# FINANCIAL *Insights*

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## Government panel report is more sizzle than steak

- 25% Jump in Employer Optimism
- Biggest Tax Scam Ever
- Breaking the Sacred Nest Egg


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***From Ken's Desk***

## Government panel report is more sizzle than steak

The final report from the Financial Crisis Inquiry Commission is a disappointment. It fails to reach a firm conclusion about what actually caused the financial crisis and, worse, it provides little guidance on how to identify and prevent future crises. The report also falls short in that the panel split along partisan lines and didn't unite behind its findings. Because of those divisions, the report published by the majority was accompanied by two dissents.

In its report, the FCIC identifies a range of perpetrators, including banks that obviously made reckless bets, credit-rating agencies that endorsed risky mortgage bonds, and various government regulators that overlooked danger signs until those weaknesses threatened the global financial system.

But the 633-page report, which was crafted by a 10-member commission appointed by Congress, doesn't identify how the housing bubble that led to the mortgage collapse and the financial crisis was inflated in the first place. It also doesn't suggest how to identify and prick emerging bubbles.

Its vision is too narrow.

The majority report argues that though excessive capital availability was an essential ingredient in the bubble, the crisis still could have been averted if the Federal Reserve and regulatory agencies had acted to rein in the excesses in the mortgage-lending industry.

The first cause of the crisis listed in the report is "widespread failures in financial regulation and supervision."

Other causes identified include "widespread failures of corporate governance and risk management at systemically important institutions," "a combination of excessive borrowing, risky investments and lack of transparency," "a systemic breakdown in accountability and ethics," and "collapsing mortgage-lending standards and the mortgage securitization pipeline."

It also noted that "over-the-counter derivatives contributed significantly" and that "the failures of credit-rating agencies were essential cogs."

The majority report argues that while the actions of Fannie Mae and Freddie Mac contributed to the crisis, they weren't a primary cause. However, the agencies suffered from the same failures of corporate governance and risk management as other financial firms.

Meanwhile, the minority report states that while Fannie and Freddie didn't cause the crisis, they were major contributors.

The more important of the dissents, joined by three of four Republican appointees, it argues that the thesis that too little regulation and lax enforcement of regulation is too simplistic an explanation for the crisis.

It asks important questions not addressed by the majority report: Why did housing bubbles occur at the same time in many countries, which all have different regulatory frameworks and different mortgage finance systems? Why did large financial institutions in other countries collapse, even though they weren't significantly exposed to U.S. mortgage assets and operated in different regulatory environments?

The dissent argues that there were 10 essential causes of the crisis, starting with the capital surpluses built up by China and other emerging countries. These surpluses produced credit bubbles in Europe and the United States, which in turn produced the housing bubbles.

Although many of the other causes identified by the dissent agree with those identified in the majority report, the emphasis is different. For example, the dissent puts more emphasis on the highly correlated bets major institutions placed on mortgage-related investments, and on the leverage that magnified those bets.

The second dissent blames the crisis almost exclusively on Fannie Mae and Freddie Mac.

There were several major problems with the commission.

First, it was given a time limit for its investigations — it had to report to the president and Congress by Dec. 15. This no doubt hampered the development of its analyses of the causes.

Second, the Dodd-Frank financial reform law was passed before the commission finished its investigations, making the outcome almost irrelevant. Third, perhaps because the reform law likely would be passed before the commission reported, it wasn't asked to present proposals for changes in law or regulation.

In essence, Congress decided to treat the illness without waiting for a diagnosis. Nevertheless, though not asked to do so, the commission should have examined Dodd-Frank in the light of its investigations and commented on whether the law's provisions were likely to prevent another such crisis.

This would have made the report more relevant and it might have prompted amendments to improve the financial reform law, or at least provided guidance to those developing the regulatory changes called for by the law.

However, while better regulation might prevent a repeat of the mortgage bubble and the subsequent financial crisis, it is unlikely to prevent future bubbles, which are easier to identify in hindsight. The mortgage bubble began less than five years after the bursting of the technology bubble, and yet few recognized the warning signs.

Investors can't rely on government regulation to protect them from financial manias and the damage that occurs when manias end. With the help of their financial advisers, investors must develop their own warning systems and their own emergency plans so as to avoid or minimize their losses in such situations.

