

Farfegneugen Ouch!

It's hard to believe one of the world's largest automakers has decided to simply skirt the rules by designing a chip within the computer system to simply turn off the emissions control systems unless the car was hooked up to an emissions testing system! I'm still blown away at the fact that it happened. This is going to hurt them economically but will probably be a blessing in disguise long term as it'll force new technologies to adapt and truly do what they claimed they were doing. This puts the VW clean diesel technology into question of course and the millions of people who own their cars will now have to have some type of recall done to retrofit the car to actually pass the emissions rules.



2009 car of the year isn't feeling the love today! VW makes the best looking hatchbacks in the business, and they're fun to drive! Many question their reliability and that is certainly valid but the fun and cool factor is off the charts for these cars. Will that continue to be the case?

Many are claiming this will be the costliest recall ever, and that certainly may be true. Owners are wondering what is going to happen and some are vowing to simply ignore the recall notices and just keep driving the cars they love. This is understandable but crazy California has already notified people saying that if the recall isn't repaired they will not renew the registrations on those cars that were impacted. Big Brother, ouch!

VW Wow!, continued on page 2

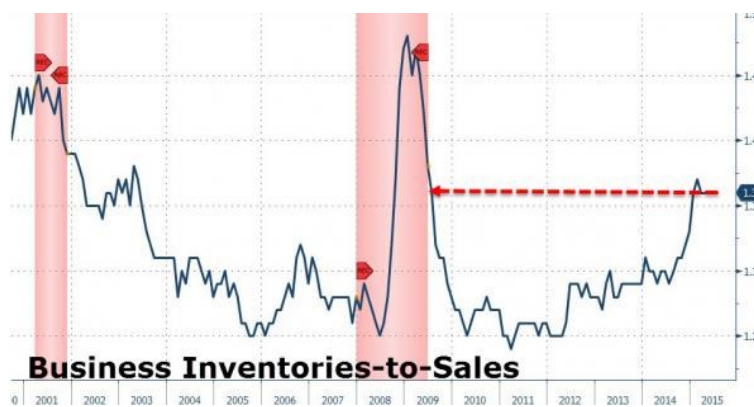
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Economics 101

In a world with zero bound interest rates, endless printing of money and in some places negative interest rates things are certainly not "normal." We have a situation where the only thing that currently matters is what Central banks are doing. If they're easing or printing in any way, well then it's time to buy assets, any assets regardless of price. When you look under the covers at the data, which we do and will never stop doing, we see somewhat of a different picture.

Let's start with the business inventories to sales ratio, this shows how much of a business's inventory is actually selling. When inventories are high, it's a precursor to sales slowing down dramatically and generally bad news for the businesses who are sitting on a lot of product. (Car manufacturers beware!)



Interesting to see that we're seeing inventory pile up across the globe now for 5 years in a row. Certainly there are sales, manufacturers are unloading product at a great clip, but the products are not getting to the consumer as we can see above. The question is where is this inventory sitting? In warehouses, stores, containerships, airports? We know where the cars are sitting, we can all see them everywhere on lots across the country. Many sales are happening and that can make the numbers look strong today, but if inventories are growing at a much faster clip than sales are happening we either have a mistake in ordering too much, or we are about to see sales start to slide. As we can see from above the last two times we've seen these levels were in 2001 & 2008, neither of which were supportive of a strong economy and a record high stock market.

Economics 101, continued on page 3

11 million is a lot of cars to fix, this will make dealerships a lot of money, reduce the value of VW's across the board and give people a lot of things to do in the process. The fix isn't in yet, it'll be incredibly complicated as whatever the fix is, it'll have to get through the gauntlet of all of the countries and states they sell cars in, which number in the hundreds. The fix will require cars to have things installed in them that they were not designed to have so how this plays out is very interesting for an auto buff.

The driving enthusiast is worried, and justifiably so, that the fix may impact the performance and economy of their ride. This is imminent of course, but it will help the planet so we'll see which fix or combination of fixes ends up being the real solution to the current dilemma. I'm still blown away they had the audacity to just flip off the regulators and engineer a way around the problem they considered the emissions regulations. They're so big, so smart and so resource rich wouldn't it have been easier to simply find a true solution to the problem? Did they really think they'd get away with this forever? Maybe they were thinking like politicians and decided as long as the problem goes beyond their time in office it's somebody else's problem. It's time our society starts thinking long term and we do the right things overall, forever, no more band aids folks!

