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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

July 2012

A friend of mine asked when I was going to replace my 'college' picture with a more current image. After I calmly told him, '*\$(^& ^#%\$*#W(% @ \$ #!))!)*&%\$', I went down to my local photo studio and got a new 'pic' for this newsletter, and my advertising... starting this month. He then asked me if I was happy with the photo. As Will Rogers once said, 'I want people to know why I look this way. I've travelled a long way and some of the roads weren't paved'. So here we are, starting on a new road!

Gladstone: "I predict, Sir, that you will either die by hanging or of some vile disease..."
Disraeli: "That all depends, Sir, upon whether I embrace your principles or your mistress "
(opposing British Prime Ministers 1868- 1894)

Last month I gave you an outline about the impending 'fiscal cliff' that we are fast approaching. In this edition, I thought it would be worthwhile to spell out some of the investment consequences attached to Congress' inability to get their job done.

To begin with, the years of paying low tax rates on dividends could come to a close. Many analysts believe that such an occurrence could impact those dividend paying stocks significantly...not just because they may be less attractive, but because they could lose value.

Basically, we can calculate the worth of a dividend paying stock mathematically. Here's how.

In order to attract capital, there is a certain after-tax yield an investor is looking for. For example, let's say an investor is currently getting a 10% yield on a \$50 stock. That means that she is receiving \$5/year on this investment. After paying a 15% tax rate on this \$5, she nets \$4.25. **This is an 8.5% after-tax gain.**

Now, let's fast forward to January 2013. We'll say that this investor is in the 28% tax bracket to which we will add the 3.8% health insurance surtax on dividends that could go into effect when we fall off the fiscal cliff. So, her effective tax rate goes from 15% to 31.8% in 2013. For her, that means that the original \$5 gross dividend would fall to a \$3.44 net dividend which, on a \$50 stock, is 6.9%...not 8.5%

In order to come out the same as when she netted 8.5%, one of two things must happen. First, the company can increase their dividend from 10% to 13.0% which would give you a \$6.50 gross dividend, or a \$4.43 net. That is a tall order. The company has to keep working capital and may not be able to afford increasing their dividend by 30%.

The other option is that the company share price has to fall sufficiently to maintain the **8.5% after-tax yield**. That would mean the stock price needs to go from \$50 to \$40 and still pay out the original \$5 dividend. That represents a -20% drop in the company's stock price. This is why I'm keeping a very close eye on our dividend paying stocks. A 20% drop in price *hurts!*

The chart below summarizes what could happen to taxes on dividends. We may need to re-evaluate:

DIVIDEND TAXATION

	2008-2012		2013 Rates
Ordinary Income Tax	Ordinary Dividends	Qualified Dividends	(all categories)
10%	10%	0%	15%
15%	15%	0%	28%
25%	25%	15%	31%
28%	28%	15%	36%
33%	33%	15%	39.6%
35%	35%	15%	39.6%

Analysts at Societe Generale predict that the ‘uncertainty surrounding the fiscal cliff will remain unresolved at least until November, and possibly until early 2013. This could begin to weigh on growth in the 2nd half of 2012’. Even though Congress doesn’t mind bringing issues down to the 11th hour and 59th minute, investors cannot be expected to do the same. So the time to be looking for changes in market dynamics is... like now!!!

Michael Hanson, an economist at Bank of America feels that companies have already put spending on hold. They have begun delaying recruitment and investment on fears of the automatic spending cuts and tax increases due in January.

To put the effect of dividend tax hikes into perspective for companies, and why they must make changes in advance, let’s see how they are affected.

Public companies pay out dividends *after* they pay taxes on their profits (from which dividends are derived). So to the current corporate tax rate of 35%, we must add the highest personal tax rate of 44.8% to discover that the total tax on corporate earnings passed through as dividends would be **64.1%**.

Several studies have concluded that the dividend tax reform laws of 2003-2004 played a significant role in dividend payouts. These studies also found that the incentive for companies to pay dividends instead of hoarding cash or using it for stock buy-backs helped to reshuffle capital from them to you.

Keith Voight of the Edison Electric Institute, and its member electric utility companies have a lot at stake here. Mr. Voight had this to say:

‘Raising tax rates on dividend income and taxing dividends at higher rates will hurt consumers. Stock market investors would face lower tax rates if they moved from investing in companies that pay dividends over to buying growth stocks that typically don’t pay dividends. This has the potential to lower the dollar amount (% rate) by which companies ordinarily increase their dividend and could reduce the value for all shareholders...this is a double hit – not only will they be paying higher taxes, but they’ll likely see the price of their stocks fall as well’.

