MIKE CHADWICK'S **MONEY MATTERS**
ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

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2007 vs. 2013

I was recently interviewed by a columnist with Investors Business Daily and they were inquiring about how the economy stacks up today vs. 2007 when we were last at market high levels, as we are today. I didn't have to go far to the drawing board to figure out what my data points look like today as things are quite worrisome from this perspective for me and have been for quite some time. Here are my responses to the inquiry on where many economic metrics are today and where they were in 2007.

Measure/Metric	2007 Value	2013 Value
DOW	14160	15,040
S&P	1554	1650
Schiller P/E	27.2	24.49
Gallon of Gas	$2.75	$3.75
Unemployment Rate	4.75%	7.4%
U6 Unemployment rate	7.9%	14.3%
US Population	301 Million	315 Million
Unemployed Americans	6.7M	13.2M
GDP Growth	2.5%	1.1 – 1.7%
Food Stamp Recipients	26.9 Million	47.7 Million
Labor Force Participation %	66%	64%
US Credit Rating	AAA	AA
NYSE Avg Volume/Day	1.3B shares	54M shares
10 yr yield	4.64%, rising	2.78%, rising
VIX	17.5%	11.98%
Fed Balance Sheet	.89 Trillion	1.08 Trillion
Measure/Metric	2007 Value	2013 Value

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INSIDE THIS ISSUE

How does QE Really Work?

Many people believe the Quantitative Easing process, commonly known as QE, is a physical printing process where the government prints greenbacks. This is extreme, nontraditional monetary policy; typically the Fed only adjusts interest rates to impact the economy. Now with rates at essentially zero as they have been for many years, it's the extreme toolbox that is in use now to allow the Fed to have an impact in the world. The concept is new and only began a few years ago after lowering rates to zero didn't have a substantial enough impact on the economy. People commonly refer to this process as "printing money" and it is commonly referred to as "sitting in banks" so let's look a little closer at the process and see just how close these common phrases and notions capture the true impact and process of QE.

Here is how it actually happens. The Fed is buying treasury bonds and mortgage backed securities (more bonds) from primary broker-dealers with an electronic transaction from money that is basically created out of thin air via a computer at the Fed. There is not a "printing" of money in actual dollar bills, but there is an electronic creation of it so it is very much the same net impact. The Fed invites its primary broker-dealer network to put in offers for securities they hold in the applicable categories that they would like to sell. The Fed then offers them competitive bids along with everyone else in the marketplace and bonds are sold to the Fed. Think of this as you hold bonds in a brokerage account and the Fed is looking to buy your bonds at the markets competitive rates today. The Broker-dealer list isn't your traditional bank as most think of it such as the local savings and loan in your community. Here are the 21 broker dealers on the primary list that can transact in this QE program with the Fed: Goldman Sachs, Barclays, JP Morgan Securities, Morgan Stanley, UBS, Merrill, Deutsche, Nomura, RBC Securities, HSBC Securities, Citigroup Global Markets, Bank of Nova Scotia, BMO, BNP, Cantor Fitzgerald, Credit Suisse, Daiwa Capital, Jefferies, Mizuho, RBS Securities and SG Americas. These firms are allowed to get bids for their own securities or those of their clients. Who does business with these primary dealers? Their clients can be any of us as individuals, mutual funds, hedge funds, sovereign wealth funds, insurance companies, corporations, pension funds, etc. This impacts a large swath of the world through this primary dealer network. If you've ever sold a bond prior to maturity it involves going out and getting a competitive bid and then choosing a buyer, this is an identical process with the Fed as one of the buyers.

Once the bonds are sold to the Fed now the ultimate seller of that bond now has cash in their account where the bond once was. With that cash they can now decide what to do with it. They can buy another bond, reinvest it in a stock, fund or ETF, buy real estate, withdraw it and put it in their bank; pay down a loan, there is no limit of what can be done with the proceeds of the transaction once it is complete. This process is just like selling the bond traditionally, but the Fed is the buyer instead of a normal market participant.

