

THE RAND REPORT #209

L. Terry Rand, Toll free phone 877-441-7263

RAND FINANCIAL ADVISORS, LLC.

800 Harbour Drive, Naples, Florida, 34103

E-mail: Terryrand@ksifa.com

Rand website: www.randfinancialadvisors.com

“Socialism means..... no Investing!

I was talking with one of my good clients and while discussing the troubles of the current government destruction of our free enterprise system, my dear client was complaining about the problems of “small town” America. He owns property near Toadsuck, Arkansas.

“Wait a minute,” I said, “you have got to be kidding me, and Toadsuck is a real town?”

Well, I went on the internet and sure enough there is such a place. Toadsuck had only a few small businesses and all of them went out of business recently leaving only a convenience store. This typical example of rural America becomes significant because there are over 3 million small businesses in the USA and too many operate in small communities and cannot be accurately measured. Why? Because the majority of small businesses use their owner’s social security number and the IRS cannot distinguish between wealthy individuals and businesses.

Some small businesses are corporations but taxed as individuals to avoid the higher corporate taxes. Some people form Sub Chapter “S” corporations and many use the LLC format, which also uses the founder’s social security number. Even if you assign an EIN non-individual tax number, the taxes still flow through to an individual’s social security number. That means that these small businesses are taxed as if they are the very wealthy individuals except they support and pay employees. The owner/proprietor deducts his business expenses, but the gross income unfairly throws them into a higher tax bracket. ***The government does not understand this problem and these small businesses are actually part of the middle class.*** The problem is that too many Congress-people are not business people, they are too often lawyers.

LLC’s and their employees are middle class tax payers, but the owner has to match everybody’s FICA based on each employee’s income, and that is deducted from the owners income. These 3 million “small business” taxpayers hire more people than big corporations and too many of these small businesses are failing by being overtaxed, especially in rural communities where new jobs are more scarce. **The government is not addressing this problem, rather ignores reality as it seems to do in all new Obama “change” policies.** The socialist ideology believes the government should replace all small businesses and those entrepreneurs should work for the government. People open their own business so they have more freedom to control their own destiny. These individuals are more creative than big corporations and are responsible for most technology which makes our country great. ***Technology creates virtually all new jobs and industries.***

As for Toadsuck, so goes Obama, we hope! Because as of now “so goes Obama, so goes Toadsuck.” I asked what the locals call themselves, “Toadsuckers?” Well, I had to inquire how that town got its name because toads are not edible as are frogs. I learned this weird fascinating story, but I’m not going to tell you. God Bless Toad-suckers, I hope they recover economically.



Liberal voters congregate mostly in large cities, especially Chicago, New York, Washington DC, Los Angeles, San Francisco, Boston etc. and they tend to house more Federal employees, more teachers (members of teachers unions), and those who generally consider themselves the “political elite” that believes we all need more big government because we aren’t smart enough to manage our own affairs. ***The problem for investors is even more acute. Anybody with a retirement plan is an investor.***

The problem is that rural America is only protected by the Electoral College, which prevents big city control of small towns. Actually these shifting demographics are part of our problem when it comes to political power. The concentration of ideologues in big cities allows the “far left” to better control politics and their propaganda. It allows big city news media to dominate rural America with political propaganda and news media bias. **Rural investors are disadvantaged because they have to listen to big city news media.**

So what can you investors expect regarding taxes and retirement plans? **Your future financial success is more directly dependent on Obama policies.** The reason people go into business for themselves is they have ambitions for higher income. That is the American dream. If your new business is successful, then you hire people and create jobs. The next step is to offer employees benefits so they stay with you. Well, you can forget about health insurance because your business is too small to get reasonable premiums. You need more participants in your plan so you can spread the risk. So, why not join forces with other small businesses and form co-ops to buy medical insurance? You can’t do that because each State regulates the insurance competition and you can’t insure health across State lines. This is a territorial imperative for bureaucrats ruling as State insurance commissioners. **That forces higher insurance premiums because of less competition.**

“Obama is asking Democrats in Congress to volunteer to march into fixed bayonets so he can claim an LBJ-level legacy like the Great Society that will be nearly impossible to repeal. This would be an unprecedented act of partisan arrogance that would further mark Democrats as the party of liberal extremism. If they think political passions are bitter now, wait until they pass Obama care.” (1)

Obviously investors have problems greater than their own health with the Obama health care program. All those physicians that are small businesses are going out of business regardless of whether Obama health care becomes effective. I’ll give you but one example. **50% of men and 40% of women die of heart diseases.** Physicians have already had their Medicare fees reduced for conducting tests. The government has decided that Doctors test too much to collect the fees. If Doctor’s neglect testing patients they may be liable for malpractice claims. This is a major dilemma. Heart tests, for example used to earn Cardiologists \$375 for basic necessary heart tests, now

reduced to \$275 and under the new Obama program will be reduced another 40% over the short term. Doctor's must collect fees from Medicare to pay for their overhead and for the testing equipment.