Mr. Voight also added that higher dividend tax rates will move investors away from utility stocks and ultimately raise utility borrowing costs...which we, the end user must ultimately pay. Also IRS data shows that retirees and near retirees suffer the most. Almost

three of four dividend payments go to those over age 55. So, it’s not just the rich who pay the piper; we all do!

I mentioned Will Rogers a little earlier. Another one of his gems of common sense, I think, refers to our politicians: “There are three kinds of men: The ones that learn by reading. The few who learn by observation. The rest of them have to pee on the electric fence and find out for themselves!” It’s too bad, however, that it’s we, and not they, being shocked.

Several analysts reports that I have reviewed, seem to believe that the current unemployment benefits extension and payroll tax cuts will not be kept for 2013. Nor will the Bush tax cuts for earners over \$250k/year. The continuation of cuts for those below the \$250k threshold will likely get bipartisan support. But again, it’s anybody’s guess. This assumes that cooler heads will eventually prevail, but our esteemed representatives in Washington have snatched **defeat from the jaws of victory** many times before.

LADIES & GENTLEMEN BEWARE:
THE FAT LADY IS CLEARING HER THROAT!

WHAT TO DO NOW?

⊗ Defense stocks could get crushed in the aftermath of automatic spending cuts by the government.

⊗ Keep a close eye on your dividend paying stocks and continue to check their ‘payout ratio’ to determine if they can afford their generosity.

⊗ Stay away from U.S. Treasuries. That is a very big bubble that is going to eventually <BURST>

⊗ All investors with large unrealized capital gains should sit down with their financial & tax advisors to figure out if selling before December 31st is a good strategy. Don’t forget capital gains taxes may also be going up.

⊗ Make sure to review your asset allocation.

⊗ If dividend rates do in fact go up, it may be time to look at placing those stocks in a tax-deferred account.

⊗ To get the biggest bang for your buck ensure that you have your muni bonds in your taxable accounts. Don’t be put off by their lower yields. When you take into account their lack of taxation, and

depending on your tax bracket, a 4% yield could equate to 5.5%.

☺ If we don't have the lower dividend tax rates, plan on placing higher dividend payers like REITS and MLP's in your tax deferred accounts.

☺ Look at Roth conversions to see if they make sense based on your personal situation.

MISCELLANY



☺ If you're looking for quick First Aid information, go to www.MayoClinic.com, click on Health information, then click on "First Aid".

☺ There are a fantastic number of smart phone apps that you can get (many for free) to help with a variety of things:

"gasbuddy" will display the lowest fuel prices near you.

"waze" figures out your location to constantly update maps, traffic jams, construction delays and speed traps.

☺ Looking for senior discounts? This section is going to be long, but you can't beat saving money!!!!

YOU MUST ASK !

RESTAURANTS:

Applebee's: 15% off with Golden Apple Card (60+)

Arby's: 10% off (55+)

Ben & Jerry's: 10% off (60+)

Bennigan's: discount varies by location (60+)

Bob's Big Boy: discount varies by location (60+)

Boston Market: 10% off (65+)

Burger King: 10% off (60+)

Chick-Fil-A: 10% off or free drink or coffee (55+)

Chili's: 10% off (55+)

CiCi's Pizza: 10% off (60+)

Denny's: 10% off, AARP members 20% off (55+)

Dunkin' Donuts: 10% off or free coffee (55+)

Einstein's Bagels: 10% off dozen bagels (60+)

Fuddrucker's: 10% off any senior platter (55+)

Gatti's Pizza: 10% off (60+)

Golden Corral: 10% off (60+)

Hardee's: \$0.33 beverages everyday (65+)

IHOP: 10% off (55+)

Jack in the Box: up to 20% off (55+)

KFC: free small drink with any meal (55+)

Krispy Kreme: 10% off (50+)

Long John Silver's: various discounts (55+)

McDonald's: discounts on coffee everyday (55+)

Mrs. Fields: 10% off certain locations (60+)

Shoney's: 10% off

Sonic: 10% off or free beverage (60+)

Steak 'n Shake: 10% off every Mon & Tue (50+)

Subway: 10% off (60+)

Sweet Tomatoes: 10% off (62+)

Taco Bell : 5% off; free beverages seniors (65+)

TCBY: 10% off (55+)

Tea Room Cafe: 10% off (50+)

Village Inn: 10% off (60+)

Waffle House: 10% off every Monday (60+)

Wendy's: 10% off (55+)

White Castle : 10% off (62+)