*Information compiled by Ken Marinace*

# 25% Jump in Employer Optimism Tempered by Taxes, Energy Costs, Infrastructure as Top Concerns

A new Los Angeles County Business Federation (BizFed) survey showed that employers think things are getting better – 25% more say business conditions will improve this year than did last year and 20% more report that they plan to hire than did last year.

**The annual survey of 120 BizFed member organizations representing 268,000 employers with nearly 3 million employees found:**

- **65%** *believe business conditions will improve this year*
- **36%** *plan to hire this year*
- **Nearly half (46%)** *anticipate making capital investments in both durable and non-durable goods, either on a limited basis or based on availability of funding*
- **60%** *believe the minimum wage increase will either have no impact or a positive economic impact*

**According to the 2014 BizFed poll, employers' top issues are:**

1. **Taxes and fees**
2. **Energy/fuel costs**
3. **Public infrastructure (waterways, roads, rail, etc.)**
4. **Affordable health care coverage**
5. **Government regulations/ compliance**

The cumulative effect of these concerns stifles California's competitiveness for job creation. "We need to capitalize on projected business growth in Los Angeles County by addressing concerns about the existing level of taxes and fees along with rising energy costs, while simultaneously finding ways to strengthen public infrastructure needs vital to moving water, people, and goods," said Don St. Clair, Ed.D.BizFed Chair and vice president at Woodbury University.

"Employers still face real struggles, particularly when it comes to taxes and fees," says David Fleming, BizFed Founding Chair. "Small business owners rank personal income tax as having the greatest impact on their businesses, and nearly 25% say corporate income taxes and property taxes have a big impact on their businesses. Lowering the tax burden that employers face has to be a top priority if we want to make progress."

"Job growth is ours to grab or give away," says Tracy Rafter, CEO, BizFed. "We have to tackle the cumulative tax and fee burdens within Los Angeles County, the 88 cities in the county, and the state as a whole or all of this optimism will be captured by other regions and other states."

*Source: Business Life Magazine*

# By the Numbers

**1. POPULAR GUY** - 40,000 people attended the annual meeting of Warren Buffett's corporation in Omaha, NE in early May 2014. Only 12 people attended Buffett's annual corporate meeting in 1981. *(source: BTN Research)*

**2. THE (UN)GOLDEN YEARS** - The number of American homeowners at least age 75 with mortgage debt has more than doubled in the last 10 years, rising from 1 out of every 12 seniors (8.4%) to 1 out of every 5 seniors (21.2%). 30% of American homeowners at least age 65 have an outstanding mortgage, up from 22% a decade ago. *(source: Consumer Financial Protection Bureau)*

**3. NO MONTHLY MORTGAGE** - 31% of the existing homes sold nationwide in calendar year 2013 were purchased for "all cash." *(source: National Association of Realtors)*

**4. NOT INTERESTED** - 54% of US physicians do not accept Medicaid patients, up +10 percentage points (i.e., from 44% to 54%) from 4 years ago. *(source: Merritt Hawkins & Associates)*

**5. NO CHANGE** - Members of Congress (both Senators and House of Representative members) last received a pay hike in January 2009 when their annual salary was boosted to $174,000. Since then, Congress has voted 5 times to deny themselves an increase in pay. *(source: Congress)*

**6. SURPLUS** - The US government reported a $107 billion surplus for April 2014, its first monthly surplus this calendar year. The $414 billion of tax receipts in April 2014 was the largest monthly total ever collected. *(source: Treasury Department)*

**7. MAY BE WORSE** - The total of student loans outstanding reached $1.11 trillion as of 3/31/14, a +13% increase over the last year. Although the student loan delinquency rate is 11.5% (i.e., at least 90 days past due by amount), the calculation assumes that those loans currently in deferment (and not required to make any current repayment) have a 0% delinquency rate, suggesting the 11.5% rate is understated. *(source: NY Federal Reserve Bank).*

**FINANCIAL *Insights***

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# CFS Golden Circle - Clients for 20 years or longer

