

Fiduciary Standard

What is a fiduciary? A fiduciary is a person or institution given the powers to act on behalf of another in situations that require great trust, honesty and loyalty. Fiduciaries are hired to act in your best interest and must step aside personal motives and conflicts of interest in favor of pursuing the best outcomes for your unique situation. Common fiduciaries include attorneys, accountants, business advisors, fee only financial planners, estate administrators, guardians, title companies, trusts of a trust, etc. In the investment business it is how one acts on behalf of the clients and comes with heightened levels of responsibility. The responsibility is to always behave prudently and in the best interest of the public at large. Why this isn't necessary at all times is beyond me and we always act in a fiduciary standard regardless of what the requirement is. Many so called financial advisors or others in the financial business are not required to operate as a fiduciary but they simply employ a suitable process. By suitable meaning as long as the investment chosen is suitable for the person its okay in the eyes of all and no harm has been done. This is like a doctor not giving someone the advice to get as well as they can possibly get but they may feel somewhat better by doing what (s)he had suggested. It doesn't exist. It would be easier for them of course if people stopped smoking and exercised regularly. ☺

We've got a lot coming down the pike in regards to Fiduciary standards, the DOL (department of labor) has just released new Fiduciary Standards rules and we're all working at trying to translate what the 1000+ pages of new rules means and how to implement them. This has been in the works for years and our industry has an organization that's spent countless hours in Washington in helping to craft this law. The intention of the law is great, everyone in my business should operate as a fiduciary at all times. The implementation of this law is another ball game entirely, at 1000+ pages it's going to be a challenge but it's completely workable. Some of the sticking points are the new rules conflict with other, existing rules and the DOL isn't stepping up to offer guidance on how to best create processes to make sure it's done correctly.

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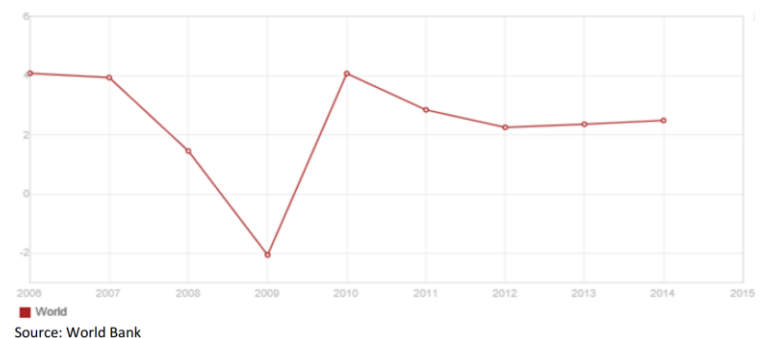
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GDP & Credit

Economists define GDP or "Gross Domestic Product" as the monetary value of all finished goods and services produced within a country's borders over a specified period of time. GDP is typically measured annually but can be measured quarterly or any other reasonable time frame to find the metrics of what is actually going on in an economy. GDP can be measured on a per country basis, a per region basis or on a global basis.

We're in a world where political figures are hoping and praying for a system of ever increasing GDP. This is a complete illusion and isn't ever going to happen, but it won't stop them from attempting to engineer this outcome. The danger of attempting to defy the basic laws of economics and supply and demand mean that prices are being pushed in ways we've never seen before. Humans are capable of behaving quite badly for periods of time if the rewards of said behavior feel good. Stopping to measure the mathematical basis of price is something we haven't seen in almost 5 years now.

In the past almost 40 years we've had a global economy that has grown but whose growth has continued to slow despite consistently easing monetary conditions. Credit has eased continuously here since the 70's when we last had very high rates. Another moving target not everyone watches is the exchange rate system where currencies move against one another, which if manipulated correctly, can be another form of easing over time against target currencies. So how is GDP doing on a global basis for past decade?



The above chart shows global GDP growth in local currency terms for the past decade. This is what the global economy has actually produced in the past decade, factual information based on what is done, not what is to come. As we look at this It's hard to fathom where we'd be had the rates not been so low and most global central banks had the printing presses on full speed.

