

Wal-Mart & DC

Big talk lately about minimum wage. How can anyone live on minimum wage is the question being asked. I'm not sure that is the proper question, perhaps the question should be is anyone forced to work minimum wage? Where is the starting point for a job supposed to be? There must be a way to get young people, uneducated people, people of limited skills and others a way to be productive members of society. Certainly newly minted kids cannot get a job and demand \$50/hr., but if you listen to the lopsided and accepted arguments of today the evil businesses are paying people too little to live a life. If there were no economic incentives to do better, who would ever spend 8 – 12 years in college to be a physician? They certainly should be paid more than the person who chose to drop out of high school or not gain any specialized skills to provide to society.

This, as most other topics today, are being pushed into the narrative of everyone is equal, nobody is a winner and everyone should get a trophy. Let's stop that nonsense and call a spade a spade. If you're just starting out at a job or if you're not that skilled or never work to improve your skills, then a minimum wage job is where you belong, period. The beauty of America is that you're not stuck in a job based on who your parents are, where you were born or any other societal nonsense that holds many back across the world. You have endless opportunity to do anything you want here. When I was a kid I made minimum wage working at a local pool dealer working in the warehouse then later delivering patio furniture. It didn't last long as I quickly advanced past and gained more responsibility. I worked for far below minimum wage as a waiter and also as a pizza delivery driver. Both of those low paying jobs offered tips and when all was said and done I did just fine for a 16, 17 or 18 year old kid going to school.

The current administration uses a divide and conquer technique originally outlined in Saul Alinsky's Rules for Radicals book to drive wedges between groups of people to further a political agenda. We need to come together as a country, not further divide ourselves to be successful.

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Social Media

There is no shortage of social media outlets these days, from Facebook to Twitter, Instagram, Snapchat, LinkedIn, Google Circles, Vine, Pinterest, etc. there seems to be no end to the platforms that surround us. These are all platforms in that they offer a platform for people to interact and share across a common theme. The business model is to attract a lot of people, get them using the site often and for long periods, collect mountains of personal data on every user and ultimately sell this information to marketers to expose the intimate data of the user base.

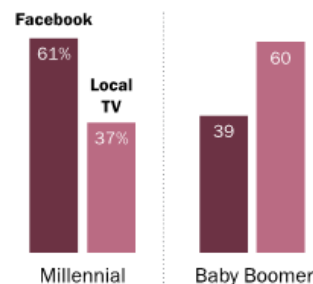
I think this technology is truly awesome outside of invading your privacy if you're willing to put data out there. Even though I'm not a big user of any of these services they're super popular, with most of the globe connected to the internet on some if not many of them.

I find it interesting how the college age kids don't rely on the internet for searching for a good or a service. The first thing I'd do if posed with a question is look to the internet and do some research. The first thing many college kids do is tweet to their buddy who is good at oil changes in Farmington or who has a nice hair salon in Litchfield, etc. Generation X, my generation, is now becoming the old guard right behind the baby boomers and as we watch how the youth of today behave it's amazing to see how technology changes people in very big ways. We still rely mostly on the internet with social media a long way behind. We also use the internet over television and we move towards things that attract us with common interests.

Interesting is how the generations differ in how they get their political data, see this graphic:

Millennials and Baby Boomers: A Generational Divide in Sources Relied on for Political News

% who got news about politics and government in the previous week from...



American Trends Panel (wave 1). Survey conducted March 19-April 29, 2014. Q22, Q24A. Based on online adults.

PEW RESEARCH CENTER

Social Media, continued on pg. 3

Shrinking Trade Pie

Wal-Mart & DC (cont'd from pg. 1)

Wal-Mart isn't the only target of the protesting masses who are unhappy about their pay rates. Why they don't spend their extra time and energy on going to school to learn more, improve their skills and find better jobs is something I'll never understand. They're hoping that by staging protests, walkouts and spending countless hours "hanging out" holding signs and yelling at anyone who will listen, they'll simply be granted higher wages? This would have been laughed at a few years ago and they'd have been embarrassed away but today in the world of no pride and anything is acceptable we cater to this nonsense.