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## HAPPY BIRTHDAY

### JULY

1 - Katherine Plank
2 - Valerie Giudici
5 - Barbara Chasse
5 - Robert Moering
5 - Vicki Oldham
7 - Joseph (Joe) Ruggiero
8 - Martha (Marti) Nichols
8 - Laura Gollnick
9 - Stephen Veres
11 - Horace Fernandez
14 - Maynard Eisinger
14 - Kenyon (Ken) Iverson
15 - Mary Drake
16 - Donna Bandiera
16 - Janet (Jan) Fear
16 - Dale Powers
17 - Karen Brown
17 - Donna Reynish
18 - Doreen Darin
20 - John (Jack) Wolcott
21 - Pamela (Pam) J. Billings
21 - Richard Gold
21 - Toni Miano
23 - Alan Klein
23 - Diane Green
24 - Annette Alender
24 - Eugene (Gene) Schmidt
25 - Patricia Foti
26 - Sue Ann Nelson
26 - Peter McAdam
27 - William (Bill) Beckley

### AUGUST

1 - William (Bill) Schirmer
3 - Laura Petoyan
3 - Cynthia Siecke
3 - Connie Alvero
4 - Talin Petoyan
5 - Gloria Frankie
6 - Barbara Moering
7 - Joseph (Joe) Miano
9 - Donna Jonkey
10 - Julia Kinmartin
11 - Patricia (Pat) Maskell
12 - Lori Thrasher
12 - Mitchel (Mitch) Stein
12 - John Buonauro
13 - Christine (Chris) Campisi
13 - Gail French
14 - P. Kent Burton
14 - Gerald (Jerry) Lucas
15 - Gladys Eisinger
19 - Theresa (Terry) Southwood
23 - Robert (Robby) Bremner
23 - Sharon Terranova
23 - Duffy Watson
25 - Eric Siess
26 - Donna Kasper
27 - Donald (Don) White
28 - Juliane McAdam
28 - Austina (Teena) Wolcott
29 - Donna Wade
30 - Betty Jean (B.J.) Fernandez

## Referrals

**We Appreciate Those Referrals!**

We certainly welcome your referrals and are always most appreciative when clients pass our name along to others. We would like to take this opportunity to express our thanks for your continued confidence and look forward to providing quality confidential financial services to you, your friends, and associates.

When you refer us to others, you can be assured that your personal information provided by you and those whom you refer is treated with a high degree of confidentiality.

***Our sincere thanks to our recent referrals go to:***

***Lynn Dibble***

***Craig Braun***

***Sam Sedhom***

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## Anna's Recent Read: Breaking the sacred nest egg

For many Americans saving for retirement, their company's 401(k) plan represents the lion's share of their nest egg. Most workers can no longer look forward to a pension, so the money in their 401(k), along with Social Security and any other money they've managed to salt away, is going to have to see them through their golden years.

But now we hear that these 401(k) plans are at risk. Who's to blame? This time, it's not mutual fund companies or record keepers charging exorbitant fees ripping off workers.

No, it's the workers themselves.

It seems that an increasing number of employees are raiding their own 401(k) plans early, taking the money out years before their retirement. And neither the diminished size of their nest egg nor the 10% penalty that these workers have to pay on the amount of the early withdrawal is proving to be enough of a deterrent to dissuade them.

Bloomberg News reported last week that the Internal Revenue Service in 2011 collected $5.7 billion in 401(k) penalties on the $57 billion taken out of 401(k) plans early. Adjusted for inflation, the IRS collects 37% more money from early withdrawal penalties than in did in 2003.

It's bad enough that employees don't save anywhere near the amount needed to fund a successful retirement in the first place, and these early withdrawals promise to make the brewing retirement crisis even worse.

No one knows for sure what this money is being used for, but anecdotal evidence suggests that for many Americans, the 401(k) plan has become a de facto emergency fund.

Up until the collapse in home values during the Great Recession, people's houses served as their piggy banks. Thanks to ever-increasing valuations, homeowners could tap the equity in their home whenever they were facing lean times, be it for a leaky roof that needed to be replaced or to tide them over after a layoff.

