



Market Comment

In our last comment at the end of summer we noted that seven out of the last ten years the last six months of the year have outperformed the first six months. So far, the averages are right on target as the last three months have returned some 15% and put the major averages back into positive territory. Of course, the ride hasn't been completely smooth and nobody seems to be really happy. Strike that, the gold bugs are happy as gold has appreciated some 30% in the last twelve months because of inflation or "anticipated inflation". Gold, like any commodity, trades on speculation these days; but unlike many commodities, gold seems to trade exclusively on speculation. At least with other items such as oil, coal, grain, sugar and coffee there is a supply/demand effect since these products are used in our everyday lives; not so with gold. There are those in the media shouting rampant inflation is ahead from "QE2" (Quantitative Easing 2)!

Two points we believe are worth considering:

- 1. Increases in the money supply don't automatically increase the price of gold since the United States went off the gold standard some forty years ago.
- 2. Inflation is very much still under control. Indeed, the last twelve months CPI increase is 1.1%! Yes, some prices have gone up, but against what time period are you measuring. Oil and fuel prices are higher than a few months ago but not against July 2008 when oil was \$148 a barrel or when corn prices were \$7 a bushel. This is what economists mean when they "throw out volatile food and energy costs" in measuring inflation. Let's take a moment on "Quantitative Easing 2" or QE2 as the media calls it. Federal Chairman Ben Bernanke has announce plans to purchase some \$600 billion in treasury bonds which in effect, makes more money available in the system for banks to make loans so in effect provides extra stimulus to the economy. The media

has pronounced that an extra \$600 billion in our money supply will cause rampant inflation. Really? Have you looked at our M2 money supply? Six hundred billion is fairly lame. Yes, it will provide some "priming the pump" but we believe this last action has a dual effect. Since the mid 1990's the Chinese have pegged their currency at 12.5 cents to the United States dollar thereby making their goods cheaper in relation to United States produced goods. They refuse to let currency rise against the dollar as they would lose their pricing advantage, yet in refusing to do so they violate the principals they agreed to in becoming a most favored trade nation with the United States and the rest of the world. President Clinton, Bush and now, Obama have "talked" a tough game but have always backed down. In the last go around with our Treasury Secretary the Chinese officials hinted they may "dump" their vast quantity of United States treasury bonds on the open market to teach us a lesson. Instead of backing down, Federal Chairman Bernanke has readied the Fed's checkbook and told them to go ahead. These aspects never seem to make it to the media and to you through the news. We think you deserve to hear all aspects of monetary actions.

In summary, we like to stick to the basics. We have an S&P 500 which still yields close to 2% on its dividend compared to a ninety day T-Bill at .11%. We have a growing economy, companies' balance sheets have rarely been stronger, consumer credit card debt has dropped for the 25th consecutive month and half the companies in the S&P 500 that pay a dividend have actually raised their dividends since 2007. You don't hear that in the news!

We can't predict for sure that the stock market continues its march north; but for the long term, we like our nation's chances.

(continued on page 2)

Social Security

The American Academy of Actuaries (AAA) is recommending the normal retirement age for Social Security to increase.

The AAA is a nonpartisan professional group formed to give actuaries a voice in the making of public policy.

The AAA commission is trying to find ways to reduce the federal budget deficit and deal with the obligations of Social Security and Medicare. To that extent the AAA now supports the adoption to a further increase in the retirement age, citing that with the steadily increasing United States life expectancy; it amounts to a de facto automatic increase in benefits. In conjunction with this they also support allowing tax-qualified pension plans to use a normal retirement age higher than 65.

Taxing Matters

The Small Business Jobs Act of 2010 provides a bevy of tax breaks for small business owners. These tax breaks include:

- Higher 179 expensing: for tax years 2010 and 2011 you can write off up to \$500,000 of qualifying assets (including software). In addition up to \$250,000 of qualified real property costs (for eligible buildings and improvements) can be deducted under Section 179 where none was allowed before.
- Bonus depreciation reinstated.
- BIG (Built in Gains) tax down to five years: the ten year rule on conversions from "C" to "S" status has been cut to five years beginning in 2011.
- Cell phone record-keeping has been relaxed.
- For 2010 only; a self-employed individual can reduce his/her self-employment income by deducting health insurance premiums when calculating the self-employment tax.

...yet more taxing matters

- Make sure you take advantage of capital gains or losses for 2010 by December 31, 2010 and remember that capital losses can offset ordinary income by \$3000.
- Take advantage of the zero tax rate: in the lower 10 and 15% tax brackets the capital gains rate is zero for 2010.
- Gifts of FLP and LLC interests: consider making discounted gifts in 2010 before the stricter discounting rules go into effect.
- Gifts by parents/grandparents have no limit on qualifying gifts made directly to medical or educational institutions on behalf of another person...plus that gift doesn't count towards the \$13,000 annual gifting exclusion amount.

Extreme Make Over Hotel Edition

Not to be outdone by the popular U.S. television show Extreme Makeover-Home Edition, the Chinese have built a fifteen story hotel in six days! A construction crew in the city of Changsha, China erected a sound proofed, thermal-insulated structure reportedly able to withstand a magnitude 9 earthquake all with prefabricated materials. Despite the speed with which this was done the crew claims no workers were injured and thanks to the prefab material, there was very little waste.

No word as to whether any guests are actually staying at the hotel and if the workers "rested" on the seventh day. Perhaps we could form a pool as to how many days the structure actually remains standing?

As always, we at Midwest Capital are here to help you and your family. If you need anything or have questions please contact us at (800) 811-7123 or locally in Omaha at 571-1505.

We appreciate our clients' support and insights and as such, always enjoy hearing from you on how we can serve you better. Thank you for putting your trust in us.

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