

## The Election Turnaround

Markets were starting to fall apart right up until the election. The night of the election the market futures were turned off, they hit the circuit breakers and the DOW futures were down 850 points, we've never seen that movie before.

Then the next day things opened badly but someone started buying. The question was it man or machine? Were people actually buying or was it the algorithms as the election was now out of the way and we all know markets hate unknowns. It's a funny thing in that the bond market appears to be saying one thing while the stock market is saying something completely different. Here is a great chart from our friends at Bloomberg about the very different messages each market is sending over the last month or so. Note they were in sync right up to the election and have since gone haywire, this shows us the last 2 years. Also note the big "sell-off" in June of the stock market wasn't confirmed by the bond market.



This isn't a new phenomenon, we've seen this movie many times before and for whatever reason the bond guys are almost always right when it comes to a big divergence in action of stocks and bonds.

**Election Turnaround** (Cont'd on pg. 2)

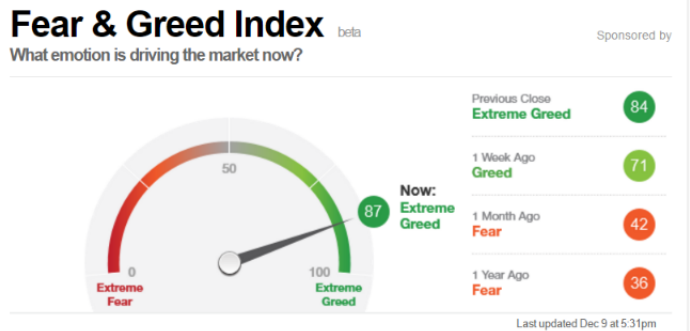
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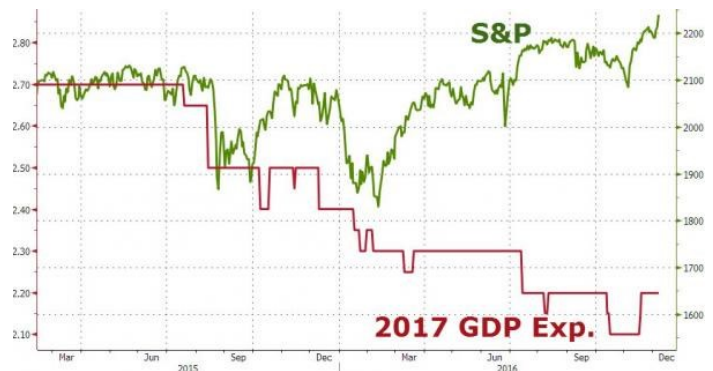
## Market Metrics

As everyone knows I'm a huge fan of data and metrics. As an engineering mind I cannot operate any other way. We look at data constantly to determine which way to go. This is how the worlds infrastructure is built and we're very happy it is. When they're engineering a plane, a road, a bridge or a skyscraper the math better be right, or there will be severe consequences for those around when failure occurs.

Amazingly metrics aren't applied very often to money and markets and it's a far more emotional thing over the short term. First we look at fear and greed, the general notion is when people are scared there are good deals and when they're greedy things are overpriced. No comment necessary on this one:



Next we look at the general economic conditions of growth compared to how the markets are pricing that growth. Here is a scenario where things simply do not add up, slowing growth and growing markets.

