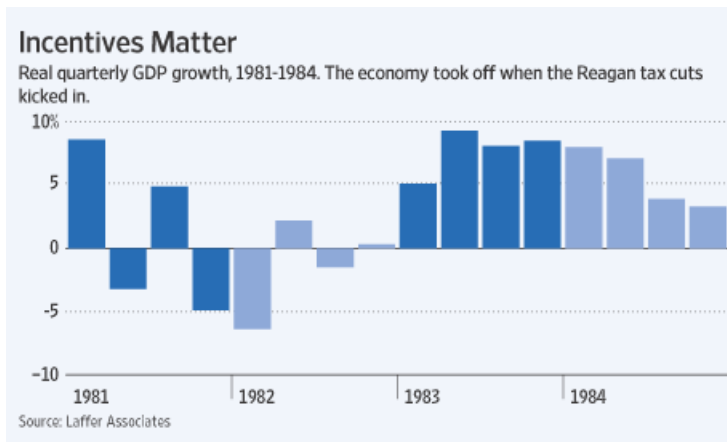
The result will be a crash in tax receipts once the surge is past. If you thought deficits and unemployment have been bad lately, you ain't seen nothing yet.

Mr. Laffer is the chairman of Laffer Associates and co-author of "Return to Prosperity: How America Can Regain Its Economic Superpower Status" (Threshold,



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ARTHUR LAFFER
Ronald Regan's chief
economic advisor



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We may always be reached 24/7 via our cell
Please respect our privacy during non-business hours.

*"Abortion is advocated only by persons
who have themselves been born."*

Ronald Reagan

Newton's Apple by Jim Stovall

Recently, I heard that a branch from Sir Isaac Newton's apple tree was taken into space on the shuttle where it will permanently serve as a tribute to Newton's discovery of gravity. Sir Isaac Newton will always be remembered for the pivotal moment when an apple from that same tree fell and struck him on the head. He used that moment as a point of example and discovery that resulted in what we understand as a constant law of the universe known as gravity.

Gravity is precise, consistent, and universal. If you step off of a building in downtown New York or off of a cliff in the most remote region of Mongolia, gravity will reach out its hand equally and hurl you toward the ground. This force of gravity works whether you understand it or not or even agree with it.

As complex as the scientific and mathematical concept of gravity was for Sir Isaac Newton, he was baffled by the unpredictable nature of us humans. Newton said, "I can calculate the motion of heavenly bodies but not the madness of people."

This is why great mathematicians and computer experts are often baffled, like the rest of us, by the stock market and the economy. While the economy and the various markets that comprise it would seem to be static mathematical formulas, they are chaotic,

What can we learn from a dad who honors his children serving in the military?

My two oldest sons are serving in the military. Colin, my oldest, is in the US Army training to become a medic. My second son, Brady, is in the US Air Force training in computer programming.

During my recent triathlon, Ironman St. George Ut, I honored them by wearing an Army bike jersey and an Air Force run jersey. In the photo at the finish line I'm saluting them.

This was by far my toughest Ironman of the previous five I've finished. As you can see I barely finished before the 17 hour cutoff. I never once thought about quitting because I was honoring them. Military training is tough however not as tough as touting a rifle and getting shot at. All our soldiers I honor for defending my rights and freedom.



reactionary, and irrational. The markets are driven by two overriding forces: fear and greed. If we are to succeed in the marketplace and in life, we must rise above these temporal emotions.

When confronted with The Great Depression and the stock market crash, President Franklin Delano Roosevelt summed up the economic calamity by stating, "We have nothing to fear except fear, itself." This was not an offhanded nor simple statement. Roosevelt understood that, while dollars may drive the market, fear can drive the dollars.

Any accountant, computer expert, or mathematician can utilize charts and graphs to show us where the economy has been and where it currently may be, but only a true master of the human psyche can begin to understand where the market may be going and what factors might affect its progress.

One of my earliest mentors often said, "If you want to succeed in business, study people."

As you go through your day today, realize that which you can calculate will always be a slave to that which you cannot.

Today's the day!



"While the economy and the various markets that comprise it would seem to be static mathematical formulas, they are chaotic, reactionary, and irrational."

Jim Stovall

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