The restaurant industry has been under equal assault from the higher minimum wage people around the country and they're response is quite comical and predicted. If you haven't seen one yet at a store, look out for the new restaurant attendant:



It's quite the predicable story, demand a lot more for what you do without bringing any additional value and you'll be innovated out of a job. This is already happening in grocery stores with the self-checkout lines. Pay at the pump is now the norm when years ago nobody liked it. Unless you live in Jersey, pay at the pump is a home run in every way for most of us! ☺

Back to Wal-Mart we must look at what the towns and cities are doing in addition to the groups of workers. Many towns and states have passed laws recently to increase minimum wages in their borders, for all businesses. This is going to lead to fewer jobs, not more, and businesses will either outsource or automate as many of these jobs as possible.

In DC they've passed laws aimed at just Wal-Mart, these laws say that the 2 new stores the company is in the midst of planning will pay workers \$11.50/hr. now and \$15.00/hr. in a few years. Any other business in town will continue to pay \$10.00/hr. as minimum wage to their employees.

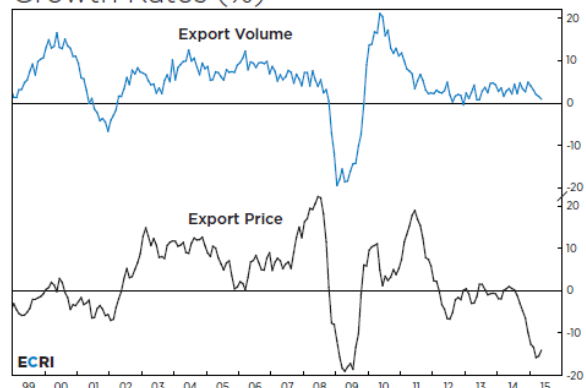
Shocker Wal-Mart has scrapped plans to open these 2 new stores in DC and is also planning on closing 269 stores throughout the country, mostly in areas where the minimum wage laws will turn razor thin margins into losses. The mayor wants accountability for this decision, perhaps the mayor should look in the mirror as that is where the culpability lies.

Global growth is not what you would think based on what talking heads push on a daily basis. The chart at the bottom of this page shows that world trade growth has collapsed even further since the ECRI originally highlighted it early last year. Year-over-year world export growth is now nearing zero. This is happening even with everything "on sale" as year-over-year export price growth has plunged deep into negative territory (bottom line). After some four years of falling export prices, export price deflation had become almost as intense as in the depths of the Global Financial Crisis (GFC). We're seeing many deflationary pressures in the commodities space across the globe. Bottom line is we have a shrinking global trade pie. Unable to generate adequate domestic growth, economies are trying to grab a larger share of that pie through competitive currency devaluation. Countries can achieve this through negative rates or through simply stating the value of their currency as China does relative to ours.

Global debt has grown to some \$200 trillion in the past 8 years, with debt-to-GDP ratios having risen in every major economy across the globe. These debts can be repaid over time either by generating sufficient real growth to do so; or by inflating away the debts, so that they can be repaid in currency that is worth much less. Real GDP growth has been stair-stepping down for decades in most advanced economies. In conjunction with the yo-yo years, export prices are exhibiting increasingly severe deflationary patterns – in both advanced economies and emerging markets. All of the major global economies are likely to face a day of reckoning. This is currently happening in Brazil & Russia today. Though this journey may well involve a rush to a succession of "safe" assets en route to that destination, many economies are currently circling the drain although things feel fine here and in many places.

The last time export price deflation was this intense, not only was Chinese GDP growth even weaker than it is today, but also every G7 economy was in recession. It is ominous that the global trade pie is shrinking so rapidly today – with none of the G7 economies in recession – yet. We all know how this ends, just not when, but it's getting close! ☺

World Export Volume and Price, Growth Rates (%)



Noteworthy News!!!