One possible fix being touted is an exhaust system treatment that would spritz a chemical cocktail into the exhaust to reduce the emissions. This would require retrofitting the vehicles with the system and the storage tanks for the chemical and require owners to refill the chemical periodically. Owners are certainly looking forward to having a Urea mix to fix their emissions problems. ☹️ Even if they get this done, people simply may not refill the chemical tanks when they run out unless the vehicle stops working until they're fixed.

This may be the mother of all audits as regulators from across the globe are going to be spending a lot of time with VW people to see exactly what was done and ensure it never happens again. So far no USA cars are impacted but VW is a global brand with vehicles in virtually every country on the planet. The old Bug was the most made vehicle in history and being big is a double edged sword. Its great when things are good but when a problem happens Houston we've got a BIG problem, not a small one.

More recent news is showing the action isn't limited to just the diesels but some gasoline powered rigs with a 1.4 liter power plant has a potentially related issue. VW is not just the old VW you're used to, they own Bentley, Bugatti, Lamborghini, Audi, Porsche, SEAT, Skoda, Ducati, Scania, Neoplan and own a big chunk of Suzuki. The rumors are this scandal may cost them \$20 billion, they happen to have \$22 billion in current liquid assets on their balance sheet. It'll crimp their style, but it's not going to take them out of the game.

Online Reviews Suspect?

When doing research online I often read the reviews of products or services that I'm interested in. I really want to see what others have lived through after buying something, in theory this helps to reduce the surprise effect that I may experience if I can live vicariously through others.

This online research happens anywhere I can find accurate and useful data, from Consumer Reports to bulletin boards to industry trade publications, associations and the retailers. We must now put a grain of salt on retailer reviews, there is a giant lawsuit going on initiated by Amazon at 1114 defendants, all named "John Doe's" who are product reviewers for the many millions of items on Amazon's site. I must admit online shopping is cool and I've given these reviews some weight in the past so this is critical information to consider moving forward.

Apparently a tactic sellers use to get their products to rank highly in the sorting system by numbers of positive reviews is to pay people to write reviews on the product in question. There is no need to actually buy, own or test this product, they simply need to write a review. Hard to believe in fact that's asking me to write a review on hair spray. Perhaps it agitated my scalp but nothing else as there is no hair to worry about on my head! 😊

Amazon's beef is that these unauthentic reviews undermine their reputation and credibility by having misleading, inauthentic and perhaps false claims on their products. I agree 100%, this is nonsense for those of us who trust and rely on them. Can Amazon do something similar to the politicians of the world? They can apparently promise anything, regardless of how untrue or impossible, and it's all okay. I'm still blown away that the new health care law is called the "Affordable Care Act" and that's okay. Most people I know have seen increases of 50 – 100% in health care costs since its passing, it's the polar opposite of affordable. Now we've got the political class promising free college education, free this, free that as election season comes around. It's just pure drivel and embarrassing, hopefully class will come back to the process.

Amazon has rules disallowing paid reviews, but of course someone has come up with a service guaranteeing 5 star reviews of products and they've found ways to bypass Amazon's systems. The system also allows people who have not bought the product through the site to write reviews, which apparently where Pandora's Box was opened. My guess is many other sites will have the same problems, any site who has an online portal where reviews can express their experiences can be compromised the same way unless the site only allows reviews to be done by customers who have purchased the product through the website in question. These companies that do this are obviously smart, why don't they put their time and effort into a business venture that isn't deceptive, I'm sure it would be incredibly successful. I never could understand why people would bother with such activities, you're always eventually going to get caught.

Noteworthy News!!!

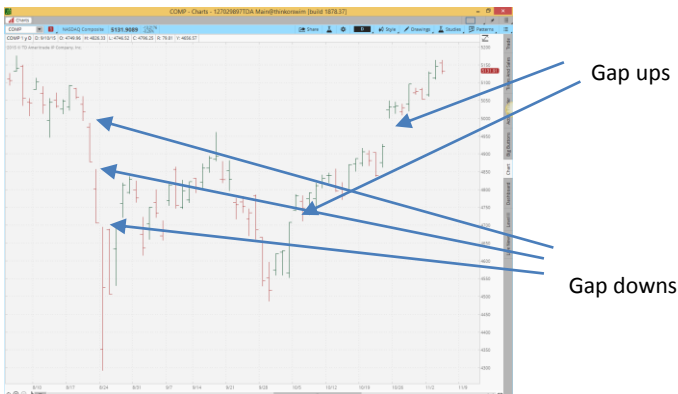
- Congratulations to Dave Kozikowski on his new job at Goff's Power Equipment!
- Congratulations to Linda Riberdy on her recent retirement! ☺
- Our condolences to the Hart family on the passing of Bruce, a wonderful man, husband, father, grandfather, brother, uncle and friend.
- Our condolences to the Schmidt family on the passing of Charles H. Schmidt III, a wonderful man, husband, father, grandfather, brother, uncle and friend.
- Our condolences to the Grabherr family on the passing of Eddie, a wonderful man, husband, father, grandfather, brother, uncle and friend.