2007 vs. 2013 (continued from page 1)

US Debt as a % of GDP	62.82%	101.57%
US Annual Deficit Spending	160M	1.08T
US Total Debt	9.008T	3.572T
Consumer Confidence	99.5	85.1
New Private Housing Starts	1.97M	836K

Information from: Bloomberg, Thomas Reuters, St. Louis Fed.

As I look at this list of economic metrics comparing today's economy against the one we had in 2007, a few things stand out as striking. We're not employing anywhere near the number of people we were 6 years ago and our population is 15 million larger. Our costs from a social perspective are skyrocketing to help those who are not back in the workforce. Millions of us are not actively employed so we're very underutilizing our human capital as a country. Our government's fiscal affairs are in horrible order. Growth is sluggish at best and we're not building 50% of what we were back then in the real estate sector. Prices of real estate and lending practices are much better than they were back then. We've got more sanity in lending today than we've had in the past decade. The price of the markets are at places they've only been at a few times before and each time they reached these levels it was quite ugly for some time after that. I expect this time around will play out no differently.

This time could be different and that is possible. It's always possible so we must consider this as a potential outcome and position ourselves accordingly. Can the government spend our way to prosperity? It's indeed possible as long as people continue to lend to the government at these historically low rates and confidence is solid that they'll pay back the debts. I'm not a buyer here, but many are. So far it's been working and things appear good on the surface, there is relative calm in the world. The European situation seems fine and nothing is screaming disaster at the moment as it has so many times in the past few years. Gasoline and food products are a lot more expensive than they were. Consumer income hasn't grown much in the past 6 years. Our economy is 70% based on consumer spending. Consumers have gotten rid of a lot of debt as they've either paid it off, gone bankrupt or the credit has been taken away by the banks as they've viewed the questionable consumers as high risk deals and have gone the other way to safer havens. Smart moves by the banks for sure. Now if we can get policymakers to make some smart decisions, we should be on a path to an exciting future. It's not all green and rosy just yet, we've got a lot of deleveraging still to do and it's mostly on the government side, so expect a bumpy ride as they work out how to do it.

Big tax increases this year should help get the balance back and expect more of the same in the coming months and years. It's hard for government to stop spending, and that is what needs to happen so there will be a tough back and forth struggle before we find a healthy equilibrium in the future. Many argue too much austerity is hurting while many others argue that the debts are too big. I'm a simple, logical guy and the latter theory resonates with me so I stick with common sense on this issue and not economic theories. We'll see how it all plays out, but this is a time for caution, not heavy speculation. The next few months and few years will prove quite

Carrots Eggs & Coffee!

A carrot, an egg, and a cup of coffee....You will never look at a cup of coffee the same way again.

A young woman went to her mother and told her about her life and how things were so hard for her. She did not know how she was going to make it and wanted to give up; she was tired of fighting and struggling. It seemed as one problem was solved, a new one arose.

Her mother took her to the kitchen. She filled three pots with water and placed each on a high fire. Soon the pots came to boil. In the first she placed carrots, in the second she placed eggs, and in the last she placed ground coffee beans. She let them sit and boil without saying a word.

In about twenty minutes she turned off the burners. She fished the carrots out and placed them in a bowl. She pulled the eggs out and placed them in a bowl. Then she ladled the coffee out and placed it in a bowl. Turning to her daughter, she asked, ' Tell me what you see.'

'Carrots, eggs, and coffee,' she replied.
Her mother brought her closer and asked her to feel the carrots. She did and noted that they were soft. The mother then asked the daughter to take an egg and break it. After pulling off the shell, she observed the hard-boiled egg.

Finally, the mother asked the daughter to sip the coffee. The daughter smiled as she tasted its rich aroma. The daughter then asked, 'What does it mean, mother?'

Her mother explained that each of these objects had faced the same adversity: boiling water. Each reacted differently. The carrot went in strong, hard and unrelenting. However, after being subjected to the boiling water, it softened and became weak. The egg had been fragile. Its thin outer shell had protected its liquid interior, but after sitting through the boiling water, its inside became hardened. The ground coffee beans were unique, however. After they were in the boiling water, they had changed the water.

'Which are you?' she asked her daughter. 'When adversity knocks on your door, how do you respond? Are you a carrot, an egg or a coffee bean?

