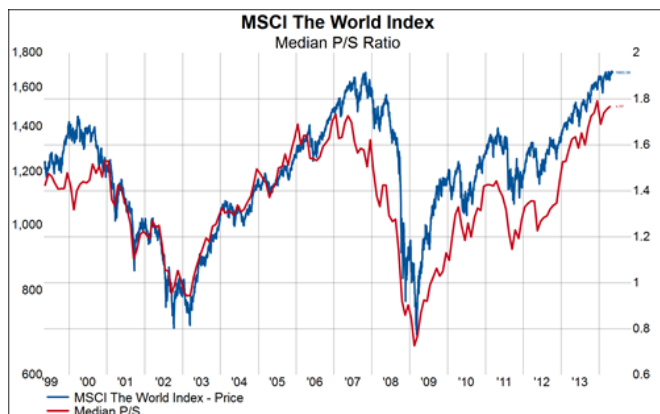


Are the Markets Cheap?

Here or in Europe, not at all, in fact they're quite expensive. Historically at the high end of any valuation metric we track in fact so there is serious reason to be cautious from an investment perspective. Now in other parts of the world the markets are not so lopsided and present better values from a price perspective, but the risk of course is currency fluctuations and political instability. We apparently have perfectly stable political dysfunction. ☺ There is value to be found out there in the landscape, but the level of prices in general should lead one to be very cautious. This is not the time to try and be an all-star and swing for the fences on the long side. This is the time to be prudent and smart and really pick your spots and position size accordingly. Let's look at some graphics of where we are in the markets based on a few different valuation metrics we track. Thanks to our friends at Gavcal, Bloomberg and Bank of America for the charts! ☺

The first metric we're going to look at is price to sales. This is simply the price of a stock divided by the annual sales of the same security. This looks at all stocks around the world as measured by the MSCI (Morgan Stanley Capital Index) so valuations here are more ridiculous while there are small pockets of value in various places globally.



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Anatomy of Share Buybacks

This has been a very popular corporate move historically. When a company buys back its shares, there are fewer shares left that are tradable in the open markets. The tradable number of shares are considered the "float" the shares floating around the market for trade by the investing public. The float of shares today for some companies are all of the available shares. For other companies the float is far smaller than the total number of shares for various reasons. In general, people believe that as the float of a company's shares decrease, the value of the company increases. This is fine in theory and generally accurate, but not always. There are firms that specialize in going after companies in this realm and they're called "float shrink" investors. They always look to buy companies that are reducing the number of shares outstanding in their publicly traded stock. We'll dig into this a little deeper.

As the number of shares outstanding changes, so does every ratio per share that people look at when assessing an investment candidate. Let's look at an example of how this plays out with a hypothetical company. Our hypothetical company is going to be Apollo's Apothecary. Our firm has grown exponentially over the years and is doing well. The company has revenue of \$1.0 million dollars and earnings of \$300,000. There are 300,000 shares of stock outstanding for our company. If we look at earnings per share, the ratio is 300,000 in earnings/ 300,000 shares and our company is making \$1.0 per share. Now if management decides to do a share buyback and they buy 10% of the outstanding shares off the market and retire them as treasury stock we must now follow the money. The company buys the 30,000 shares from the stock exchange and retires them. Now there are only 270,000 shares outstanding and the earnings are still \$1.00 per share. The earnings per share now changes substantially. Here is the new equation \$300,000 earnings/ 270,000 shares outstanding yields a new earnings per share of \$1.11/share.

Nothing has changed with our company but earnings are up 11.1%. This is how manipulating shares outstanding can drastically impact company measures. This is true for every per share metric investors follow. The overall corporate numbers don't change at all, but since we now have a different number of shares outstanding, the ratios change drastically. There are many ways for companies to buy back shares, some are good and some are not so good. If a firm has mountains of cash hanging around doing nothing and they buy back shares that's a pretty good use of the money. Share repurchases are more valuable than cash sitting around aimlessly if there is no purpose for it in the coming months or years. Cash is king and companies should have a generous amount hanging around to take advantage of business opportunities that may present themselves.

Continued on page 3

Are Markets Cheap? (Cont'd from Pg. 1)

Now let's jump to good old reliable, the P/E Ratio. This one takes the earnings of a firm and divides it by price. Highest since 2007.



Price to cash flow has to look better. Not so much.

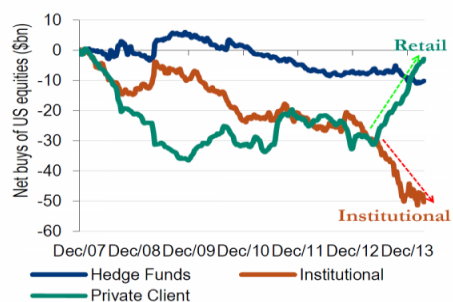


Here is my favorite one of the bunch. The smart money is the institutional crowd, these folks have been net sellers now for the better part of a year. Who then is doing the buying? Thanks to Bloomberg for the chart!



