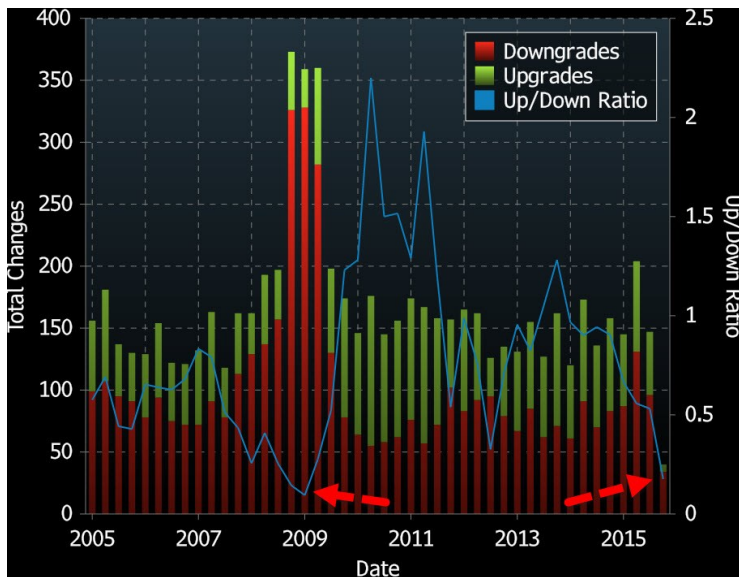


## Credit vs. Equity

Credit is money lent to someone, a person, a business, a municipality, etc. Equity is ownership in a company. We are often asked who is more conservative in their analysis of risks, credit or equity. The answer is a very easy one, credit is almost always correct as they're on the line and want to get their money back. Banks are normally risk averse, with the exception of home lending in the 2000's and auto and student loan lending today. The banks' lending to consumers is one thing, lending to businesses is another thing entirely. Banks are normally very good at making sure the business is able to pay its bills and the more risk the higher the rate on the loan. Most business loans adjust their rates every 5 years, so if credit goes down the rates go up. Interestingly we see credit being very cautious over the past few years while equity prices have gone vertical. When we see these massive divergences in how credit behaves vs how equity behaves we must always be suspect. Credit can also be upgraded when a company is in better shape or a turnaround situation when business improves. Look at this graphic, notice how the number of downgrades in credit is growing fast, something we've last seen in 2007 – 2008 range. (Source Bloomberg)



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## Stronger Together

This is true for family, neighborhood, town, city, state and country. We're living in a world where the political elite and the media are always trying to divide everyone for personal gain. Don't fall for this nonsense, it clearly doesn't work long term. They can certainly stir up some trouble and cause some bickering but at some point clear heads, logic and common sense must prevail.

The adage that a chain is only as strong as the weakest link is very true in life too, the relationships we have with one another in any grouping provide strength or weakness in said group. Think about it locally, tight knit neighborhoods are just that, they look out for one another, they break bread together, they hang out, they know each other very well and help one another. Neighborhoods that are closed off have strangers living next door to one another for decades and nobody knows your name. There is no hanging out, there is rare communication, and there is a massive void in what used to be a tight community. I've never understood why this exists, we drive 30 miles to hang out with friends and ignore our neighbors.

This activity isn't observed in neighborhoods alone, its workplaces, schools, towns, states, etc. Every entity is stronger if the people are working together and not divided into factions. We see churches going through this divide cycle and it breaks them apart, then once broken down they rebuild. Hopefully all the churches rebuild stronger than before but the trend there is worrisome. We're seeing our society become less reliant on faith and church and more reliant on other things where our priorities have somehow become reversed, hopefully this trend reverses soon.

We're meant to be together and we have groups all around us where we can get together with shared interests. Think about all of the groups we have in our society, they're everywhere. We have neighborhood groups, town groups, church groups, school groups, PTA, sports and associations of absolutely everything. Whenever we gather for a common interest we have a group and the speed at which we can travel and how information moves today it allows for the groups to be worldwide. We go to a conference or two every year in our industry and people from all over the world are there. These conferences are often in New York and then in some other remote location. Technology allows this but years ago we only stuck with those local as we couldn't be in another country in just a few hours.

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## Credit vs. Equity

We've been in a world where fundamentals simply don't matter for the past few years, central banks easy money policies have been pushing people into risk assets regardless of price. We've showed you many times over the past few years how bonds and stocks have diverged as we've never seen before. Now look at the current divergence and how it is eerily reminiscent of 2007 – 2008.