RETAIL & APPAREL :

Banana Republic: 10% off (50+)

Bealls: 20% off first Tuesday each month (50+)

Belk's: 15% off first Tuesday each month (55+)

Big Lots: 10% off (65+)

Bon-Ton Stores: 15% off on senior days (55+)

C.J. Banks: 10% off every Wednesday (60+)

Clarks : 10% off (62+)

Dress Barn: 10% off (55+)

Goodwill: 10% off 1 day/week (date varies by location)

Hallmark: 10% off 1 day/week (date varies by location)

Kmart: 20% off (50+)

Kohl's: 15% off (60+)

Modell's Sporting Goods: 10% off

Rite Aid: 10% off on Tue & 10% off RX

Ross Stores: 10% off every Tuesday (55+)

Salvation Army Stores: up to 50% off (55+)

Stein Mart: 20% off red dot/clearance items (55+)

GROCERY :

Albertson's: 10% off first Wed of each month (55 +)
American Discount: 10% off every Monday (50 +)
Compare Foods Market: 10% off every Wed (60+)
DeCicco Markets: 5% off every Wed (60+)
Food Lion: 6% off every Monday (60+)
Fry's Supermarket: 10% off every Mon (55 +)
Great Valu Food Store: 5% off every Tue (60+)
Gristedes Supermarket: 10% off every Tue (60+)
Harris Teeter: 5% off every Tuesday (60+)
Hy-Vee: 5% off one day/week (varies by location)
Kroger: 10% off (date varies by location)
Morton Williams Market: 5% off every Tue (60+)
The Plant Shed: 10% off every Tuesday (50 +)
Publix: 5% off every Wednesday (55 +)
Rogers Marketplace: 5% off every Thu (60+)
Uncle Guiseppe's Marketplace: 5% off (62+)

TRAVEL :

Airlines:

Alaska Airlines: 10% off (65+)
American Airlines: discounts for 65+(call before booking)
Continental Airlines: special fares for select destinations
Southwest Airlines: discounts 65+ (call before booking)
United Airlines: discounts 65+ (call before booking)
U.S. Airways: discounts 65+ (call before booking)

Rail:

Amtrak: 15% off (62+)

Bus:

Greyhound: 5% off (62+)
Trailways : various discounts for ages 50+

Car Rental:

Alamo: up to 25% off for AARP members
Avis: up to 25% off for AARP members
Best Western: 10% off (55 +)
Budget: 10% off; 20% off for AARP members (50+)
Dollar Rent-A-Car: 10% off (50+)
Enterprise 5% off for AARP members
Hertz: 25% off for AARP members
Holiday Inn: 10%-30% depending on location (62+)

National: up to 30% off for AARP members

OVER NIGHT ACCOMMODATIONS

Cambria Suites: 20%-30% off (60+)
Clarion Motels: 20%-30% off (60+)
Comfort Inn: 20%-30% off (60+)
Comfort Suites: 20%-30% off (60+)
Econo Lodge: 20%-30% off (60+)
Hampton Inns: 10% off when booked 72 hours advance
Hyatt Hotels: 25%-50% off (62+)
InterContinental Hotels: various discounts (65+)
Mainstay Suites: 10% off (60+)
Marriott Hotels: 15% off (62+)
Motel 6: 10% off (60+)
Myrtle Beach Resort: 10% off (55 +)
Quality Inn: 20%-30% off (60+)
Rodeway Inn: 20%-30% off (60+)
Sleep Inn: 20%-30% off (60+)

ACTIVITIES & ENTERTAINMENT :

AMC Theaters: up to 30% off (55 +)
Bally Total Fitness: up to \$100 off memberships (62+)
Busch Gardens, Tampa: \$3 off one-day tickets (50 +)
Carmike Cinemas: 35% off (65+)
Cinemark/Century Theaters: up to 35% off
U.S. National Parks: \$10 off lifetime pass (62+)
Regal Cinemas: 30% off
SeaWorld, Orlando: \$3 off one-day tickets (50 +)

CELL PHONE DISCOUNTS :

AT&T: Senior Nation 200 Plan \$29.99/month (65+)
Jitterbug: \$10/month cell phone service (50 +)
VerizonWireless: Nationwide 65+ Plan \$29.99/mo

MISCELLANEOUS :

Great Clips: \$3 off hair-cuts (60+)
Super Cuts: \$2 off haircuts (60+)

NOW, go out there and claim your discounts - - - and remember --- **YOU** must **ASK** for your discount - - - - -

NO ASK – NO DISCOUNT