- Our condolences to the Hart family on the passing of Bruce, a wonderful man, husband, brother, father, grandfather, parent and friend.
- Our condolences to the Bakunis family on the passing of Michael, a wonderful man, husband, brother, father, grandfather, parent and friend.

Question & Answer

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

Q: Why are some of your articles nebulous when it comes to investing, we really want to understand these details on a granular level?

I don't want there to be anything nebulous when it comes to this document, but the simple answer is the compliance rules. We're trying to balance educating you with not getting anyone's feathers in a ruffle in the compliance department. The sad reality is the society has become lawsuit nuts and everyone is looking for a free lunch on someone else's ticket and for now it's allowable. Some call this the "legalized extortion" arm of the legal industry and I cannot say that I disagree with that statement.

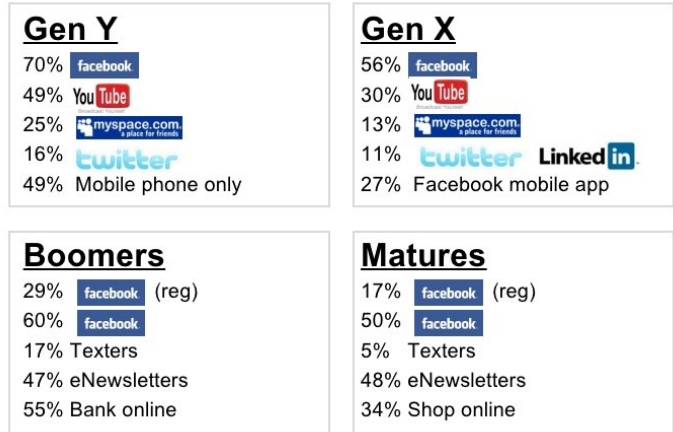
Last month's article on valuations of some of the most widely held investments took over a month to get through compliance and was wickedly watered down by the time it was released for all of you to read. This was a valuable lesson in what not to pay for a business, or better yet just to be aware this action is happening. When I see each of you one on one and we discuss the valuations it's always a joy to see the light bulbs go off and hear the universal response of something to the tune of "I want no part of this." That's the logical answer for logical people, which we mostly are.

The part about the whole thing that gets under my skin is the epic double standard we have in the world today. Every industry is under incredible scrutiny with the legal profession barking down everyone's throat. We work with thousands of you who have various professions and most people want out of their professions not because they don't like the industry, they don't like the minutia that goes along with the lunacy of laws surrounding almost every industry with no common sense. We're losing great administrators and teachers because they're sick of doing the wrong things to make an angry parent go away or prevent a lawsuit. We're seeing law enforcement get out because they don't want to be tormented or prosecuted for doing their jobs. We see business owners selling and closing because of the outrageous compliance and litigation nature of all businesses. Doctors are all out for obvious reasons. There is only one industry that is exempt from all of this and it's high time we see a serious change. The legal industry can do whatever it wants, no consequences. They advertise about the "compensation" you're owed on TV for any reason, they can go after people with no recourse, the list goes on and on. To top that one off, the politicians, mostly elite lawyers, can flat out lie to us all on national TV and it's okay. They don't need ethics or laws, we'll hire fact checkers instead. Did you keep your health plan, your Dr. and did your premiums go down? Did they raise your taxes in CT? Were there top secret documents leaked? **It's a joke** folks, we don't need to stand for this anymore. The change we need is for the same rules to apply to all!©

Social Media (cont'd from pg. 1)