(Source: Bloomberg)

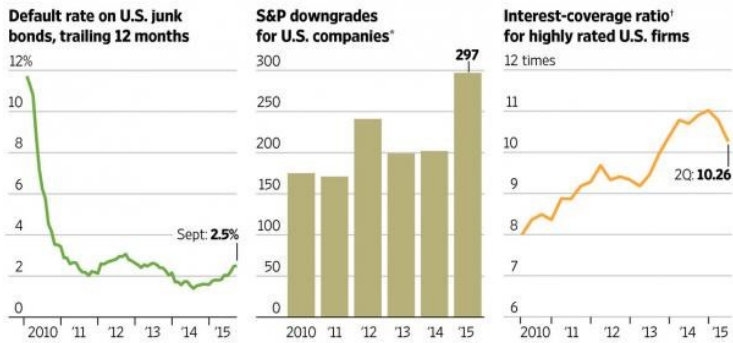


Now we look a bit deeper into what is happening in specific areas of credit. The number of downgrades has doubled from 2010, the default rate on high yield (junk) bonds has risen 60%, the interest coverage ratio for rock solid firms is on the decline. All of this shows us that regardless of easy money policies, the fiscal health of businesses is starting to degrade. How it's possible in a 0% interest world is that there is simply too much debt!

(Source: Bloomberg)

### Eye on Credit Quality

An increase in corporate defaults and credit-rating downgrades for U.S. companies has raised concerns about the economic recovery.



\*Through Sept. 30 for each year †Annual earnings as a multiple of interest expense

## Societal Acceptance

What society now regards as acceptable doesn't mean we have to allow it to go on in our homes or in our families if we still have different values. As society "progresses" (I use that term very cautiously as some of this progress seems very much like regression)

A lot of our new technology is indeed awesome in every way but how we use this technology is important to our individual success or failure moving forward. Social sites allow people to have hundreds or thousands of online "friends" but how many do they actually have in person? If you have 1253 online friends you communicate with virtually all the time and no real friends I don't think that is a successful, fulfilled person. I'd say you have 1253 shallow friendships and how many real ones? We used to joke that a good friend is one that will bail you out of jail at 2:00 am if you were in trouble, but the joke is true in that the people who would do that are truly good friends. We need social relationships to be healthy and happy human beings so it's critical we see people and interact with them on the human level.

If you work as a cashier and cannot figure out the change for a dollar this isn't okay, not even close. If you're in the store, the gym or a restaurant the cell phone usage at 100 decibels is flat out rude, home training please! The cell phone doesn't belong at the dinner table either when you go over someone's house as a guest, this too is rude. When did society allow people to use screens as their main communication interface and simply allow people to look up momentarily to interact with the people around them? Is a virtual life more important than the one we're living?

Selfies and the need to document everything on social media is another farce, they spend so much time documenting they're not living the experience. Self-absorption is an issue in our society today where people want others to "follow" them. Why on earth would we follow people if they're not in a position of leadership? To see their comments? Entertainment? Nothing at all wrong with this on a certain level but it, like anything else, can become too much and an issue if not kept in check.

Personal responsibility is a thing of the past, hopefully this is very temporary but for now we're a pathetic, litigious group of easy money seekers who will forego ethics and morals if given the chance for easy money. I recently had a meeting with someone who said one of their tenants was currently involved in over 50 suits in this state at once. Isn't there any policing of this when it's clearly a job, or as some would argue legal extortion?

Are beauty pageants for 5 year olds really for the kids or the parents? Are kid's sports today allowing for too much parental involvement? When we were kids the parents had no say in anything, the coaches did what they needed to do and now it's a constant whine fest from the parents when they don't get what they think their kid deserves, but really doesn't because they're not that good. What about parents who stand up for their kids when they misbehave at school? None of our kids are perfect, but when they're wrong they're wrong and need to be held accountable.

## Noteworthy News!!!

- Our condolences to the Caulfield family on the passing of Crystal, a wonderful woman, daughter, wife, mother and friend.
- Our condolences to the Cables/Negri/Colasurdo family on the passing of Chad, a wonderful son, brother, very young soul and friend.
- Congratulations to Denise Schittina on her recent retirement! 😊

## Question & Answer

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

*Q: What does it mean when an analyst comes out in defense of a stock?*

Analyst opinions need to be taken with a really big grain of salt. The analysts out there all follow certain companies, sectors or industries. Analysts are super smart people and they digest corporate information and try to estimate what is going to happen to a company moving forward. The most popular analyst action is the earnings estimate. The analyst takes all publically available information on a business, the industry, competitors, industry trends, new technology, etc. and "estimates" how much the company will make for the next few quarters and perhaps the next few years. Realize anything that that is a projection is a guesstimate, a good one of course but still a guesstimate.