GDP & Credit, Continued on page 3

They're requiring a "phased implementation" of the law so the target dates for certain parts of the law are April 2017 and the whole thing will be done by January 1st, 2018. This gives us and our industry ample time to get ramped up and ready to make it all happen. You won't see any changes to our process as we're already working in this capacity for you. Many firms will be out of the retirement plan business or out of the industry as the way they do business is out of compliance with the new rules.

The law is changing a lot of things in an around IRA accounts, retirement plans and what can and cannot be done. We're excited about the prospects of such a large change as we're always in front of these things so we'll have solutions to this problem and many of our peers will shy away from the business. You may hear of your friends, neighbors and colleagues getting letters from their firms saying they can no longer address or service certain types of accounts. If you hear this feel free to have them call us, we'll still be happy to do what we do in a conflict of interest free environment as we always have for you.

It's probably safe to say the paperwork will get a little more complicated to make all of this work from a compliance standpoint but it's good in that people will be better protected and less susceptible to industry tricks and concepts that are not really in the public's best interests. Those dinner seminars where you're talked into buying some high priced insurance product will likely be a thing of the past as this rule comes to be.

If you'd like to see any of the data here is where it can be found directly from the DOL filings:

The DOL filings on April 6, 2016, with the U.S. Federal Register can be accessed online:

<https://www.federalregister.gov/public-inspection#special-filing-employee-benefits-security-administration>

²The DOL Conflicts of Interest rule can be accessed online:

<http://www.dol.gov/ebsa/regs/conflictsofinterest.html>

This is a complicated field as many entities are making rules that everyone in the game must play by, but obviously they're not talking to one another as they make these rules. It would make sense to put FINRA, the SEC, the DOL and all other government bodies who make rules around financial industry in a room together to hash out all of the details. As this process unfolds changes will be sure to happen as will guidance on how to satisfy the conflicting areas, but in the end this is an exciting change and a massive growth opportunity for those who are doing the right thing for the public at large. ☺

College Costs

WOW is all you can really say about the trajectory of tuition, the costs are insane today on every level. If the price increases persist, this is what the cost of college will look like moving forward for the next 15 years:

Year	4 Yr Public	4 Yr Private	4 Yr Elite
2015-2016	\$28,387	\$59,341	\$68,470
2016-2017	\$30,232	\$62,011	\$71,551
2017-2018	\$32,197	\$64,801	\$74,771
2018-2019	\$34,290	\$67,718	\$78,136
2019-2020	\$36,519	\$70,765	\$81,652
2020-2021	\$38,892	\$73,949	\$85,326
2021-2022	\$41,420	\$77,277	\$89,166
2022-2023	\$44,113	\$80,754	\$93,178
2023-2024	\$46,980	\$84,388	\$97,371
2024-2025	\$50,034	\$88,186	\$101,753
2025-2026	\$53,286	\$92,154	\$106,332
2026-2027	\$56,750	\$96,301	\$111,117
2027-2028	\$60,438	\$100,635	\$116,117
2028-2029	\$64,367	\$105,163	\$121,342
2029-2030	\$68,551	\$109,896	\$126,803
2030-2031	\$73,006	\$114,841	\$132,509

Assumed annual rate of cost increase: 6.5% Public and 4.5% Private

Not so sustainable of course but we need to be aware of what our options are today in regards to paying for college. The first step is to shop for a deal, just like anything else and today college is big business in addition to education. Perhaps it's big business first and education second sadly. ☹ The boom in applications to community and public colleges is no surprise seeing what is going on tuition wise as they remain the best bang for your tuition buck dollar for dollar when the sticker price is the only factor considered. I suspect we'll begin to see many high end smaller colleges suddenly become less restrictive in their admittance policies as fewer and fewer can afford to go even if they are admitted so the pool of applicants is shrinking while the costs are going up vertically.

The big universities who are elite and expensive grant aid and offer free educations to many who are not capable of ever affording it but have the smarts or special skills (artistic, sports, etc) to be coveted by said institution and can get a free or grossly reduced ride. Many times for this group of people it can be less costly to go to an Ivy or some other great private institution for less than going to a public university. Hard to believe but true.