That pretty much came to an end after housing values plummeted, wiping out trillions in home equity. By 2013, the amount of home equity loans outstanding was $704 billion, down 38% from 2007. *Source: Investment News*

No longer able to pull money out of their homes, workers set their sights on their 401(k) plans. By 2010, a record number of Americans had made early withdrawals, according to Bloomberg.

The danger of this practice should be apparent to anyone trying to save for retirement. Research shows that young workers 20 to 39 are among the top offenders, with many of them withdrawing money from their 401(k) plans when they switch jobs. If they have saved only a few thousand dollars at that point, they don't see the value in rolling it over and are willing to pay the penalties.

But workers, no matter what age, have to start saving sometime. Studies show the earlier the better. Contributing to a 401(k) plan, only to withdraw the money a few years later — well before retirement starts — is the equivalent of taking two steps forward and one step back.

*Information compiled by Anna Luke*

## Biggest Tax Scam Ever

Beware of phone calls demanding IRS tax payments, the government is warning. The calls from people posing as IRS agents constitute the largest tax scam of its kind that the US Treasury has ever seen, resulting in more than 20,000 complaints.. costing victims more than $1 million .. and covering every state.

The callers state that the tax payments must be made using a prepaid debit card or wire transfer – which the IRS never request - and that failure to pay could lead to your arrest, deportation or the loss of a business or driver's license.

The caller shows up on caller ID as being from the IRS and often knows the last four digits of the intended victim's Social Security number. The real IRS usually first contacts people by mail – not phone. The IRS also doesn't ask for credit card information over the phone.

To report a call that you suspect to be phony, call the Treasury inspector general for tax administration at 800-366-4484.

Warning from J Russell George, US Treasury inspector general for tax administration, Washington, DC.

*Source: BottomLine Publications*

## Business Briefs

- Fortune Magazine recently released their list of the 50 most admired companies in the world. Here are the top 10: 1) Apple; 2) Amazon; 3) Google; 4) Berkshire Hathaway; 5) Starbucks; 6) Coca-Cola; 7) Walt Disney; 8) FedEx; 9) Southwest Airlines; 10) General Electric.
- Approximately 1/3 of the U.S. unemployed have been out of work for 6 months or longer. This represents the highest level of long-term unemployed in the last 4 decades.
- The U.S. is ranked the 17th in the world for our literacy rate.
- 40% of employers with job openings say they can't find qualified applicants to fill these jobs.
- More janitors have bachelor's degrees than chemists.
- With 4 million job openings in the U.S., there are 3 unemployed people for every one of these positions.
- It is estimated in 5 years our country will have 122 million jobs requiring high skill levels, but that there will only be 100 million qualified to fill these positions.
- We have 14,695 commercial airports in the U.S., the largest number of any country in the world.

*Source: Burbank Business Journal*

## Wisdom Quotes by Maya Angelou

"History, despite its wrenching pain, cannot be unlived, but if faced with courage, need not be lived again."

"I would encourage us all, African Americans, Asians, Latinos, Whites, Native Americans to study history. I long for the time when all the human history is taught as one history. I am stronger because you are stronger. I am weaker if you are weak. So we are more alike than we are unlike."

"Love recognizes no barriers. It jumps hurdles, leaps fences, penetrates walls to arrive at its destination full of hope."

"If you find it in your heart to care for somebody else, you will have succeeded."

- MAYA ANGELOU

***Here is Ken with Guggenheim's Steve Ott, (right) and Nicholas Petges.***

***The Guggenheim Group was one of the money management firms attending and Economic Conference in New Orleans recently.***

# FINANCIAL *Insights*

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### In This Issue



## Brain Teaser #76 – "City Search"

Here's a puzzle to test your skills! Fit the shapes into the grid so the completed puzzle shows six six-letter cities. Three letters are already in place, to get you off to a good start...

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The first person with the correct answers will receive an American Express gift card. Please email your answers to Martha at martha@cfsburbank.com or contact her at 818-846-8092 ext. 4.

Use your smartphone to visit our website!

### Brain Teaser #75 "Ticket to Ride" (Answers)

1. Cae sar ean
2. Dra gon fly
3. Tim epi ece

Sar + gon + epi = Singapore

***The first response with the correct answer came from Kelly Brock. Congratulations Kelly!***