The investment business is buzzing with estimate information and when an analyst comes out "defending" a stock it is often because the action of that stock went against the recommendation. Let's say the analyst is recommending buying ABC Company, it's a big tech company that makes computer equipment. If the company doesn't deliver on a key technology or sales are lower than expected and the stock tanks by 40%, many times the analysts who recommend this stock as a "buy" will come out defending why this is a good stock.

Our experience is that analyst estimates are often rearward looking, overly optimistic and do not even remotely describe what is likely to happen to a company moving forward. We're seeing this today when many stocks are getting clobbered and analysts come out in defense of these stocks claiming they're great for whatever reason. We focus on the fundamentals, not hopes, promises or dreams. We want to see consistency in earnings, turnaround situations, low debt, steady eddy operations who will in time generate shareholder value. Some of the recent analyst defense have come in the bio pharma space where something didn't go according to plan, perhaps the FDA didn't approve a drug or a procedure, and the stock is still a buy because it's "different this time." It's never different this time and when valuations are insane, as they are today in many places, the defense of a stock or an industry is a complete and utter joke. Don't fall prey to this nonsense, look for solid values and discounts to mathematically calculable values, not hopes or promises of a new technology or industry gadget.

## Stronger Together

(Continued from page 1)

We even have groups within all of our organizations today to help like-minded people get together on issues or do things together. Within our schools we have sports, clubs and topic specific activities to get people together.

All of these are examples of where we're together as we should be but in life we have a lot of examples of where we're not together and we're being divided, perhaps without us consciously knowing it, but divided nonetheless. Politics would be the most powerful divisive force with religion not too far behind. The recent rebirth of race division and wealth division have sprung up and strongly but seem to be going by the wayside.

We need to be open minded enough to accept people who don't share our views, hobbies or interests and learn from them. We don't need to agree to be friends, family or in similar groups. I'm such a nut many don't view the world through my lens but I can simultaneously be a chameleon and get along well and be comfortable with just about any group of people. The one thing I have zero tolerance for is an environment where there is cigarette smoke, I simply cannot breath there! 😊

To show just how powerful sticking together is look at the various associations that exist to help people through tough times based on the cards life has dealt them or granular special interests:

- The association for pet loss and bereavement
- The Association for Gravestone Studies
- The Association for Positive Behavior Support
- The Association for Pet Obesity Prevention (stop feeding them too much! 😊)
- The National Association for Self-Esteem
- The Association for Applied and Therapeutic Humor
- The Association for Professional Basketball Research
- The International Association for Bear Research and Management
- The Association for Crime Scene Reconstruction
- The Association for Astrological Networking
- The Association for Christian Retail
- The Association of Camp Nurses
- The Association for the Preservation of the Coelacanth
- The Association for the Working Samoyed
- The World Association of Detectives
- The National Association of Professional Pet Sitters
- The International Association of Youth Hypnotists

Wow! 😊

## Money Quiz



This month's challenge is to talk college costs again, last month we couldn't figure it out. What percentage of college graduates in the last 10 years (2006 – 2015) strongly agree that their undergraduate education was worth the cost? Last month's quiz wasn't won. Winner goes to Ruby Tuesday on us! 10/19/15: 14

## Auto Insurance & the Black Box

It's smart to shop for auto insurance every few years to be sure you're getting a good value for your dollar. The basics of risk and costs will drive your costs. If you have a clean record prices will obviously be lower than if you prefer to get all sauced up and then go and play bumper cars and get a DUI. Also if you drive a lot costs will be more than if you drive just a little. The perks of being safe, responsible and cautious with your car or bike will be lower premiums for insurance coverage. There are also other factors we need to keep in mind in our high tech society, the proverbial black box in most cars will give your personal driving habits and data a very in depth view of how you drive and how far, how fast you accelerate and how you brake and corner. This data can really give an insurance company a mountain of ammunition to price your policy.

If your car doesn't have a black box the insurance company can tap into for data they're happy to offer you an equivalent to use the internet to watch your habits and price your policy accordingly. Estimates are that by 2020 50 Million autos in American will be running around our streets with an internet enabled device to babysit your driving habits. I will not be one of those people, I'm not at all inclined to look for a discount in exchange for the insurer knowing everything about where I've gone and how fast I've gotten there. I'll just pay more if it comes to it, but I suspect the freedom of speech and privacy parade will come down hard on this technology if it becomes a mandate.