The solution is for Doctors to give up their practice and join a hospital for a salary because Medicare tests fees to hospitals have not and may not decline. ***This is a small disaster for health care, but never mentioned in the 2700 page Obama bill.*** I happen to have many Physicians as clients. When the 40 million Americans, including illegal immigrants get free health care, there will be fewer Doctors to service this increase in patients. And that is only the beginning of the destruction of the greatest health care system in world history. The Democrats always highlight examples of those suffering with pre-existing conditions as if the insurance companies are cruelly responsible, but they never provide information as to the ratio of those suffering to the whole sample. Surely health care to those with pre-existing conditions would be easier to accommodate if we could count their actual numbers compared to of all the people needing or being denied healthcare. But such transparency would leave the Democrats with no rallying cause. At the recent "supposed six hour bi-partisan summit" the Democrats kept citing these extreme cases as pitiful examples of the majority's disregard of the sick, which was completely biased because there are no cost estimates. This strategy works for the Democrats because they can accuse the majority opposition to universal health care as having no compassion for those suffering. This stupid strategy is what permeates the far left ideology and challenges our intelligence. If you don't agree with their propaganda, or if you are more concerned about the cost, you are yourself a miserable non caring hypocrite or racist. Give us a break!

"The most egregious deceptions in the Obama health care bill counts 10 years of taxes for 6 years of spending. The real cost over a decade is about \$2.3 Trillion and this is a low ball estimates considering how many people will "flood" the free health care and how many businesses will be forced to drop health insurance coverage." (2)

Medicaid, the current system for the poor is growing 21% annually and is suffocating State budgets. That existing entitlement is also adding trillions of dollars that we have no means of paying for and those facts are also withheld from the public. (3). The proposed cuts in the existing and effective Medicare program will be "raided" by more that \$500 Billion not to shore up Medicare insolvency, but to be allocated to Obamacare. (3). Please note that I am showing you facts from the bi-partisan Congressional Budget Office, (CBO).

The most important issue, in my opinion, is the secondary effects of Obamacare, which is overlooked, or buried, and is far more serious than going bankrupt. I refer to the cuts imposed by Obama on our missile defense system to be used to offset the healthcare unaffordable debt. Socialist countries as in Europe and Scandinavia can afford universal healthcare because of two things, their minimum 50% income tax rate and no significant military budget. Their healthcare is inferior and overcrowded with poor service. The poor service actually causes more deaths as immediate care is denied. Those countries can ignore that cost because they expect the US military to keep the world peace. We have done that for the past 100 years at a cost of our own blood and treasure, yet our glorious image has been denigrated by most of the world and including the unpatriotic Obama administration. ***I am personally fed up with the anti-American propaganda, especially from our own far left ideologues.*** In my opinion, regarding this economic chaos, there are two kinds of Americans, tax payers and free-riders, and the country has been overtaken by the free-riders.

50% of Americans pay 100% of all income taxes and we tax payers and investors are "tapped" out. A most important fact for all investors is that beginning in 2011, the Bush tax cuts expire and I assure you Obama will not renew them. These tax facts are a sad story and again maligned by Democrats. President Clinton, when he controlled both houses of Congress, raised taxes at the high end and at the low end taxing people on social security, that is people making less than \$25,000 annually. (By the way, the average income for Bureaucrats is \$75,000 annually whereas the average pay for non union middle class America just declined from \$40,000 to

\$39,000). That Democrat tax increase reversed the economy, so when the Republicans took over Congress they prevented Clinton from frivolous spending. Remember, only Congress can spend money; President's cannot spend without Congressional approval. So, under Newt Gingrich there was no annual deficit and no increase of the national debt. When Bush was elected he inherited a Republican Congress that reduced the high-end tax bracket back to 35% and eliminated the tax on the lower bracket. That stimulated new business, stimulated technology and multitudes of new jobs were created, especially in the technology fostered by the computer industry.

