Spotlight on retirement planning and retirees

· Sensible gambling—what you never knew about Roth IRAs
· Should you invest in a 401-K, Roth IRA or pay down debt?

Wealth Creations Strategies

Tax and Financial Strategies

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Positive Changes in Retirement Plans for the Self-Employed and Small Corporations

Selecting the optimal retirement plan for one's business has always been challenging. In the past, the greater the flexibility, the lower the maximum allowed contribution rate. Someone who wanted the option of investing nothing in a low-income year could have a plan that allowed a maximum of 15% of compensation. Those who wanted to invest up to 25% were required to contribute a minimum of 10%. Furthermore, there was an additional cost in terms of far greater complexity in plan arrangements and forms to file. Those having Profit Sharing Keoghs combined with Money Purchase Pension Plans are aware of this.

There are dramatic improvements for 2002. Congress, incredibly, increased the maximum rate for both Profit Sharing Plans and Simplified Employee Pension Plans (SEPPs) to 25% of compensation up to $160,000. This allows a contribution of as much as $40,000. It provides far greater flexibility for those with wildly fluctuating incomes who want to invest as much as possible in a good year, with the option of making zero contributions in a bad one. SEPPs are also far simpler to administer than Keogh's. The latter may become a relic of the past, except for those who want to exclude part-time employees from eligibility or discriminate in favor of older employees by adopting an age-weighted plan.

Maximum contribution amounts are increasing for Savings Incentive Match Plans for Employees (SIMPLEs) as well. A SIMPLE allows as much as 100% of compensation to be put away for retirement, up to $7,000 for 2002 (plus an additional $1,000 if over age 50). It's an extremely useful plan for those who earn a relatively low net income (or wages, if incorporated), but have enough other income to be in a high marginal tax bracket. The allowable contributions increase to $8,000 in 2003, $9,000 in 2004 and $10,000 in 2005. Larger contributions may be made in SEPPs only if net income (or wage income) is greater than $28,000 to $44,000, depending on the year and one's age.

Gambling and Roth IRAs

As there are non-alcoholic drinkers, there are recreational gamblers. Likewise, there are alcoholics and compulsive gamblers. This article is not written for the latter, destined to lose everything. We will instead make a case for a form of gambling by rational individuals—what we might refer to as extreme risk taking—inside Roth IRAs.

We first need to understand how gamblers are treated under tax law. Gambling winnings are included in gross income. Losses are deductible as personal itemized deductions, but only to the extent of winnings. The government gives married couples a standard deduction of $7,850. If actual deductions are greater, you get the benefit of the excess; if they're less, you take the standard. How much do losses of up to $7,850 save in taxes, then, if there are no other itemized deductions? Zip. In other words, if there are winnings of $7,850 but no non-gambling deductions, tax will be paid on the full $7,850 without the benefit of any losses.

Worse still, a retired couple subject to the 85% phase-in provisions for Social Security income may pay tax on as much as $6,673 in Social Security (85% of $7,850) plus the $7,850 winnings. The consequential increase in taxable income of $14,523 can result in additional federal and California state income tax of $3,921 (27% of $14,523) and $730 (9.3% of $7,850—California does not tax Social Security) respectively, even though losses are equal to or greater than the winnings. This is grossly inequitable for the recreational gambler.

To add insult to injury, there may be additional tax for those with real net losses, even if they are able to take full advantage of itemizing. Take the mature couple subject to the 85% phase-in. $10,000 in gambling winnings can cause adjusted gross income to increase by $18,500 ($10,000 plus 85% of $10,000). Yet, the deduction for losses is limited to the $10,000 in winnings. Taxable income increases by $8,500, resulting in as much as $2,295 additional federal income tax.

Those with real estate rental losses can be hit even harder, rare though the situ-

ation may be. As much as $25,000 in rental losses are allowed for those having adjusted gross income (AGI) under $100,000, while such losses are completely phased out at $150,000 of AGI. Therefore, gross winnings of $50,000 on top of $100,000 in other income results in zero allowable rental loss. Even if gambling losses were equal to or greater than winnings, the additional tax can be as much as $7,500 federal (as high as 30% bracket at that income level x $25,000) and $2,325 California state (9.3% of $25,000). The only salvation is that at these dollar amounts, the likelihood of having a problem with compulsive gambling is nearly 100% and the increased tax will assist in hastening the gambler's bottom.