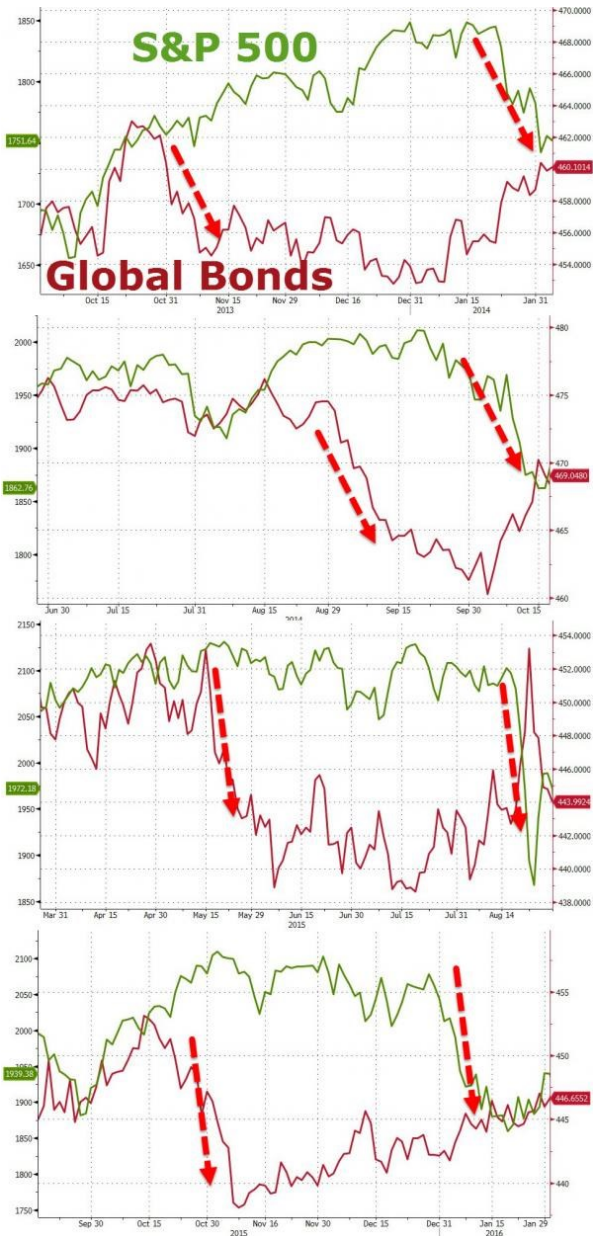


**Market Metrics** (Cont'd on pg. 3)

## Election Turnaround (Cont'd from pg. 1)

Now let's look at a longer time frame to see how this typically unfolds once the emotion wears off.

Same chart, over a different time horizons, note the bond guys were right and a month or so ahead of the stock market finally figuring it out.



This time will be no different, the question is only how long will it take, a few weeks or a few months? We've got a lot more going on this year with elections and a supposed interest rate increase next month, if they do it. The party going on in the stock markets is about to come to an abrupt end, the question is who has the sense to get out of the way?

We were recently at a hedge fund conference and all of the rage was a crowded trade. Some people wonder what is a crowded trade and it is when many participants, if not most participants, are all thinking the same thing and doing the same thing. The consensus at the conference was that the current crowded trade has caused the Trump Bump in the markets and his hope to put in a massive infrastructure deal is imminent shortly.

The state of crowdedness around the globe is currently overwhelming. The million dollar question is does the current global macro picture set up with a big run with the economy? The data suggests not a chance. The hedge fund industry is also saying not a chance. We're certainly going to see some things that are very positive, less regulation and red tape, the return of common sense, lower tax rates, incentives to keep jobs here, etc. This all comes on the back of working through far more complex issues such as reworking trade deals, trillion dollar debt bubbles, interest rates on the rise, a strong US dollar, and a need for natural growth, not stimulus based growth.

Much of what is being discussed is very positive economically, but the existing situation will not go away magically anytime soon, or ever without pain, as we must work through this debt bubble and global trade issues. We're fortunate in America to be the "cleanest dirty shirt" in the room in terms of global economies. Many countries are going to have to work through their fiscal doldrums in the near term and it will not be pretty. This includes Japan, China and most of Europe in terms of mature economies with simply too much debt, too little growth and too much government.

The combination of too much debt and too little growth is simply unsustainable and the world appears to be now rejecting the notion of ever more government establishment, the political elite running the show at the expense of the majorities, and ever more political correctness on every level. There have been 4 big "surprises" this year in terms of how people feel and they've been massive surprises at the voting booths. The little talked about but very large upset in the Phillipines was first, then Brexit, Trump, then the Italian referendum. People are very clearly saying they want their laws enforced equally and they're populations protected. The Phillipines surprise win was based on another "clean the swamp" type campaign as well.

They're done with much of the nonsense of the last few years that have all fed from the machine of political correctness. Right is right and wrong is wrong, it has nothing to do with dividing people just sticking to the laws. Things are looking good for the globe, we still must get through a cleansing bear market that'll correct the excesses of the past decade or so and then we'll be off to the races.

# Noteworthy News!!!

- Congratulations to Mike & Lisa Trevino on the purchase of their new home!
- Congratulations to Carlene Simpson on the purchase of her new home!
- Our condolences to the Kulinski family on the passing of Tom, a wonderful man, son, father, brother, grandfather, uncle and person!
- Our condolences to the Klimczak family on the passing of Bob, a wonderful man, son, father, grandfather, uncle and person!