Need based grants and aid are available at many colleges today, but for the popular ones who are not seeing a decline in applications, it's sometimes hard to get aid. I had a parent once complain that the Ivy league school their daughter was accepted to didn't offer aid and she said but the kid was # 1 her in class, had a lot of accomplishments, is a star athlete, etc. The college aid officer said she could fill the entire class with kids who were just like this woman's daughter so something else needs to be present to make that offer happen if financial need isn't demonstrated.

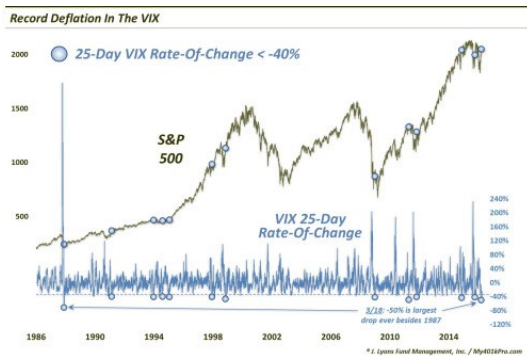
Noteworthy News!!!

- Congratulations to Tom St. Onge on his new job! ☺
- Congratulations to the McDonald family on the birth of baby Abigail Ann, she joins big siblings Ben & Caroline to round out a busy household with 3 little ones! ☺
- Our condolences to the Scarpati/Richards family on the passing of Jennie Scarpati, a wonderful woman, wife, mother, sister, aunt, grandmother and great grandmother.

Question & Answer

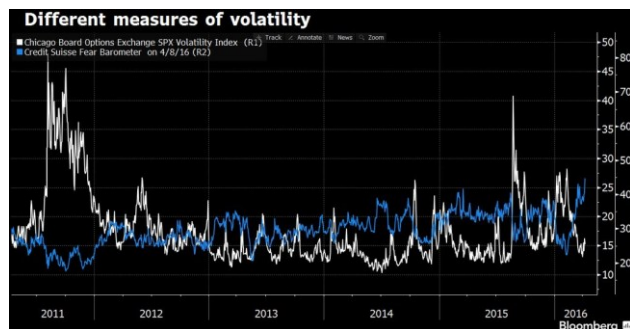
Q: Why is the VIX measuring such low levels of fear today with the global situation being what it is??

Here is a great question and the answer to it is anything but simple. VIX is a fear gauge, when people are fearful about markets the VIX spikes, and it can spike in amazing ways very quickly. The fix has been a bumpy thing to ride and lately the ups and downs are akin to base diving on the way down and getting shot out of a cannon on the way up. We have seen the largest ever collapse in volatility in the past 3 months, this is a very fun year to be in the investment business lots of first times, nothing new and very exciting. Lately we've seen a VIX deflation as Dana Lyons points out, look at the below chart:



You can view his full post here: <http://jlfmi.tumblr.com/post/142393327770/what-does-record-vix-deflation-mean-for-stocks>.

The VIX isn't the only game in town when it comes to fear, if we look at the Credit Suisse fear barometer we'll see the fear levels have reached their highest point in 6 years. This is interesting since the CS barometer is looking at derivatives, the most complex portion of the market. Now the question begs who is right, the derivatives people or the VIX people? Up until a few years ago most people on the planet didn't know what a derivative was, but they were popularized in the 08 meltdown. I'm sticking with the derivatives guys on this one. ☺

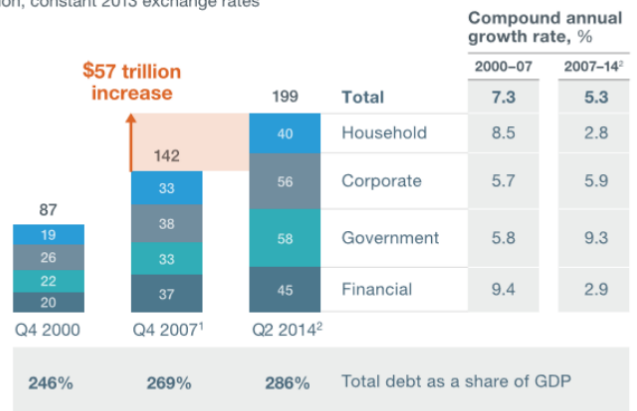


GDP & Credit (Cont'd from page 1)

Clearly the spending pattern governments across the world have embarked on to help make GDP grow and get people back in the economic game is unsustainable. For most people it appears that GDP isn't growing at a rate equal to credit growth, not even close. Credit is growing far faster than economic output so we have a balance problem. Some argue that GDP isn't continuing to serve the employment or income needs of a bulk of the population and I cannot disagree with that, the world has become a place of the haves and have nots and that gap is widening for sure. That's not the recipe for a healthy global economy.