The tax situation can, believe it or not, be just as bad for the ordinary gambler in the 36% federal/state tax bracket who collects no rental or Social Security income. Gambling losses in one year can never be used against winnings in another. The net economic gain from having $20,000 in wins one year and $20,000 of losses the next is zero. However, since the losses are non-deductible, the real cost due to the tax can in this case be as much as $7,200.

The same result can occur even if there are gambling losses that offset winnings. Such losses may be difficult to substantiate in an easily-provoked IRS inquiry. A daily log of wins and losses is required (although not fully enforced in every audit). Even if ATM or other bank withdrawals can be proven, the deduction can be denied.

At least the odds in Vegas are not bad in the short run. Many games pay 98 cents for every dollar gambled. On the other hand, the California state lotto pays only 50 cents for every dollar played. At the risk of stepping on toes, state lotteries are for the mathematically challenged. Worse still, money the state keeps goes towards a vastly over-funded educational system in which the more that is spent, the worse the education seems to get. (If I'm stepping on more toes and you are open-minded, please request a few of the articles I've saved that I believe prove this assertion.)

Where can we improve our odds in the long run and still have fun? While not quite Vegas, we can take some extraordinary risks inside our Roth IRAs, with the potential for large tax-free gains if the profits are not withdrawn until age 59 1/2 (or a minimum of five years, if later). If you turn a $2,000 Roth into $20,000, you just earned $18,000 tax-free. If you're able to grow $2,000 into $200,000, you've got a tax-free gold mine. If you then lose the entire gain while still inside the Roth, you lost nothing except "house" money. You paid no taxes on the winnings. The fact that there is no required record keeping for gains and losses realized inside Roths is an added plus. If you close out all of your Roth IRAs, any net loss is deductible as a capital loss ($3,000 per year with carry-forwards allowed). From a tax perspective this is far safer than lottos or Vegas-style gambling.

The odds of losing when taking great risks are far greater than the odds of winning. However, speculating in stocks is more akin to playing poker, in which there are, at least, a few perennial winners. In the long run, when gambling at games requiring no skill, the house always wins.

Traditional vs. Roth IRAs Revisited: 401-Ks, Roths, or Pay Off Debt?

Contributions to traditional IRAs are deductible going in and taxable coming out. Roth IRAs are the opposite: investments are not deductible when made but are withdrawn tax-free. Often those in low tax brackets (10% and 15%) run into financial problems requiring premature withdrawal from IRAs. The recipient of a traditional IRA is then usually subjected to a minimum 25% tax and penalty. Even low-income retirees often pay tax on IRA withdrawals at a 22.5% rate due to the 50% phase-in of Social Security income.

If contributions are deducted and later taxed at the same rate, the overall result is identical for Roth contributors who are in the same bracket when funds are withdrawn. In other words, the Roth is every bit as good as the traditional IRA for those whose tax brackets don't decrease in their retirement years. It is far better for those whose tax rate increases when withdrawing funds. The odds that the rate will stay the same or increase is high for lower income taxpayers. Therefore, Roth IRAs are safer tax-savings vehicles than traditional IRAs for those in the lower brackets.

Better still, tax-free withdrawals of one's own contributions to a Roth can be made at any time; in an emergency, you have access to your original funds. Only earnings must remain untouched until age 59 1/2.

Similar principals apply to decisions relating to investments in 401Ks vs. Roth IRAs. A married person with $55,000 of income investing $6,000 into her 401K saves only 15%, or $900, in federal income tax (we'll keep it simple and ignore state tax, with the proviso that the same idea may hold for those in a 21% federal/state bracket). She should instead consider investing $3,000 (the new maximum for those under age 50) into a Roth IRA for herself and $3,000 for her non-working spouse.

There is an important difference, however, between 401Ks and traditional IRAs. The employer often matches contributions to 401Ks up to a minimum level. Say the employer matches 50% up to a 6% employee contribution rate. In the case of our $55,000 wage earner, the matching contribution would be $1,650 of the first ($55,000 x .06=) $3,300 in 401K contributions. Let's look at the big picture: the $3,300 contribution saved ($3,300 x .15=) $495 of tax, resulting in a net cost to the employee of ($3,300 - $495=) $2,805. She invested $3,300 plus the $1,650 employer's share, for a total

of $4,950. The cost, then, of investing $4,950 was only $2,805, resulting in an overall "profit" of ($4,950 - $2,805=) $2,145. We should all be so lucky to have an immediate ($2,145/$2,805=) 76% rate of return on investment. The employee should invest the first $3,300 of the available $6,000 in the 401K, taking full advantage of her employer's matching contribution. The other $2,700 should probably be invested in a Roth IRA.