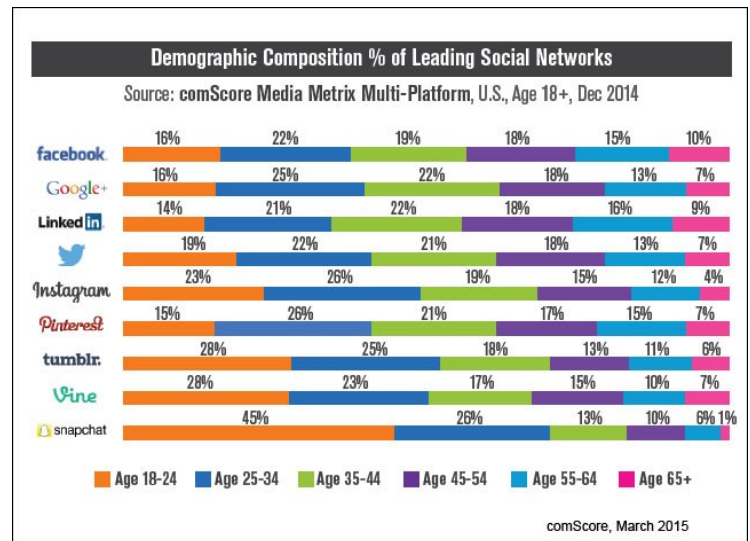
The year you were born puts you in a certain generational category and your online habits are very much a product of said category. Look at this graphic on how each of the big 4 generations use the most popular platforms.

Online Habits by Generation



Source: Next Generation of American Giving Study www.convio.com/nextgen

As you can see the younger people flock to these social media sites and spend more time on them. Here we see the breakdown over more platforms by age group and it's clear that the younger people own these platforms. There is an increasing number of boomers and mature generations getting plugged into the platforms, but the under age 34 segment is the vast majority of every platform out there today.



As you scroll down the list, the newer platforms are much more dominated by younger users. This is normal, the adoption rate of new technology starts with younger people and penetrates deeply. It slowly bleeds to older generations, but with far less penetration within the block.

Money Quiz



This month's challenge is to talk births now vs 1957. In 1957 we had 122.4 births for every 1000 women between ages 15 – 44. How many do we have today? Last month's quiz was won by Baron Filimino, the Fed raised rates for the first time in 3457 days in December. Winner goes to Ruby Tuesday on us! 12/07/15:14

Japan's Gone Negative!

The Japanese central bank has just turned rates negative. This means that any money commercial banks have on deposit with the Japanese central bank they will now have to pay the government for the privilege of parking their money there. In a normal world, the commercial bank is paid by the central bank to keep their reserves safe. In our world today where government incentives are purely backwards, illogical and ultimately destructive, we see the opposite.

Japan joins three other countries who are already in the negative rate game, they include Switzerland, Sweden and the Eurozone. Many have been asking us during our meetings why on earth central banks would be doing this and the answer is multifold. First, the central banks all around the world are trying to "pull forward" demand, which means getting people to spend money now to push economic results when they normally wouldn't have spent for a few years. This is where all of this "nontraditional monetary policy" has come from over the past few years such as Quantitative Easing, negative rates, etc. Another aspect of this angle is to weaken currencies across the global landscape. Weaker currencies make a country's goods and services less expensive to other countries with stronger currencies and each country is trying so hard to grasp at straws for economic growth, they're willing to do anything to get it.

The weaker currency is only good for the government, it's horrible for savers and consumers, but the government benefits in the trade game with other countries as they think they'll have more market share. This is also often talked about in the "race to the bottom" we currently see global policymakers pursuing. They're all trying to make currencies weaker and inflation higher in an attempt to make their debts cheaper to pay back and currencies more competitive in the global landscape.

