

# McDaniel-Knutson

## FINANCIAL PARTNERS

### Occupying Wall Street: Who is the Villain?

**Associates:**

**Wayne L. McDaniel**  
CLU, ChFC, CFP®

**Jude McDaniel**  
CLU, ChFC

**Peter D. Knutson**  
CFP®, CLTC

**Victoria M. Bogner**  
CFP®

**Ed Zeller**  
ChFC, CFP®

**Staff:**  
**Tammy Barnes**

**Karey Chester**

**Brenda Coffman**

**Cindy Folks**

**Keith Gilliland**

**Kara Gourley**

**Heather Zoeller**

**2500 West 31st Street,  
Suite B  
Lawrence, Kansas 66047**

**Phone (785) 841-4664  
Fax (785) 841-7719  
www.mcdanielfinancial.com**

From the protesters on Wall Street (and other streets), you would think that capitalism has wrought great evil upon the world. No doubt some corporations have exploited people for greed. But, does that invalidate the system? Our founding fathers saw large, intrusive government as an evil. Below is a parable that speaks for itself, courtesy of Paul Zane Pilzer (paulzanepilzer.com).

Imagine 10 people live on an island. Each person catches two fish every day, which is subsistence living. There are no savings. Children, or immigrants who do not know how to fish, would be hard to absorb. The people would be desperate to increase production.

But then, a miracle happens. Two of these people figure out how to make a boat and a net. They fish 200 yards offshore. The two of them catch 20 fish each day with this new technology, which replicates the daily GDP created by all 10 using the old technology.

At this point, eight people no longer need to fish and the island has a choice. The eight could grow corn, pick coconuts, fix the boat and the net, or trade some other good or service to their more productive neighbors. Living standards would rise. Abundance and plenty would be created. Children and immigrants could be absorbed.

Or...the eight without a boat could be-

come envious and complain that a 10 fish-to-2 fish income ratio is unfair and that the rich fishermen should pay taxes. So, the island votes to institute an 80% tax on anyone that uses a net.

Let's assume that the fishermen with a boat continue to catch 20 fish a day. If so, the other eight would stop fishing and divide up the 16-fish tax between them. Everyone would still get two fish a day. Living standards would not rise. Kids and immigrants who did not know how to fish would be a burden. The benefits of the new technology would go to waste.

*This is the problem with attempts by the government to redistribute wealth. This is also the problem with trying to spend our way out of economic pain. It doesn't work.*

And even if we decide not to tax the fishermen, but instead borrow the fish and give them away, the same thing happens. Borrowing the fish, and then consuming them, does not create new wealth. It only puts a burden on the less productive that they will never be able to repay. *This is what has happened in Greece and many other European countries. Government spending, whether paid for with debt or with taxes, undermines job growth and wealth creation.*

-Wayne McDaniel  
CFP®, CLU, ChFC



## 'Tis The Season

It's that time of year again...time to get together with family and talk about football, the deficit, the NBA lock-out, hunting, snow blowers--and your family's plan for Long Term Care (LTC) expenses. You may think it an odd time to discuss it, but how you manage the LTC needs of you and your family will directly and significantly impact everyone seated at the table with you.

As non-festive as it sounds...the holidays may be the best time to talk about this kind of thing. Don't lead with it, though. Timing is everything. It's a heavy conversation to have, but this affects everyone in the room whether they realize it or not. As financial advisors we've seen how the story ends many times. Clients work hard their entire lives planning for a nice, long retirement only to learn that retirement lasted longer than they thought. Inevitably they reach an age when they either can't take care of themselves or can't take care of their loved ones. One day they find themselves staring at LTC expenses on the order of \$5,000 to \$10,000 per month. Ouch.

I have more than a passing interest in our Founding Fathers and the more I learn about all of them, the more I realize how truly exceptional they were. How do they dovetail into a discussion on LTC, you ask? Good question. I'm happy you asked.

In 1776, the life expectancy of an American male was 34. The average age at death of the 56 signers of the Declaration of Independence was 67—almost double what was expected. Four of the signers made it into their 90's and the big winner was Charles Carroll (of Carrollton) who made it to the astounding age of 95—60 years *past* "life expectancy." He was apparently active up to age 91 when he laid the cornerstone of the B&O Railroad.

I bring this to your attention to let you in on a little secret—you're likely to live a long time. If you had told Charles Carroll at age 70 that he still had 25 years to go, do you think he would have believed you? Of course we know how his story ends, but on more than one occasion I've told clients at 70 to plan on another 20+ years and they don't think that's realistic. Calculating the *odds* of LTC expenses is not the conversation to have. Determining its *impact* on those around you is what matters. You need to have a plan to preserve your wealth for a long time. Health care costs are going

up and there is no end in sight to this trajectory.