Question & Answer

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

Q: What are gap ups and gap downs in stocks?

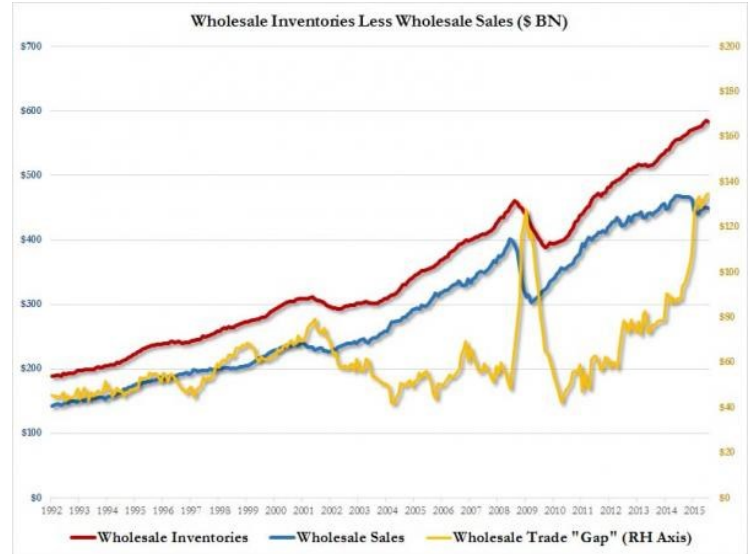
This is a very timely question and something we're seeing a ton of today as prices are erratic today. Most people don't look at stock prices very frequently so they just assume prices move smooth and slowly. This does happen sometimes but there are also very amazing moves every day in some stocks out there. The gapping process is when a stock, ETF or index opens at a different price than which it closed. This is somewhat common but today it's very common as prices are so stretched and the fast money is chasing everything in a sector rotation fashion. If a stock closes at 4:00 at 93.00 per share and opens the next day at 93.00 that is a smooth price action, there was no gap up or down. If a stock closes at 93.00 but then opens the next day at 15.00 that is a massive gap down, the price gapped down to a much lower level. Conversely if the stock closes at 93.00 but the next day opens at 112.00 the next day at 9:30 that is a substantial gap up in price. The gaps happen in after hour's trade, when mostly institutions and large players are doing their trade. Here is a chart of the NASDAQ over the past few months, lots of gap ups and gap downs going on lately showing stress in markets.



Economics 101

(Continued from page 1)

Now we're going to look at this from another perspective, how is the sales and inventory trend looking relative to the past 20 years?



We see a very similar picture here, the wholesale inventories are growing far faster than wholesale sales are growing. The gap has been widening for 5 years now and historically the gap widens for a year or so prior to a recession, this time it simply isn't happening and many are asking why. The reason is government intervention and unconventional monetary policy. These tools are incentivising people to behave differently than they would but in reality it's only pulling demand forward artificially. The day of reckoning is quickly approaching and we're seeing the numbers in the retail sales, industrial product and auto assemblies (SAAR) all come down into slow to no growth territory. They've all been doing this now for a few years, yet the real economy isn't channeling through the system. The morphine drip of government QE, twist, negative rates is indeed a powerful force.

Then we look at the job market and the ultra low unemployment rate. Let's look a little deeper at that and see where the jobs really are. Manufacturing jobs continue to slide from 2011 but service jobs (waiter, bartender, barista, are way way up)



Money Quiz



This month's challenge is to talk medical coding. The new and highly anticipated ICD 10 recently came and now as of 10/1/15 we have a new coding system for diagnoses and procedures. How many different codes are in the 1390 pages of book? ☺ From last month only 38% of college grads in the last 10 years (2006 – 2015) strongly agree that their undergraduate education was worth the cost. Ouch! Winner goes to Ruby Tuesday on us! 10/26/15:13

Less is More!