Now let's compare the GDP growth of the global economy to the amount of credit outstanding, since they should match up? What is credit but a loan or a debt to someone else, it's a future claim on borrowed money. The money supply and the credit supply should be the same to balance our system but folks we're in a time where credit expansion has gone vertical. The chart below shows this perfectly:

Global stock of debt outstanding, \$ trillion, constant 2013 exchange rates

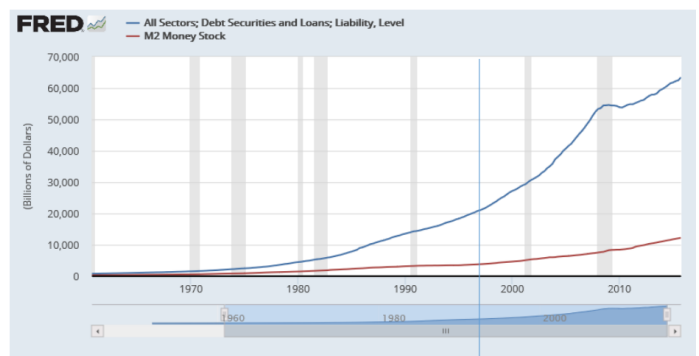


¹Figures do not sum to total, because of rounding.

²Q2 2014 data for advanced economies and China; Q4 2013 data for other developing countries.

Source: Bank for International Settlements; Haver Analytics; International Monetary Fund *World Economic Outlook*; national sources; McKinsey Global Institute analysis

What is important to note here is the growth of credit over time. This is only showing the year 2000 to now, credit has more than doubled in the USA. Now note the categories of credit, in the past 7 years household credit has only grown by 2.18% annually but government credit has grown at 9.3% annually. Now below we see how credit has grown over 55 years and how the amount of actual money isn't quite keeping pace. Sustainable?



Money Quiz



This month's challenge is to tell me what the hottest cities in America are based on growth rate of the population of the cities. Last month's quiz wasn't won, the average life expectancy of an American born today is 76.4 years, but the average life expectancy of a male born in Russia is only 67.8 years. Winner goes to Ruby Tuesday on us! 04/04/16: 09

Tax Time

It's early April as I write this but by the time you're reading it tax time should have just passed, and we get an extension this year to do our taxes until April 18th. Washington is closed on April 15th this year so they benevolently gave us another day and the weekend is in between. A good laugh is in order as we deal with tax time, a time of year when many of us get to deal with 2 of our favorite federal agencies, the IRS & the US Postal service. If the timing is right and you have a renewal coming up, why not make a threesome out of it and go to your local DMV to get some business done.

In the line of laughter as accountants see all of us in this crazy few month period we have a fair amount of stories that we all tell our accountants. They hear about peoples trials and tribulations throughout the year as they prepare the taxes. A CPA we work with recently sent this one to us via email and I actually laughed out loud at it as I read it. Obviously many are struggling with the state of the world and these are someones take on a stand up routine within the context of tax time confessions.