Our choice may be mitigated by the fact that our employer is Enron and that the matching contribution is invested in its stock. However, our employer is just as likely to be the next Microsoft. In fact, the Enron debacle affected a small fraction of 1% of all employees; most have done quite well in employer stock. In the worst case, you don't lose your own funds if the employer's share goes to zero, so long as diversification and risk minimization strategies are employed over the funds that you control.

The choice between self-employed retirement plans (Keogh's, Simplified Employee Pension Plans and SIMPLE IRAs) and Roth IRAs is the same as that between traditional IRAs and Roths. As long as there is no employer match, a contribution to any of these plans results in the same rate of tax savings. Confusion may arise over the fact that contributions to deductible plans often straddle tax brackets. For example, the first $2,350 may save taxes at a 27% rate, at which point additional contributions may save only 15%. This requires accurate calculations of taxable income, making pre-planning difficult and complicating the preparation of a final return. This is especially challenging for plans such as 401Ks, contributions to which cannot be made after the end of the calendar year.

There are additional choices muddying the water if we consider debt. If an alternative exists between paying off consumer loans running up interest at 12-18% annually vs. investing in retirement accounts that save 15% going in and earn 5% per year tax deferred, there is little question that the debt should be paid first. A strong argument can be made that the same decision applies to those in higher tax brackets. However, the opposite can be argued in instances where the employer matches contributions. In the case above, consideration should be given to investing $3,300 in the 401K, while using the other $2,700 to pay down loans. The lower the interest rate the more difficult the decision, but generally, paying down home loans in lieu of making deductible contributions to retirement plans for those in higher brackets is inadvisable.

Should You Pay Your Mortgage Off or Just Pay it Down?

"Buy a more expensive home" is the classic response to those asking how to minimize their income tax. After all, mortgage interest paid on debt up to $1.1 million incurred to purchase or improve one's home is deductible. But is this really the panacea people make it out to be?

The short answer is no, but not just for the obvious reasons. It should be evident that it's not worth trading up if you don't need a bigger house or home prices are overvalued and primed for a fall. The hassle and costs of moving constrain many. Quite simply, these costs may overwhelm any tax savings.

A more obscure reason is the possibility that there may be far less tax savings from itemizing than commonly believed. While the young are not immune, this is especially true for retirees. The Standard Deduction for married couples aged 65 and over is $9,650. The government says, "You can deduct the greater of your actual itemized deductions or the Standard Deduction." Therefore, $9,650 in 2002 (lower for those under age 65 and non-married filers) is the amount that actual deductions need to exceed before they begin to save a dime.

Take a couple that earns $50,000 whose state income tax and property tax totals $3,000 (fairly common numbers for retirees). Charitable donations amount to $2,000 yearly. There aren't any employee business expenses (after all, they're retired) and medical costs are mostly government paid, so these don't exceed 7.5% of income (the amount required before even entering into the equation for itemized deductions).

Subtract the actual deductions of $5,000 from the Standard Deduction of $9,650 and you'll find that the retired couple is $4,650 shy of itemizing. This means that up to $4,650 in additional deductions, including mortgage interest, won't save any tax. At current interest rates, this means that the tax savings is zero on the first $60,000 or so of mortgage debt.

If debt is the only way by which to accomplish one's dream of owning a home, so be it. But what if our retirees have $250,000 in stocks, bonds and savings? The income from these is taxed, while the interest paid is deductible. The trouble is, the income is fully taxed and the interest is only partially deductible (the amount that exceeds $9,650). Not a good deal.

Because of this, the break even point from savings and/or investment growth is greater than the 6% to 8% interest paid on the home loan. In an era of 3% savings accounts and stocks that, while paying a 1.3% average dividend, can (and do) drop in value, this may be an insurmountable impediment to increasing one's wealth.

It's hard to believe it could get any worse, but it does. As income increases in the range of $25,000 to as much as $82,000 or so, more Social Security income is taxed. As much as 85% is eventually phased in, subjecting additional interest or dividend income to a real tax rate as high as 50% for those with taxable income in excess of $46,700 (27% marginal bracket x 1.85). Yet, the deduction saves only 27% at most.