## Question & Answer

*Q: What is happening with India's cash ban?*

This is a great question and perhaps a pivotal moment in time for global governments. On November 8<sup>th</sup> India's Prime Minister Narendra Modi imposed a cash ban that all 500 & 1000 rupee notes would cease to be legal tender in a few hours. The conversion rates is 100 rupees = \$1.50 so these are very small bills they're squashing out of existence. In a speech, the prime minister has essentially made 80% of the country's currency worthless. The people have until December 30<sup>th</sup> to trade in their old notes for new ones or deposit them into bank accounts. If deposited, large deposits will be scrutinized and taxes and penalties imposed, regardless of how the money was obtained. Sound Naziish, Orwellian? It is and it's equally hard to believe is happening. On November 24<sup>th</sup> the government then banned cash exchanges except at a few of the Reserve Bank of India branches.

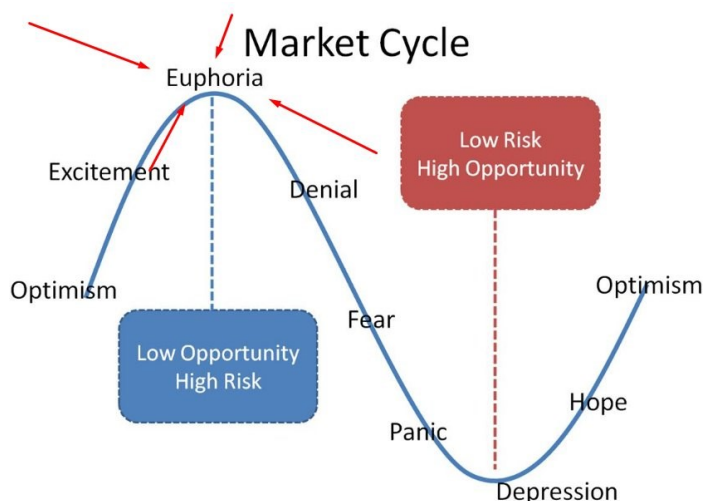
The manure has been pretty much hitting the fan since. The government's claim is the "cash" economy or what the Indians refer to as black money is killing the country's economy. There are 1.25 Billion people in India and many of them use cash only. It is estimated that 90% of the countries transactions happen in cash and most families work for cash to meet their basic daily needs such as food, clothing, shelter, etc. It's also estimated that 75% of Indians do not have bank accounts and that'll certainly give the banks some business if this move to a cashless economy actually works.

Businesses are scrambling to try to meet the demand but lines are outrageous so people are rising up. Tens of thousands of angry mobs are protesting and taking their furor out on bankers when the government has made this decision. Banks look to profit handsomely as will mobile payment firms if this decision sticks.

This is a risky deal, if the society were to go completely cashless as the elites want, what would happen in a time of a long term power outage? In the time of a war or a crisis where power and infrastructure were out for prolonged periods? The government has got its back against the wall, the debts are building and not sustainable the question now is how much of this nonsense will the global populations put up with? This has caused the Indian economy to slow down, cash to flee the country and for a slew of new money laundering incentives to come on full force to help people turn the old cash into new cash without any government haircuts. History is being written as we watch this unfold!

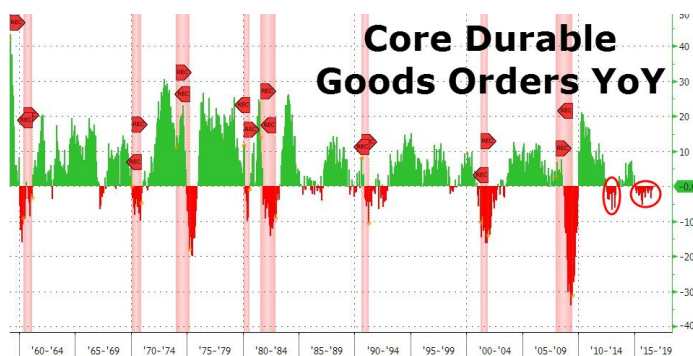
# Market Metrics (Cont'd from page 1)

Now we look at where we are in the economic cycle to determine a big picture view of the current situation.



We're currently at the end of a psychological cycle of growth where some numbers look good economically but when we take the messaging of the numbers out of the equation not so good. This is clearly a "high risk" time for markets.

Now let's look at durable goods orders. They're shrinking, not expanding and this is the first time we've ever seen a shrinking durable goods sector without a recession.



This is also the first time we've had zero or negative interest rates across the globe with endless money printing from central banks on several continents. Can recessions be exterminated? Of course not, and the old adage of the higher they go, the harder they fall is very true. The data suggests this is the time for caution, not chasing this nonsense. It is just a matter of time before prices and reality set it and euphoria ends. This is a mani not unlike any other in the past, but far more widespread than we've ever seen before. The completion of this cycle will truly show who is swimming naked and who really knows what is what. We're excited to see some birthday suits in the coming months and years!