Think of this: Which am I? Am I the carrot that seems strong, but with pain and adversity do I wilt and become soft and lose my strength? Am I the egg that starts with a malleable heart, but changes with the heat? Did I have a fluid spirit, but after a death, a breakup, a financial hardship or some other trial, have I become hardened and stiff? Does my shell look the same, but on the inside am I bitter and tough with a stiff spirit and hardened heart?

Or am I like the coffee bean? The bean actually changes the hot water, the very circumstance that brings the pain. When the water gets hot, it releases the fragrance and flavor. If you are like the bean, when things are at their worst, you get better and change the situation around you. When the hour is the darkest and trials are their greatest do you elevate yourself to another level? How do you handle adversity? Are you a carrot, an egg or a coffee bean?

May you have enough happiness to make you sweet, enough trials to make you strong, enough sorrow to keep you human and enough hope to make you happy.

The happiest of people don't necessarily have the best of everything; they just make the most of everything that comes along their way. The brightest future will always be based on a forgotten past; you can't go forward in life until you let go of your past failures and heartaches.

When you were born, you were crying and everyone around you was smiling.

Noteworthy News!!!

- Congratulations to Angela & Lee Rimbach and their 3 children on the opening of their new business, Angies Coffee & More! ☺
- Congratulations to Guiseppe Melaragno who recently set a 1 mile land speed record of 207+ mph on a motorcycle. This is a world record, how nice is it to see a local person doing big things! ☺
- Congratulations to Steve Schibi on his new job with Region 10! ☺
- Congratulations to Julie & Wayne Prescott on their recent marriage, the start of a beautiful life together! ☺
- Congratulations to Cathy Culmone on the purchase of her new home!
- Congratulations to Elaine D'Autorio on the purchase of her new home!
- Congratulations to Edgar & Rosie Naut on the purchase of their new home! ☺
- Congratulations to John Garfield with his new job with A & A Enterprises! ☺
- Congratulations to Rich Paruske on the purchase of his new home in sunny South Carolina! ☺
- Congratulations to Sean Delaney on his new job with United Technologies! ☺

Question & Answer

Ask any financial question you have and we'll address it here.

Q: If the job market is so strong why can't people find good jobs?

This is a conundrum that we're seeing many people struggle with at all levels of employment. We see people of all areas of life; from low level jobs to CEO's and this is an issue across the board. It's certainly a lot easier to replace an average or lower level job than it is to replace a high level executive job but it's never impossible. If you're determined, you'll make it happen, never give up regardless of how tough the environment is.

The data coming out each month says the job market is healing and we're now seeing a lower unemployment rate. There is some truth to this and there is some sleight of hand going on simultaneously. The (Bureau of Labor Statistics) BLS is the agency in charge of making the calculation for unemployment. They are taking a lot of people out of the workforce in the calculation so it appears the unemployment rate is a lot better. A more accurate look at the true unemployment rate is the U6 rate, which counts those no longer looking for work and those working part time, currently says 14.6% of the population is really out of work or not working full time. This year the new jobs numbers have been looking a lot better. So far in 2013 953,000 jobs have been created. That's really not bad for 7 months of the year. From the surface it looks like we're in great shape and we'll be back to "normal" shortly. Of these 953,000 jobs created in 2013, 77% of them or 731,000 of these newly created jobs are part time jobs. This is deceptive and shouldn't be counted but I have no say in how they calculate the numbers. This does explain why it's difficult to find work, yet the numbers appear to show a plethora of new jobs. The devil is always in the details so never ignore the small print! ☺

How QE Works (continued from page 1)

To make these purchases, the Fed is simply increasing how much money it owes as it is adding to its already enormous debt problem every day it buys more bonds. It is very active in this area, buying bonds most days of the month. We get a daily feed through our news service saying the fed is buying bonds and if so in what amount for the day. This process is referred to as POMO, which stands for Primary Open Market Operations; the fed is buying bonds through the open market. Here is an actual newsfeed print on August 20th from the wire at 11:15 am:

> NY Fed bought $0.942 B in Treasuries
> NY Fed bought $0.942 B in Treasuries ranging from November 2024 through February 2031. The 7-year yield is holding near intraday lows at 2.10%, and is down from a high of 2.27% yesterday. The markets remain anxious over what the FOMC Minutes (Wednesday) will indicate regarding QE purchases and a possible taper announcement next month.