In the extreme, this can cost an age 65

or over married couple, whose income is $82,300, (including 85% of their Social Security, fully phased in at this level) a small fortune every year. If they have $17,000 in deductions, including $12,000 mortgage interest on a $170,000 mortgage and $5,000 in other deductions, the amount by which the total deductions exceed the standard is only $7,350 ($17,000 less $9,650). The tax saved is $1,985 ($7,350 x 27%). The real after-tax cost of the $12,000 interest paid is ($12,000 less $1,985 tax saved =) $10,015.

If they have $170,000 in the bank earning $5,100 at a 3% rate, it seems that we could multiply this by 27% to find the tax. However, since ours is not a rational tax system, we cannot. Due to the phase-in of 85% of Social Security, every additional dollar of interest income results in $1.85 of taxable income, resulting in a tax of $2,547 ($5,100 x 1.85 x 27%). This leaves only $2,553 in after-tax income on the $170,000. By using these funds to pay off their mortgage, the retirees will save $7,462 ($10,015 true cost less $2,553 offsetting income) in the first year alone.

If they invest each year's savings at 2% (after tax) for the next ten years, accumulated funds could amount to $83,340.

While this level of savings is unusual, $1,000 to $3,000 per year is common. Bear in mind that even paying off a portion of a mortgage can result in substantial savings on the spread between the mortgage cost and investment earnings at current interest rates.

Also, to the extent debt is paid off, earnings have been essentially guaranteed at the interest rate charged on that loan. Where else can you get a predetermined rate of return at even 7% these days?

If you wonder whether you could benefit from this strategy, please mail, e-mail, or fax us your mortgage amount(s) and interest rate(s) along with invested funds and current rates of return. We'll let you know how much of your mortgage we would consider paying off, along with the overall savings by doing so.

New Low Income Pension "Savers Credit" Trickier Than We Thought

We've previously written about the crazy new credit for contributions to a 401(k), 403(b), 457, SIMPLE, SEPP, traditional IRA or Roth IRA plan for taxpayers having a low-income year. The credit is very generous but only within very limited bounds. For example, the credit is 50% of any contribution up to $2,000 for single taxpayers with "modified" adjusted gross income of $15,000 and less, but just 20% for those with income of $15,001 to $16,250 and 10% if the income is $16,251 to $25,000. We are concerned not only with the "cliff-like" decrease in savings at the various income levels, but also with the fact that the income tax on $15,000 ($930 for 2002, scheduled to decrease each year) is less than the maximum credit of $1,000. The tax is zero at $7,800, and only $300 at $10,800.

There's an additional quirk. The credit is reduced by any distributions from retirement plans received by the taxpayer or his spouse during the period beginning two years prior to the year of the claimed credit and up to the due date of the current year's income tax return. Therefore, any distributions from such plans in 2000, 2001, 2002 and up to the due date of the tax return in 2003 may preclude one from taking this credit on the 2002 return. (Apparently, the due date includes extensions, even though the contribution to employer plans must be made during 2002 and contributions to SIMPLEs, SEPPs and IRAs need to be made by April 15, 2003.)

Given the fact that the credit is intended for low-income individuals, it is overly complex. As mentioned in the prior article on the subject, anyone who is considering the use of this tax savings tool should see us in January, year-end pay stub in hand. The slightest failure in attending to details could easily blindside someone attempting to use it to his advantage. Taxpayers claiming this credit must be 18 or older, not a full-time student for any 5 months of the year and ineligible to be claimed as a dependent by another taxpayer. Within a very narrow band, this credit may be a wonderful "freebie" to those who invest in Roth IRAs. Other retirement plans are generally not recommended because of the low marginal tax rate (see our articles on traditional IRAs vs. Roths). However, those who qualify for the Earned Income Credit (EIC) are in a higher than advertised tax bracket and may derive a surprisingly large benefit by investing in a traditional IRA. Since there are so many uncertainties having to do with precise AGI and marginal tax rates, the IRA approach is strongly recommended except to the extent of matching contributions in an employer plan.