Retail of course! "Private" clients are really getting taken care of! ☺

Chart 1: Cumulative net buys of US equities by BofAML client types (\$bn), 2008-present



Source: Bank of America Merrill Lynch

Cash Register RIP

The cash register as we know it is going down a sad path. Many of us already work and shop in an electronic world where cash is completely unnecessary. I rarely have cash on me and if I do, it's not a substantial amount. Why use cash when we can use credit cards and get all of the perks? Remember, if you pay off your credit card balance every month, there is no cost to using the card and the bank actually pays you in the form of free money for a few months, the points for airlines or your preferred perk, or cash back. We make around 4-5 grand a year in cash back on credit cards and have never paid a nickel in interest on a credit card. Only in America! We're part of the 28% of the population who doesn't pay interest. If you're one of the 72% who does, the interest accrues on your purchase the second you make it so try to pay off the credit cards and never carry plastic debt.

For those who still work in cash, the cash register remains a necessity. For those in the electronic payment world, it all happens in magnetic strip or online land. Money moves from your account to the merchants virtually instantly, with or without a middleman payment processor.

Many retailers have announced they've ordered their last cash registers and are now operating their businesses with either smart phones, tablets or the like. Airlines are already doing this, the tools they use are all digital to compliment the good old greenback system. The retail industry would rather have you pay digitally and soon you'll see that if you're paying with plastic or online your checkout will be quicker and easier. The retailer has incentive to keep this in the cloud, they don't have the expense of buying and maintaining equipment and the results are instant with data better than ever before. Stores will still need kiosks with cash to accommodate the late converts, but expect to see long lines to transact in cash and many options to use digital money. The cash registers are costly, only last about 10 years and also require software and training to work so this move really benefits them. We as shoppers will see benefits too, but we must be willing to think differently than we do today.

Think of it as self-checkout, as much as we hate these options that's where the industry is going. There are a few benefits of this digital move. The employees will have the "check out gadgets" on their person so you'll no longer have to wait in a long line to checkout, you can theoretically do it from anywhere in the store. The receipt will be digital and emailed to you, no more long pieces of paper that you crumble and lose on your car floor to later find and throw out. ☺

We think of credit and debit cards as the only way to do a digital checkout but don't forget your cell phone. Soon many of our cell phones will be digital wallets and they'll contain our data. They have the capacity to hold our credit and debit card data as well as PayPal or other online payment systems. With the swipe of a button or a gesture close to a kiosk, our digital payment can happen in seconds from anywhere without us ever having to break out our wallets. This is mind bogglingly convenient and simultaneously dangerous. If you're going to use your phone in these ways, you must guard it as you do your wallet because it's that important, perhaps more so.

- Congratulations to the Mills family on their new business, GM Movemeant! That's spelled as it should be! ☺

Question & Answer

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

Q: *Does our economy today resemble the economy of the 1970's?*

In a few ways it is similar, but not in others. What is similar to the 1970's is high inflation and high unemployment and sluggish economic growth. According to government data, our inflation is low today as is our unemployment situation. Many would argue with the stats simply because they live in the real world. Most people remember two things vividly from the 1970's, roaring, breakneck infaltion and the oil embargo. Today according to the government, inflation is under 2.0%, but for any of us in the real world buying food, gasoline, college tuition or health care, we know the reality is very differnet from that number. In the 70's it was monster inflation and we don't have that, but it's here and surprisingly not higher with current political winds.

The oil crisis is also something everyone else remembers and I do too as a youth, it depended on your license plate number which day of the week you could buy gas and when you could, the lines were nuts. We saw something similar the past few winters when monster power outages caused gas shortages on a regional basis for a few days here and there. Today we've got plenty of gasoline flowing and we're now a serious world supplier of energy with the fracking revolution coming full steam.

In the 70's economists maintainted stagflation (slow growth, high inflation and high unemployment) was normal for a mature economy such as ours in the 70's. It ended up being poor policy choices that caused the problems that were in existence. What stopped the stagflation process was raising the fed funds rates substantially, lowering taxes and removing regulations. With these changes, GDP grew from 1.5% to 9.0%, inflation fell from 13% to 4% and employment took off. This led to a 20 year economic expansion.