This is a light day at fewer than $1 billion in purchases. Some days it's almost $5 billion in purchases for the day. At $85 Billion per month and just 20 trading days, there is going to be a lot of bond buying on a daily basis.

The concept here is the buying of bonds will raise the value of bonds, lower interest rates on those bonds, making borrowing cheaper and helping people save money each month with lower rates on their loans. When this first started in the depths of the financial crisis, it was certainly unique monetary policy, but didn't seem overly problematic for a short run and a shot of adrenaline to the economic landscape. They can artificially inflate some bond prices and hopefully spark a strong economy by lowering rates. Once the economy starts growing more quickly, we'll have the resources in additional tax payments to pay off these loans we're taking on today to implement the program. For a short period of time this seemed very reasonable.

Today, 4+ years after the end of the recession, it has grossly altered the financial landscape and is not adding to GDP in any meaningful way. The Fed recently printed a report showing that the QE programs have only added 0.18% to GDP. It worked for a while, but in the past few months we're seeing rates spike to the highest levels we've seen in many years and the Fed is still all in with QE. There have been hints that the Fed may slow the speed at which they're buying bonds, this is commonly known as the taper where they taper down how much they're buying each month. Market participants are now like drug addicts. They've become addicted to QE and now that there is the slightest hint of the slowing, not the ending, of the purchases, markets are reacting violently.

It appears the Fed will begin to slow QE not because the economy is strong, the economy isn't strong, and it's barely growing despite the Fed pouring $1 Trillion a year into it. They'll back out of QE because the constant QE drip over the past several years has created asset bubbles and distortions in the market across the spectrum. There is no easy way for the Fed to back out of this situation. They realize they now own 30%+ of the assets in some areas of the bond market and all markets are dependent on them for the constant drip of new money. When the Fed exits can markets still exist normally where buyers and sellers have to transact with one another without the Fed in the room? If the Fed tapers and markets react violently will they reverse their stance as they did in June? The writing is on the walls, QE is a con game and there is no easy way out. The real solution is sane fiscal policy and less debt, not more. I'd be very careful in doing what the Fed wants you to do and chase high priced, high risk assets because they're artificially manipulating the markets! ☺

Money Quiz

This month's challenge is on health care. What is the healthiest percentage of the country's population that is responsible for only 2.7% of our national health care expenditures? It's much much more than 2.7% of our population, but just how much? Last month's quiz was won by Fred Silvestri, 2012 deficit spending by our government was 1.087 Trillion, compared to 161 Billion in 2007. Ouch! ☺ Winner goes to Ruby Tuesday on us! 08/19/13: 4

Cell Savings

The cell phone has become a part of everyone's life and is often attached to the person 24/7, as people bring them into whatever room they're in. I don't use it like that and have often been labeled the world's worst cell phone responder, but I'm on the phone and computer all day long so I don't' want to look at electronics on my off hours. I typically leave it in my car or on the windowsill in the house charging. Not only do many people really love their phones, but they've become a huge expense as well.

Normally we go to the store and pay $10 - $300 for a phone, and sign up for a service for a 1-2 year commitment. The cell phone is being subsidized by the carrier and they are using the contract to pay for the subsidy, guaranteeing that if you terminate the service they still don't eat the cost of the cell phone that they subsidized. The fancy phones that are really little computers cost $500 - $600 new so when you pay $50 - $199 for it the subsidy is huge from the carrier. Now the downside is you're going to buy a whole lot of service you do not need, from minutes of talk to texts to data usage.