Low Income "Savers Credit"

Married Filing Joint		Head of Household		Single		% Credit
AGI Over	Not Over	AGI Over	Not Over	AGI Over	Not Over	
$ -	$ 30,000	$ -	$ 22,500	$ -	$ 15,000	50%
$ 30,000	$ 32,500	$ 22,500	$ 24,375	$ 15,000	$ 16,250	20%
$ 32,500	$ 50,000	$ 24,375	$ 37,500	$ 16,250	$ 25,000	10%

New Mandatory Minimum Withdrawals: Less Than Ever

The IRS has, after only one year, again revised upward the divisors for calculating minimum required withdrawals from retirement plans. Congress told the IRS to take into account today's longer life spans and, with the heavy hand of the retirement lobby hanging over them, they are making adjustments quickly. The divisors are theoretically equivalent to the joint life expectancy for a married couple, at the corresponding age. However, in a token bid for simplicity, single people use the same divisors. To determine the minimum withdrawal for 2002, divide the amount in your retirement plans as of December 31, 2001 by the new divisor listed next to your age.

Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor
70	27.4	73	24.7	76	22	79	19.5	82	17.1	85	14.8	88	12.7
71	26.5	74	23.8	77	21.2	80	18.7	83	16.3	86	14.1	89	12
72	25.6	75	22.9	78	20.3	81	17.9	84	15.5	87	13.4	90	11.4

You must withdraw the required minimum from each type of plan, not each account. Therefore, you can tally up the year-end value of all your traditional IRAs and withdraw the minimum from any one or combination. However, you cannot add different types of plans. Therefore, perform the calculation and withdraw the required minimums from Tax Sheltered Annuities, Profit Sharing Plans, 401Ks, etc., separately. Each type of plan stands on its own for the purpose of calculating withdrawals.

The Greatest Ponzi Scheme Ever

Charles Ponzi, Boston's "wizard of finance" in 1920, created one of the greatest confidence rackets ever. His name became synonymous with a scheme that had been replayed for scores of years; he simply took it to a higher level .

The game is simple: Peter is robbed to pay Paul. Investors are told their funds will be invested at 40% per annum (or some such fantastic return), while "profits" are paid out of the pockets of subsequent investors. Eventually, there aren't enough marks to keep the process going and the scheme collapses. Not only do later investors lose, but so do many of the early players who, in their folly, reinvest with the expectation of greater gains.

The process is easy to pull off because of the amazing susceptibility of people to fall for a con when attempting to satiate their own hope and greed. The swindler is charming and flamboyant (quite often exhibiting the early-stage alcoholic's lure), an extremely likeable character. The victim's limbic system (the pre-mammalian part of the brain, responsible for basic survival impulses) takes over, allowing the swindler to step aside as the herding instinct ensnares more victims. It should be evident that both frauds and manias emanate from the same pre-human mindset.

Many suggest that the Social Security system is the greatest Ponzi scheme ever. After all, your Social Security payments are not invested for your retirement. There is no "trust" fund; taxes collected are immediately paid to retirees. The chart below not only provides evidence for this, but also illustrates the extraordinary welfare component to the fraud. Drawn from a report by the House of Representatives Ways and Means Committee from April, 2001, it depicts the ages that workers must reach to fully recover their Social Security taxes plus interest (we believe estimated at 3% per annum), based on retirement at age 65.

Evidence for its Ponzi-like nature can be found in the astounding increase in age required to recoup a meager return on investment for average-to-higher income earners from 1980 to 2020—22 and 45 years respectively. Proof for the welfare-like nature of the system can be found in the difference in attained ages before seeing even this relatively low return, between lower and higher wage earners retiring in 2010: a gaping 20 years. The difference grows to an astonishing 41 years for those retiring in 2030.

Ages that workers must reach in order to fully recover their Social Security tax plus interest**

Year of Retirement	Minimum Earner ($10,712*)	Average Earner ($31,685*)	Maximum Earner ($76,200*)
1940	65	65	65
1960	66	66	66
1980	67	68	68
2000	77	82	89
2010	79	87	99
2020	81	90	113
2030	80	91	121

* In 2000 dollars.

**Assuming retirement at age 65. This too is fraudulent, since normal retirement age slowly increases to 66 years for those born from 1943-1954 and 67 years for those born after 1959. Therefore, the true results are worse than the chart portrays.

Social Security Maximum Wage Base Increases at a Rate Far Greater Than Inflation

The annual maximum earnings base is the amount of wages and self-employment income subject to Social Security or self-employment tax. This maximum has increased at a rate far greater than inflation for the last 30 years. It's hard to believe that the maximum base was fixed at just $4,800 from 1959 to 1965, bumped up to $6,600 in 1966 and 1967 and ratcheted to a whopping $7,800 for 1968 through 1971. The following chart depicts the history of this wage base and tax, along with calculations if prior year inflation had instead been taken into account, starting with 1972.