This created the greatest prosperity in US history. In 2006 we had 4.5% unemployment and more Federal revenues resulting from a stable GDP growth. The Iraq war was soon being paid for when along came some natural disasters like Katrina. By 2006 the annual deficits caused by these emergency overruns were coming under control with increasing Federal revenues. With an extremely effective propaganda campaign, which is how politics works, and with the help of the liberal news media, Bush was maligned and derided for every thing imaginable. The Democrats regained control of Congress and the annual Federal deficit doubled in 2007 and again in 2008 increasing the national debt by over \$2 trillion. The great liberal propaganda machine blamed this spending on Bush, the "no weapons debacle," the feeble attempts by Bush to regulate credit, torture issues, and the Patriot Act etc., this huge propaganda success took over the White House. Now with the 15% of Americans that are "far left ideologues" controlling our country, they are advancing their socialistic agenda. ***The Democrats have no regard for fiscal responsibility and that raises too many serious problems for investors.***

The inevitable tax increases will affect all investors and the Obama free spending for left wing constituents will leave the "right center" majority with more serious problems.

However, there are investment solutions. I will repeat them. You should establish Revocable Trusts to better protect your assets. You should invest tax deferred. In my opinion, avoid bonds. I just said something very controversial about bonds and here is my rationale. The Feds cannot afford to have interest rates increase. US Treasuries would increase our national debt even more by forcing us to use up more of the Federal budget to pay interest to Japan, China and our US bank creditors. There would be no money to pay Congress or bureaucrats. Shame on me for suggesting that, but we also could not afford the Military, education, or healthcare.

If interest rates were to increase even a little, bond values decrease. Bond values only increase when interest rates decline. Bonds held to maturity are guaranteed not to grow. The worst part about bonds is that the higher yield bonds will mature or be called and bond investors will have to settle for very low rates. Check out one year CDs and see if that yield fits your personal budget. According to Investment News, there is a strategy by many Mutual Funds to reduce bond holdings and increase equities. Equities are of course at greater risk, but offer better protection against inflation. ***Municipal bonds are in deep trouble,*** especially with those States run by Democrats (There are no exceptions) going bankrupt. The highest poverty rates by cities are Detroit, Buffalo, Cincinnati, Cleveland and Miami, (In that order) and all of these cities have been governed exclusively by Democrats for decades. Many States can't pay their bills and California is the worst example. True, California has a Republican Governor (Ahndol), but a more powerful State "far left liberal" Legislature that intimidates the Governor no matter what party. California has no definition of common sense and many taxpayers and businesses have fled the State. In my opinion the most financially stable State is Texas.

Investment News, our most read industry publication has, along with the Wall Street Journal, now endorsed variable annuities as the best investment of the past decade. (4). That article is entitled, ***"The Last Laugh,"*** because Variable Annuities are the most maligned and misunderstood investment. Over the past decade the average Mutual Fund grew 1.7%. (4). The comparison to Variable Annuities is not a fair

comparison since Variable Annuities have the mathematical advantage of tax deferrals. The money investors would have paid in taxes remains in the account and is compounded to the investor's advantage.

The disadvantage of Variable Annuities is they are less liquid and if you include the premium, which technically is not a fee; their charges are higher than Mutual Funds. You get what you pay for!

Guaranteed high rates and liquidity combined do not happen in any investment vehicle, and if they do occur,

beware! CDs are a good example of this formula; a higher guaranteed rate means less liquidity and liquidity usually includes penalties. Variable Annuities cost more than mutual funds or managed accounts. (

Bank Trusts can cost more) **However, I wish to make a very**

important point; if you convert a Variable Annuity to

guaranteed income and that income can never decrease

regardless of stock market performance, and that

guarantee continues for spouses, how relevant is the fee?

It could be zero or it could be astronomical; what difference if you have a contract that guarantees income and you still have a death benefit?

Death benefits in Variable Annuities are a form of

estate insurance. You insure your autos, your homes, your personal

property, and your lives for reasonable premiums, why not insure your

estate against loss? Too many investors are set in their ways and when

new investments are offered designed to protect you from the

Government, they either don't understand them or don't believe them.

In my opinion guarantees made by big insurance companies may have

more validity than government guarantees. Remember, insurance

companies are required by law to set aside reserve funds to meet their

obligations, something the Federal Government should have done.

Investor beware! Call me for help!

Footnotes: (1). "Abuse of Power," WSJ 3-3-10. (2). "Paul Ryan v. the

President," WSJ 3-4-10. (3). "Dissecting the Real Cost of Obama

Healthcare" WSJ, 3-4-10. (4) "The Last Laugh." Investment News, 2-

24-10.