Today we seem to be applying the exact opposite medicine to the patient that we did in the 70's that workhed to improve our economy. We are certainly not raising rates, they're at zero and the Fed is buying government bonds every month. Taxes are going up as is the red tape and the bloat of government. Government regulation is a stealth tax as it causes the cost of doing business to go up and there is not an increase in economic activity, there is just more minutia to get to the same point. We somehow think that by doing the things we're doing today the economy will suddenly take off and start roaring. Emloyment is better than it was in 2008, we've now got 145.7 million people working, up from 140.0 million in the depths of the recession. What isn't often counted is the people who are not working or no longer looking for work, this number has gone from 80.9 million to 91.4 million people. All of this while the population of the country has grown from 304 million to 317 millino people. I don't think success with the current prescription is possible, but we'll see where this experiment lands us. ☺

If the company is going to buy back shares and they don't have the cash, which is often the case, they'll raise money in other forms to do it. Corporations can do many things to raise cash to find money to buy back shares. They can borrow money from a bank, borrow money from a business development company, sell bonds, sell assets, etc. There are many creative ways the financiers in companies find to get their hands on greenbacks for various corporate purposes.

In the past few years with interest rates at near zero the most popular method by far for companies to raise money to buy shares is to sell bonds. Bond issuance is at levels never seen and with easy money sloshing around the system, bond underwriting has gotten very sloppy. Last month we covered cov-lite loans, those loans or bonds with very few if any covenants, or restrictions, to protect the lenders from financial harm should plans not go as projected. With a corporation borrowing money to buy shares back we must look at this transaction very carefully. Sometimes this really makes sense, if the company can borrow at 3-4-5% because they have great credit and raise money to buy back shares and increase earnings 10% that may make sense in the short term. I'm not a huge debt fan so I'd rather see cash be used for the buybacks but this does indeed make sense on many occasions.

There is another layer of complexity today facing many of our giant multinational corporations who would like to buy back shares and also have the cash to do it. Many of these firms are buying back shares, have ample cash to do it but instead are choosing to issue bonds (borrow the money) to buy the shares back instead. Why would they do this? This is a tax move all the way. These companies have billions of dollars sitting in cash in foreign countries but if they bring the money back home they pay income tax on it. These firms have decided it makes far more sense to leave their profits in other countries, not pay the income tax (this rate could easily be 30-45%) and instead issue bonds at 3-4-5% to buy back the shares. I agree with this math 100% but this is an area where our tax rules are far behind the global economy we live in.

The next question we must raise about share buybacks is the timing of the buybacks and the prices companies are paying for them. The past few years there have been a record number of corporate share buybacks and prices of the markets are high. There is a valid argument that says companies in general buyback their shares when they're high and not when they're cheap. We saw zero share buybacks in 08-09 when they were literally giving away corporate shares for 20% of book value. Today at valuations never seen before companies are buying back in record numbers. The timing of share buybacks and the financing schemes need to be closely evaluated to determine if they're adding value or just playing with the numbers on a short term basis. Buybacks reduce the number of outstanding shares and new share issuance increases the number of shares. We've seen a lot of new share issuance too in companies today. If there is a great purpose for new shares such as investments, new products, buying a competitor, etc. it makes sense to make the move. If you'd like to discuss this in more detail, call or write us anytime, financial education is our priority and you learning empowers you to change your outcomes forever. ☺

Money Quiz

This month's challenge is to tell us about Fed debt. On 09/03/08 the Federal Reserve had 480 Billion in debt outstanding. How much did it have on 4/30/14? Last month's quiz wasn't won, 25% of high tech firms started in the past 20 years have 1 or more foreign born founders. 😊 Winner goes to Ruby Tuesday on us! **05/05/14: 12**

Never Give Up

Most people have heard of the famous 1976 movie Rocky. It was made on a budget of just over \$1 million and shot in 28 days. It earned \$225 million in global box office, was the highest grossing film of 1976 and went on to win three Oscars, including Best Picture. But do you know the truth about the movie and its star, Sylvester Stallone? Have your kids watch it, mine had no idea what it was!

Sylvester wasn't just an actor that wrote about a rags to riches story. He is a rags to riches story.

I am about to tell you why the story of Sylvester Stallone should be taught to inspire kids to pursue their dreams. Have you ever wondered why he has such a "UNIQUE" expression? He was born paralyzed in the lower left part of his face. Not to mention his speech was slurred. Death rattle for an acting career right? WRONG! When he came to New York City to be an actor, nobody wanted to hire him. At one point, he went three weeks sleeping at the New Jersey bus terminal since he was so broke. Things got so bad, he had to sell his loyal companion, his dog to a stranger for \$25. It was his lowest point. Then, one day, he got an idea for a screen-play while watching Muhammad Ali box. He didn't sleep the whole weekend, and banged out the script for Rocky in 3 days. Eventually, he found producers who offered him, a man who was so broke he sold his dog, \$125,000 for the movie. But there was a catch, he couldn't act in it. He walked away. He was broke, but he had a dream to be an actor, so he walked away. Weeks later, they offered him \$325,000; but he still said no. Eventually, they let him act in the movie, but only paid \$35,000. Out of that, he immediately spent \$15,000 on tracking down and buying back his best friend, his dog. The dog is in the movie. Rocky made \$200 Million.