Year	Wage Base Per Inflation	Actual Wage Base	Total Tax Rate	1972 Rate x Wage Base per Inflation	Actual Rate x Actual Wage Base	Year	Wage Base Per Inflation	Actual Wage Base	Total Tax Rate	1972 Rate x Wage Base per Inflation	Actual Rate x Actual Wage Base
1972	$ 9,000	$ 9,000	9.2	$828.00	$828.00	1988	$25,228	$45,000	12.1	$2,320.98	$5,454.00
1973	$ 9,288	$10,800	9.7	$854.50	$1,047.60	1989	$26,262	$48,000	12.1	$2,416.10	$5,817.60
1974	$ 9,864	$13,200	9.9	$907.49	$1,306.80	1990	$27,523	$51,300	12.4	$2,532.12	$6,361.20
1975	$10,949	$14,100	9.9	$1,007.31	$1,395.90	1991	$29,009	$53,400	12.4	$2,668.83	$6,621.60
1976	$11,945	$15,300	9.9	$1,098.94	$1,514.70	1992	$30,228	$55,500	12.4	$2,780.98	$6,882.00
1977	$12,638	$16,500	9.9	$1,162.70	$1,633.50	1993	$31,134	$57,600	12.4	$2,864.33	$7,142.40
1978	$13,460	$17,700	10.1	$1,238.32	$1,787.70	1994	$32,068	$60,600	12.4	$2,950.26	$7,514.40
1979	$14,482	$22,900	10.16	$1,332.34	$2,326.64	1995	$32,902	$61,200	12.4	$3,026.98	$7,588.80
1980	$16,119	$25,900	10.16	$1,482.95	$2,631.44	1996	$32,966	$62,700	12.4	$3,032.87	$7,774.80
1981	$18,295	$29,700	10.7	$1,683.14	$3,177.90	1997	$33,922	$65,400	12.4	$3,120.82	$8,109.60
1982	$20,179	$32,400	10.8	$1,856.47	$3,499.20	1998	$34,702	$68,400	12.4	$3,192.58	$8,481.60
1983	$21,430	$35,700	10.8	$1,971.56	$3,855.60	1999	$35,258	$72,600	12.4	$3,243.74	$9,002.40
1984	$22,116	$37,800	11.4	$2,034.67	$4,309.20	2000	$36,033	$76,200	12.4	$3,315.04	$9,448.80
1985	$23,067	$39,600	11.4	$2,122.16	$4,514.40	2001	$37,258	$80,400	12.4	$3,427.74	$9,969.60
1986	$23,898	$42,000	11.4	$2,198.62	$4,788.00	2002	$38,302	$84,900	12.4	$3,523.78	$10,527.60
1987	$24,351	$43,800	11.4	$2,240.29	$4,993.20						

Mammoth Beckons

Many of you know that my wife and I have vacation rentals in beautiful Mammoth Lakes, California. It's always nice to save money on recreation. There are few resorts where four to six people can enjoy all the comforts of home for as little as $225 to $480 for a 3-night weekend or $350 to $725 for a full week, depending on time of year (winter goes out at the higher amounts). We invite our clients to take advantage of this opportunity to vacation in an area where the winter skiing is incomparable and, in the summer, a ski resort turns itself into a mountain bike park, with great fishing, hunting and hiking in literally every direction.

Our units have fully stocked kitchens, TV, stereo, video and CD libraries, and other little surprises. One unit is perfect for bringing the kids, while another, called a "cottage" by our guests, is ideal for one or two couples, with two sleigh beds and a great view.

Mammoth has some fun shopping, great restaurants, movie theaters and other comforts of the city that can be enjoyed while breathing pure mountain air. Please give us a call for questions or bookings.

The Blame Game

There's no room left in this issue to discuss the collapsing market, the precise timing of which could not be predicted. Suffice it to suggest for now that the seeds for the collapse were laid in the Ponzi-like nature of the bubble. The psychology of this has nothing to do with the so-called "greed" of corporations (far exceeded by that of politicians lying in wait) and a sudden realization that publicly held companies defrauded investors. As our net worth increased, we chose to ignore the extraordinary overvaluations and obvious manipulations of income statements and balance sheets. The mass psychology has, quite simply, turned. Recent events are manifestations of this change.

We will have more to say on this in future issues. In the meantime, be mindful of the fact that the aftermath of manias is never pleasant.