You need to develop a plan to handle your LTC expenses. If you think you have enough money to pay it yourself, think again. And ask yourself why? Why would you accumulate a lifetime of savings only to redirect it over to a nursing home or care agency? Then ask yourself, how? LTC expenses can easily top \$5000 per person per month. Ask someone who has been there. Take your savings and chop it up into \$5000 units. That's the number of months you can afford to pay for ONE person's care. When you calculate this, be sure to add inflation and don't forget to factor in what it already costs for you to live now. LTC expenses have increased an average of 8% per year over the last ten years.

There are a number of ways to address LTC expenses, but step one is to acknowledge that you may need it. Step two is to come up with a plan—we can help. That plan may involve LTC insurance. It may not. We are huge believers in using insurance to remove uncertainty. There are some new policies right now that combine life insurance with an LTC component to them. Basically, you buy a life insurance policy and when you have LTC expenses you can tap a portion of the death benefit to cover your LTC expenses.

Most people who have LTC insurance and need it, are glad they got it. Most people who don't have LTC insurance and need it, wish they had spent the money.

As with most things in life—you need a plan. It may not involve LTC insurance, but we need to come up with a plan for you and your family to address these needs when they come.

As you know we are independent financial advisors. We are not beholden to one company, product or strategy. This allows us to customize your LTC plan to make sure it addresses you and your specific circumstances. Once we determine what your overall plan is going to be, we can then look into the products—where appropriate—that are available. The new insurance and annuity products that are available are very intriguing and can make a huge difference in how your family interacts for holidays to come.



-Peter Knutson CFP®, CLTC

## Europe Yields Begin to Spike, Raising Risks

We, as a global economy, are still stuck on Europe. After two failed attempts for the European Union to get their house in order and form a decisive plan, markets are left to wander until certainty replaces fear. Two schools of thought exist about the European debt crisis at the moment. In early Spring, either the Eurozone will be pushed into agreeing on courses of action that currently are in a gridlock between countries, or the Euro will implode with debt contagion unable to be stopped. Because the second scenario is horrible for anyone (and we keep being told it is entirely in the European leaders' ability to prevent it) we silently hope for resolution.

However, spiking bond yields are showing cracks in the foundation of the EU, and without a proper fix, the entire "house" of the Eurozone could be in jeopardy. The only

the ECB needs to give up its stance of not being a lender of last resort, or the EU will be in another recession in 2012.

Certainly, this doesn't sound like good news. But in spite of the public debt troubles of Europe and, to a lesser but still unnerving extent, the US, the private sector is still showing signs of improvement. Companies have been gaining strength, retail sales and manufacturing are on the rise, and unemployment is ever so slowly declining. GDP for the United States is better than forecast, and sales for the holiday season are expected to be strong. So where the public sector is weak, private industry is robust.

So what does this mean for investing? Even in the worst case scenario for Europe, there are still private compa-



reason that yields haven't gone much past 7% is that the European Central Bank has been the knight in shining armor, buying just enough of the bonds to keep yields down. When a country needs to begin paying 7% interest or more to entice buyers for their bonds and their debt load is high such that 7% interest is unsustainable, that's historically been the sign that a bailout is needed.

The only problem is that this time, it's Italy, the 3<sup>rd</sup> largest country in the EU. Its debt is 1.8 trillion Euros, and without a significant expansion of the European Central Bank (ECB), there's no one rich enough to pay for a bailout. The ECB has stated that they are not to be used for bailouts and will not print more Euros to expand their current ability to buy bonds. This has unnerved investors, and bond yields have begun spiking for Spain and France as well. As far as economists see it, either

panies that show strength and resilience. There are still great places to invest, despite what's happening in the public sectors around the world. However, we know quite well that stock prices of even the most sturdy companies can fluctuate based on market news, despite that the fundamental profitability of the companies they represent are much more stable than that. That is why, when downside risks are high as we believe they are right now, managing that risk is key. To learn more about how we do that at McDaniel Knutson and how we can use it to help you, give us a call.

-Victoria Bogner, CFP®

\*\*Opinions expressed are not intended as investment advice or to predict future performance. Investors cannot invest directly in an index.

**December 2011**

**McDaniel·Knutson**  
FINANCIAL PARTNERS

2500 West 31st Street, Suite B  
Lawrence, KS 66047-3051

ADDRESS SERVICE REQUESTED

PRESRT STD  
U.S. POSTAGE  
**PAID**  
Permit No. 229  
Lawrence, KS 66044

*Come Celebrate!*  
McDaniel Knutson  
*Christmas Open House*

*Where:*

**Abe & Jake's Landing**

8 East 6th Street  
on the Riverfront

*When:*

**Friday, December 9th**

5:00 pm to 8:00 pm

**Christmas Feast. Dueling Pianos. Board Games.**

Wear your favorite Christmas sweater  
and you could win a prize!