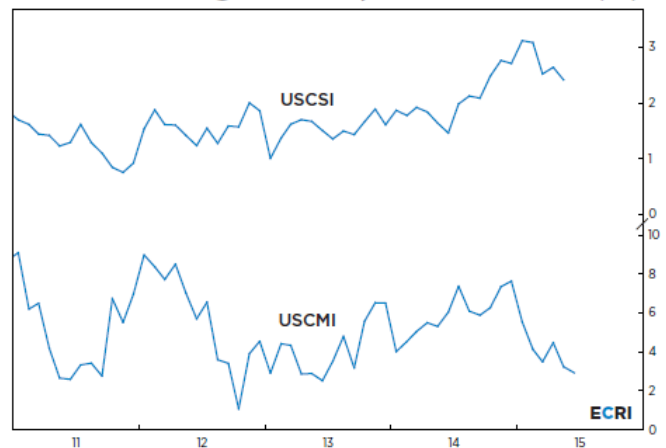
The last time such measures were employed was during the great depression, policymakers at that time were trying to lessen unemployment and stop domestic depression. This is an aggressive move to say the least, one which will be likely retaliated against by many nations to come.

The Fed's rate hike plans are on a collision course with the economic cycle. The Fed's first rate hike in 9 years this past December shows they were clearly expecting a pickup in growth. The data most recently released clearly proves quite the opposite. Economic numbers in the past 45 days have been well below consensus, some flat out horrible. The service sector slowdown has already joined the manufacturing slowdown that started last fall, and so the slowdown in overall growth is likely to intensify in the coming months. The notion of a second half rebound is somewhat of a wish at this point.

The big wonder of it all is why they would hike rates now the economic data clearly going down when they should have done it years ago. The reality is that they simply don't know and the Fed has become a political body who is doing nothing more than enabling the political class to continue to do the irresponsible thing and not fix structural problems we have across the globe.

In hindsight it is clear that the GRC peaked at the end of 2014, following which U.S. economic growth has stayed in a cyclical downswing that was exacerbated – but not caused – by a harsh winter and West Coast port strikes in Q1 2015. The following chart shows we now see a broad slowdown – not a temporary soft patch – with the downturn in U.S. Coincident Services Index growth (top line) joining the downswing in U.S. Coincident Manufacturing Index growth (bottom line).

U.S. Coincident Services and Manufacturing Indexes, Growth Rates (%)



Some but not all GRC downturns, which involve progressively less positive growth, can culminate in negative growth, a recession or "hard landing."

As firms monitor economic growth, the U.S. business cycles and GRCs. The business cycle is about the level of economic activity (rising vs. falling activity). In a manner of speaking, the GRC is determined by its first derivative (rising vs. falling growth in activity).

This data shows that the U.S. economy is in a GRC downturn that is poised to persist. The key question is whether there is a significant risk of recession in the context of possible shocks, including those from China, the Fed, the price of oil, Middle East conflicts, or any other global source, which there are a plethora of today.

Inspirational Quotes

- When you confront a problem you begin to solve it, Rudy Guiliani
- It is great to focus your energy towards problems, not people, focus on the solutions and not excuses, William Arthur Ward
- Fools rush in where angels fear to tread, Alexander Pope
- I speak to everyone the same way, whether it's the garbage man or the president of the university, Albert Einstein
- I can be changed by what happens to me, but I refuse to be reduced by it Maya Angelou
- The less you want the richer you are. The more you need to be happy, the more miserable you'll always be, Yanni
- Wise men speak because they have something to say, fools because they have to say something, Plato
- Judge a man by his questions rather than his answers, Voltaire



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

Kids Korner

How do we differentiate great kid's vs happy kids? I think great kids are not always going to be happy, they have to learn some unpleasant lessons along the path of transitioning from kid to teen to adult. If our kids don't have any disappointments, failures, or tough times, where will their character come from? We can't keep them happy at all times, we certainly want them to be happy most of the time, but there are going to be tough times where they must face the music, suck it up and do what they need to do regardless of how much they don't want to do it. It could be something as simple as chores, eating a meal that isn't their favorite, putting forth their best efforts, finding a job, socializing, sports, etc. Nothing is easy and the quicker they understand and embrace that reality the quicker they'll start being both happy and great, they're not mutually exclusive. 😊

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