The economy is so bad that: I received a pre-declined credit card in the mail. CEO's are now playing miniature golf. Exxon-Mobil laid off 25 congressmen. Angeline Jolie adopted a child from America. Motel Six won't leave the light on anymore. A picture is now worth only 200 words. The renamed Wall Street Wal Mart Street. Finally, I called a suicide hotline, got a call center in Pakistan and when I told him I was suicidal they got excited and asked if I could drive a truck! ☺

A few more great tax time one liners:

- It's tax season, the time of year when we really appreciate our kids
- An 8 hour day would make most accountants feel unemployed
- Ambition is still rewarded with high taxes
- If my business gets much worse, I won't have to lie on my tax return
- There is no child so bad that (s)he cannot be used on a tax return
- The rich and the poor are alike, they all complain about taxes

IRA's have been around seemingly forever and seem like a pretty simple animal. Any contributions you put in may be tax deductible to you if you're not covered by an employer plan and don't exceed the limits. If you're not covered by an employer plan they're deductible, simple as that. Any money in these accounts grows tax deferred and when you take the money out its taxable. There is a penalty if you take out the loot prior to age 59.5. Now that aspect of IRA's is simple, but as you move into the distribution phase of IRA's it can get complicated quickly.

There are 6 ways to take income from an IRA, they include the following:

- Normal distributions
- Premature distributions (with and without exceptions)
- 60 day rollover (now limited to 1/year)
- Direct transfers
- Required minimum distributions (lifetime)
- Required minimum distributions (beneficiary)

No matter how we cut it up, any money coming out of an IRA will meet one of these criteria. The "normal" distributions are for those who have reached at 59.5 and they're not subject to the 10% penalty tax. If the withdrawal is taken prior to 59.5 and doesn't meet one of the exception criteria, it'll be subject to income tax + the 10% penalty tax. There are some exceptions to the 10% penalty that will allow someone younger than age 59.5 to get to IRA money without the penalty and they are the following:

- Higher education expenses
- First time home buyer (not always the best idea)
- Payment of medical premiums during unemployment
- Disability
- Death
- Qualified Domestic Relations Order
- 72(t) substantially equal and periodic payments
- IRS Levy (shocker!)
- Military reservists called to duty
- Rollovers/Transfers

The new 60 day rollover limitation of 1/yr. does not apply to direct trustee to trustee transfers. You can do as many of those as you'd like in the course of a year but the 60 day cash in your hand transfers have been restricted substantially.

Once an IRA owner reaches age 70.5 they will need to start thinking about taking required minimum distributions (RMD's) soon. The rule says you must start on the April 1st of the year following year in which you turn 70.5. If you wait until the following year you'll need to take two that year so be aware of that technicality. RMD's do not apply to surviving spouses nor do they apply to Roth IRA or 401(k) accounts. The distribution possibilities are complex and some say endless. If you or a loved one are facing such decisions feel free to contact us for help in navigating the maze. This becomes a bit more complex when trusts are involved and a lot of tax planning opportunities are available in this area. ☺

Inspirational Quotes

- If we did all the things we are capable of doing, we would literally astound ourselves, Thomas Edison
- You cannot teach a man anything, you can only help him find it within himself, Galileo
- We are judged by what we finish, not by what we start, anonymous
- Perseverance is failing nineteen times and succeeding the twentieth, Julie Andrews
- All great things are preceded by chaos, Deepak Chopra
- Destiny is not a matter of chance; but a matter of choice, William Jennings
- Happiness is a choice that requires effort at all times, Aeschylus
- Excellence is not a skill, it is an attitude, Ralph Marston



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

Kids Korner

When kids complain about what they're doing in school and how it doesn't translate into real life it is our job to show them that it really does, in big ways and not just the subjects. Math is probably the biggest hated subject but also the one most in demand in the real world. We had a conversation about math when I was a kid and one of the students didn't want to know anything about math but really wanted to build a box for a big speaker. Well without the math good luck at that and making the enclosure properly. Any type of mathematical job is in high demand from teachers to engineers to financial jobs to actuaries to computer consultants, the list goes on and on.

Not only is it the subjects but what about the soft things we learn in school such as organization, responsibility, timeliness and communication. I cautiously throw down communications here as many of the kids who live in this cell phone age are lacking drastically on the communications side but it's never too late. Setting goals, exceeding those goals, competing with your fellow students or athletes, the list goes on and on and no matter what they think, the lessons they learn at these ages, regardless of what building they're in or whom they're around as they learn them will go a long way in shaping who they become as adults. Let's give them the reasons they're learning all of this stuff along the way, it's more fun for them if they can see the real life applications. 😊

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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