"It ain't about how hard you hit. It's about how hard you can get hit and keep moving on. That's how winning is done" Can you hear him saying this?

Sylvester Stallone was a man that just *refused to give up*, so it makes sense he wrote and starred in a movie with that exact same theme. Let Sylvester inspire you; if you want something badly enough, you can make good things happen. You just might have to endure some awful trials to get there, but you can do it.

In the beginning of our society food was a local thing, you bought your food in the area it was grown or made. As technology advanced and our economy became more advanced and shipping was mainstream, suddenly our food sources were from all over creation. The supermarket came to be in the 1940's and it changed the game for many of us. We could buy almost all of the food we needed under one roof. Now 70 years later things are changing again in a big way. The supermarket is still here, and some would argue they are now gigantic, bigger than one ever thought possible in the beginning.

Today's more sophisticated consumer is now buying groceries across more than a dozen retail channels. Think about this and its' truly amazing. The supermarket is still big, as are warehouse clubs and big box retail outlets such as Walmart & Target. So many more are in the grocery game now from gas stations, pharmacies, dollar stores and of course the new kid on the block, health food stores. The old fashioned farm markets and farm stands are still around and on the comeback and the big boy is the internet now in on the game of food.

Many would argue the local farm market or farmer's stand is the best place to buy fresh fruit and vegetables and I'd agree. We do this as much as possible and always try to give back to the local business owner any day over going to a regional or national chain store. The health food stores are the rage these days and for good reason, it's scary to think what we're putting in some of our foods, many in fact. I've been told by medical folks and nutritionists that if you shop in a traditional grocery store, focus only on the outside walls of the building, where the fresh and healthy products reside. Most of what is in the middle of the store is laden with things we wouldn't consume if we knew exactly what was in them. I've never forgotten this and always think about it every time I go grocery shopping. Some things never leave us and I hope this one pays dividends, health dividends over time! 😊

Consumers tend to hit multiple channels for their shopping needs as they cannot find everything they want in one place or at the best price. We find this too, you need to be a smart consumer as you'll pay dearly for the convenience of going to one place for everything.

Private label food has become bigger than it ever was. Despite what the government says, the food inflation we've witnessed in the past few years has been dramatic and people have responded by going to generic or store name brands. It's hard to tell if the generic brands are the equivalents of name brands but many argue they're made in the same place with the same ingredients and equipment but have a different label. I never dug into this, but would love to know what the reality is here, if anyone knows or has a good place to find out please let us know and I'll share it with everyone. Portion sizing has also shrunk substantially while prices have stayed the same, this is really a price increase in disguise.

Today's consumer is driven by good fresh produce and if the store has 50,000 items and you need 20, it's a terrible experience to have to sift through the baggage. How do you shop? Be conscious of this next time you're out and about! 😊

Inspirational Quotes

- When a goal matters enough to a person, that person will find a way to accomplish what at first seemed impossible, Nido Qubein
- The longer we dwell on our misfortunes the greater is their power to harm us, Voltaire
- God never sends us more than we can handle, Mother Theresa
- One always has enough time if one will apply it well, Johann Wolfgang von Goethe
- You never achieve success unless you like what you're doing, Dale Carnegie
- Risks must be taken, because the greatest hazard in life is to risk nothing, Leo Buscaglia
- Don't judge each day by the harvest you reap but by the seeds that you plant, Robert Louis Stevenson
- Tact is the art of making a point without making an enemy, Isaac Newton



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

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

What town to live in is a big decision today for most people. We seem to debate the best places to live based on a number of factors, with the school systems being one of the major ones. This is completely understandable and good parenting. We've found over the years working with people from dozens of towns that a few trends have developed. If you live in a wealthy suburb or a nice country town those areas tend to have great academic programs and the kids are in a solid school district. If you live in a bigger city those areas tend to have average academic opportunities but more athletic and social opportunities. We're in the small country town with great academics so we look to local cities near us to provide the social and street smarts skills that only come from being in those areas. It's a real challenge to find a place where you can excel in academic based learning and simultaneously develop street smarts from being around truly dangerous people and thrive athletically. If you know of any ways to do this, we'll be happy to share them with everyone else. 😊

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