This old saying continues to ring true, especially in our materialistic possession obsessed society. We can live vicariously through others and we clearly see those who live simple lives are in general less stressed and happier than those who live complicated and possession heavy lives. Many people go through cycles where they want to have the supposed glamour of the "stuff" but then after a few years or a decade of that cycle, they typically downsize to a more manageable size where it is just less to worry about. The question you must ask yourself is do you own your things or do your things own you? Interesting, think about this for a while, the conclusion will likely surprise you.

The concept of less is more is starting to get some traction today as people are sick and tired of the treadmill lifestyle. We now have a little house fad, small efficient cars and many other minimalist things that all help us live simpler lives. Japan has known about less is more for a long time simply because they don't have the physical space we do, so a hotel room there is tiny compared to our penthouses.

Now that's all serious stuff, and now we look at an angle of less in our society today that is comical and sadly true in many ways.

How many babies today are fatherless?

How many people have feelings that are heartless?

Is our educational system valueless?

Are our children mannerless?

Why is our country becoming Godless?

Despite the 2nd amendment we are speechless?

Government is clueless!

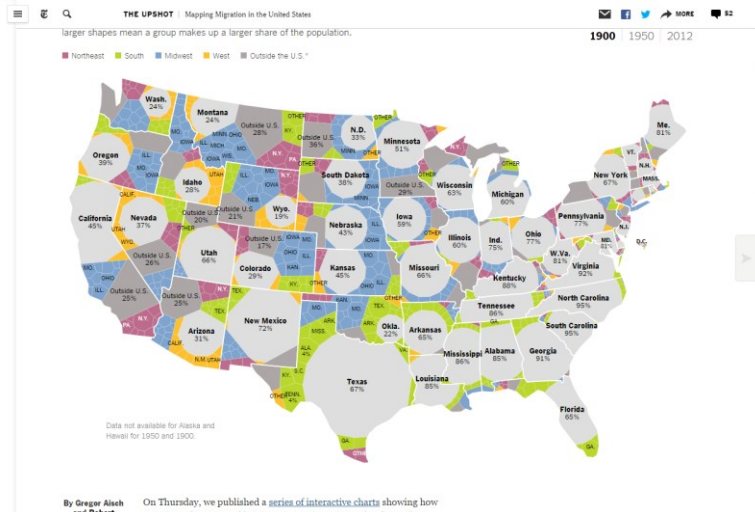
Politicians are WORTHLESS

Many of the people are scared \$)!%less

This is "Priceless".

US Migration between States

The trend is in and we clearly see migration away from the north as well as each of the coastlines towards the southern and midwestern southern states. Weather has a lot to do with it, as do costs and sane politics. I ran into a great graphic on this trend showing what percentage of a states residents are native from that state and what percentage are migrants from another state or country. Here is the country in 1900.



A few states of note in 1900 were CA with 45 % native, MI 60% native, NY 67% native and NJ & CT both had 53% born in that state. Now we fast forward to today and see how this looks different.



To show the movement in the same states, CA is now at 55%, MI at 77%, NY at 63%, CT 55% and NJ 53% of the states residents were born there. We see mass migration out of Michigan, the rest of the states are relatively stable with a clear trend of people leaving the northern states, the northeast in particular. The south is the big winner population wise, they are attracting people and there is a lesson to be learned here. The big question is when will this lesson be learned? ☺

Inspirational Quotes

- You can't put a limit on anything. The more you dream, the farther you get, Michael Phelps
- Great ideas are not adopted automatically, they must be driven into practice with courageous patience, Hyman Rickover
- To get the full value of joy, you must have someone to divide it with, Mark Twain
- When we strive to become better than we are, everything around us becomes better too, Paulo Coelho
- We cannot become what we need to be by remaining what we are, Max Dupree
- It's not so important who starts the game but who finishes it, John Wooden
- Losing is a learning experience, it teaches you humility. It teaches you to work harder and it's a powerful motivator, Yogi Berra



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

Kids Korner

Cars! How do you handle cars for kids as they approach driving age? Many parents give the kids their old car and just go and buy a new one. Other parents make the kids work for their cars and most get a clunker as kids just don't earn a ton of money for the most part. Then some will buy the kids a brand new Benz when they turn 16. Is there a right or wrong answer to this, probably not but I'm in the make the kids work camp. You can even make them work to buy your old car or help them buy a good used one.

It's important to make sure the kids realize the importance of finances and respect the economic reality we live in. Getting a new car is certainly cool but will that disrupt the kids' motivation to work hard to get ahead? Once they get the car who pays for gas and insurance? There again no right answer but we lean towards making the kids have some skin in the game! ☺

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Chart Source: Bloomberg



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