Driverless cars are on the horizon and if you're a car buff like me that is completely unattractive. I want to drive my car, I don't want a chauffeur and I certainly don't want a car with a Mobil Eye device that is making the driving decisions. Insurers are also toying with the idea of searching online social media sites to find peoples habits and match those habits with an algorithm to fit into pricing models. If you happen to have some posts that show crazy or perhaps dangerous considered behavior, can that change your auto rates? It seems like a far off thought, but in many ways we're living in the land of the Jetsons! ☺

## Lotto Bad Luck!

Lotto is simply a tax on those bad at math. Don't expect any good luck if you partake in any such game of chance. For most people, you've got a better chance of drowning in a teaspoonfull of water than you do hitting it big on Lotto or at a casino. It's in the same category as gambling and if you look at how the states are making a killing on it, you'll soon learn who wins, the casino's and the states who profit (arugably racketeer) from the sales of lotto tickets or other related games of chance.

It blows my mind that our states look at these types of things as positives for people long term. They do provide quick tax money for the states, which is all they look at, but they also provide problematic for the people who become addicts and gamblers after the fact. In Connecticut we've got a few monster casinos that have been built here in the past few decades and we also have a swelling population of people who need help with addiction, gambling, divorce, bankruptcy, etc. These are some of the things that follow a person when they don't make the game just fun and it goes too far.

In 2009 the National Council on Problem Gambling estimated that CT took in \$440 million in gambling taxes. The adult gambling population was 54,000 people while 1/2, or 27,000 of them were pathological gamblers. Ouch! The state and it's benovolence has decided to help this problem they've caused and has created an annual budget item to help problem gamblers.....the amount of this program will be \$1.84 million. Look at the math here, I think it's a great deal for the state tax wise, they take in 440 million and spend 1.84 million to help offset the damage done.

Now societally the costs we mentioned earlier are very real, the estimate is that the social costs of problem gambling in CT are \$71 million. Roughly 1000 people called the problem gambling center in 2009 so about 3.5% of the pathologicals sought help with a phone call to the state.

CT isn't the only state doing this, they all are this point. Illinois, another fiscally and morally bankrupt state has now determined that since they have big budget problems they will stop payments on any gambling winnings in the amount of \$600.00 or more until their budget crisis is resolved. This feels like when the country is strapped, our fiscal genius president always says he'll stop paying social security if congress doesn't approve an increase in the debt ceiling. (Is this really happening for 7 years now? Yes sadly!) Politicians are pathetic, there is so much more they could do to straighten things out financially but they always choose the low, slimy road to try to get their way.

Illinois is still advertising gambling on TV, the internet and everywhere else, yet it will not pay the winners. A group of winners is suing the state to make them pay what they owe. The attorney for the group accurately states that if any business were to sell tickets to something and not pay out the winners, the state would come down on them, close them and push charges. It's true, but what is also trues is the double standard that has started to exist, one set of rules for all of us, another set for government. I am ready to have just one set of rules for all of us. What do you think?

## Inspirational Quotes

- Progress is impossible without change, and those who cannot change their minds cannot change anything, George Bernard Shaw
- You have power over your mind, not outside events. Realize this and you will find strength. Marcus Aurelius
- We accept the love we think we deserve, Stephen Chbosky
- Vision without action is daydream, action without vision is nightmare, Japanese Proverb
- Happiness, like unhappiness, is a proactive choice. Stephen Covey
- Instinct is a marvelous thing. It can neither be explained nor ignored, Agatha Christie
- Dreams are today's answers to tomorrow's questions, Edgar Cayce
- Only through the experience of trial and suffering can the soul be strengthened, ambition inspired and success achieved, Helen Keller



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

## Kids Korner

Handshakes! Do your kids know how to do one properly? This seems so simple but the mere act of looking someone in the eye, saying their name and firmly gripping their hand for a solid shake goes along way. So many kids today don't look you in the eye when they shake your hand. I love it when they don't really shake your hand at all, they just put a few limp fingers into your outstretched palm and let you start to grip, but then you stop of course because you're not getting any positive feedback on the handshake. It's even more pathetic when they do the limp biscuit finger thing while they're looking down or away from you. I find it a great way to remember someone's name as well, saying it while you're looking them in the eye and shaking their hand makes it easy to remember their name. Repeating the name back to them as you shake is another trick to help it stick in the memory files! ☺

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