I was recently introduced to a new cell phone service provider who offers a no contract, no subsidy approach to cell phones. Who doesn't want to save some money on cell phones or any other expense for that matter? (I don't' know anyone who doesn't want to save!) There is a company and a site called Zact, www.zact.com, where you can buy a phone, unsubsidized, for the service you need and likely save a good amount of money every month. You can dial in exactly how many talking minutes you need, how many texts you send, and how much data you need and buy just that. They'll even refund you if you use less than you purchased. If you purchase too little, you can add anytime and not get charged an outrageous amount for extra service if you go "over" the contractual amount. This service uses the Sprint network for coverage and it seems to be a real money saver for anyone interested in such. Since you may have to change networks to get this service, make sure you have coverage in your area, and then use their calculator to see how much you could save with the package. You cannot choose from a million phones nor can you insure your phone, but if you're careful, there is savings here. ☺

Non Traditional Medicine Integration

Our powerful eastern educational and technological society has mountains of resources that have been applied to the discipline of medicine. What our medical providers and our medical system can do today for people is absolutely amazing on every level. I'm in awe at just how many people go through medical procedures that just a few years ago would have been impossible. On top of the sophistication of these procedures, they're often performed in a much less invasive way and much quicker than ever before. A fair percentage of our society is now in some way bionic with a titanium knee, hip, shoulder or other body part. Many of our amazing and wonderful veterans have prosthetic limbs and can still compete at the highest levels of athletic endeavors after war. We have technology to free clogged blood vessels and arteries, replace broken and worn out parts and mend all types of injuries and diseases. We're even able to change someone's appearance and make the aging process stay at bay from a cosmetic perspective if we're so inclined. In the worst accidents, our medical providers and system can essentially rebuild a person torn apart in a terrible vehicle crash; keep them alive and often returning to a quasi-normal life. We can remove tumors, growths and lesions and repair broken parts. Newer technologies are looking at genetics on the micro level where growing new parts or determining the likely future problems are currently in testing and will likely be here in practices soon.

With all of our great technology, tools and education thrown at medicine, we're also beginning to see an interesting blending of "old world" medicine into our system. Many people don't give much or any credit to the "old world" medicines or healing techniques such as Acupuncture, Reiki, Yoga, Qigong, Massage, Diet, Meditation, or any other discipline out there. You can fit my knowledge of medicine in a thimble but this concept of taking the best aspects of both schools of thought and combining them seems like a powerful combination.

It's hard to argue with the power of our medical system. People from all around the world come here to get procedures done here; regardless of where they're from if they have the resources to pay for it. Old school practices have been around for thousands of years and many societies don't have any of the problems we have today and they point to these practices. We have witnessed many of our clients exhaust traditional medicine to no avail and then pursue "alternative" strategies to find an ultimate solution or resolution to their problem where our high tech highly educated system couldn't resolve. I must admit, had I not witnessed these events with my own eyes and lived vicariously through people I know well and care for deeply, I'd never have believed the outcomes that are possible with the old school techniques. As time unfolds, it appears the two schools of thought are becoming more open minded to one another and giving credit where credit is due. Acceptance is by no means universal; there is still much doubt in one camp against the other. It appears to me the casual observer that the combination of the two approaches seems to be the best possible combination to help the outcome.

Inspirational Quotes

(All from fortune cookies!)

- Buy things because you need them, not because they are on sale.
- Every day there is sad news, but each day itself is glad news.
- Do not wait for others to open the right doors for you.
- Nothing is impossible to a willing heart.
- Careful thinking will command respect.
- You will be hungry again in one hour.
- The fortune you seek is in another cookie.
- Made in the USA
- You laugh now, wait until you get home.

We can piece the puzzle together and make your money work for you!

Don't make excuses; make things happen; make changes; make history!

Kids Korner

Those who understand interest collect it and those who do not understand it pay it. Where do your kids fit into this equation? Do your kids even know what interest is? Many kids don't have any real exposure to financial issues so they're left behind until they see it in school or in life. This isn't an area I'd leave to chance for my princesses. Make sure the kids know what interest is, how to compute it and how it can change their life if they collect it consistently for a long period of time. This concept is what attracted me to this business, knowing the average guy can become quite comfortable with time, interest and good behavior. Along these lines when we're out and about if we're in a place they really like or is really busy the girls will often ask me, "dad, is that a public company?" I love this line of thought, they know that if they can become and owner of a great business it helps their outcomes. You can never start too young in teaching the kids $ ABC's☺

Don't make excuses; make things happen; make changes; make history!

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