## Money Quiz



This month's challenge is talking home ownership. For every 1% reduction in the homeownership rate, how many people does it represent? We're at 63.5% homeownership, down from 69.2% in 2004. Last month's quiz wasn't won, Greece has only hit 2 of the 15 financial requirements for subsequent bailouts. They keep getting the \$ so why would they actually make the cuts? It's just like every kid is a winner and gets a trophy. Reality cannot be far from hitting them like a brick wall. 11/28/16: 11

## Art Grades

Art is something that is difficult to make a living at today, period. The term struggling artist is no joke and we have many families who are working to try and find a way to make an economic go of their life's passion and amazing gifts. My mother and sister both have amazing art talents, but share the difficulty in getting them off the ground and profitable.

Sometimes this struggle is so hard the artist gives up on their love. I'd say don't do it, stick to your guns and find a way. Where there is a will there is a way is very true. The big question is how hard and how long is one willing to push and hear thousands of "no's" and rejections before ultimately finding success. Art has many forms from music to painting to sculpture to photography and it enriches all of our lives in many ways.

Art is so important it comes down to our flag. In the 1950's a high school student named Robert G Heft designed a school project which would ultimately become our flag. We all know what it looks like and here is a great image of it:



When he submitted the project he was given the grade of B- for his efforts. The teacher said he would reconsider the grade if Congress accepted the "mediocre" design. Fast forward to that very Congressional action and that is exactly what happened, needless to say the grade was promptly changed to an A.

## Electric or Fuel Cell?

I've never been a believer in the electric car being the future of automobiles. It always appeared to be a fad, albeit a very popular one. Even after seeing the amazing Tesla, it hasn't swayed our thinking. They're just not selling enough units and the prices are so high that most people cannot afford them.

Fuel cells have been around for nowhere near as long, do indeed eliminate the emissions problem and are now being tested heavily across Europe and in California where fleets are now running them exclusively. Only time will tell of course but my gut instinct is that the electric vehicle will always have its place but will not take over the industry and put the internal combustion engine out of business.

New new UK technology firm Augmented Optics has revealed a new supercapacitor material it claims can accept a charge in an electric vehicle as quickly as refueling a traditional car. Supercapacitors have the ability to rapidly charge and discharge but have historically not been able to hold charges for long periods of time. This technology makes great strides in this direction and shows the promise of perhaps surpassing traditional battery technology moving forward. If this is true, the lithium ion battery industry is in trouble, as is Tesla and their new Gigafactory which happens to be in the largest building in the country based on what may become an old technology very quickly.

This doesn't seem to be a false claim, the University of Bristol and Great Britain's University of Surrey have both tested this system and their analysis shows this technology to be between 1000 – 10,000 times more effective than current supercapacitors.

We'll need a lot more testing and experience to see if this new fangled tech can do what it claims in real world conditions. This can be game changing technology and although it wasn't intended on being used for the automotive industry, it appears to be the most logical use of it as the power is being discovered.

I'm all for saving the planet and seeing this unfold is exciting. I'm also a lover of the sound of an internal combustion engine revving up as you motor along. The newer cars that are very quiet have "noisemakers" to make them sound like traditional motors, but they're just not the same. We'll see where it goes, I'm guessing the Harley crowd may be slow to adopt if this comes to be everywhere!

## Inspirational Quotes

- A mediocre idea that generates enthusiasm will go further than a great idea that inspires no one, Mary kay Ash
- The ability to speak eloquently is not to be confused with having something to say, Michael P. Hart
- A goal is a dream with a deadline, Napoleon Hill
- Music in the soul can be heard by the universe, Lao Tsu
- Ability is what you're capable of doing. Motivation determines what you do. Attitude determines how well you do it, Lou Holtz
- Make no small plans for they have no power to stir the soul, Niccolo Machiavelli
- Kind words can be short and easy to speak, but their echoes are truly endless, Mother Theresa
- What you do speaks so loud that I cannot hear what you say, Ralph Waldo Emerson



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

## Kids Korner

As they get older they of course become epic know it all's. They're so much smarter than we've ever thought of being we are wasting our time and breathe even attempting to teach them something or improve their outcomes. We're just their parents, some doorknobs they met down the road who know nothing at all in life. As much as it is painful to see your children do this, I can clearly remember how I felt at 17 and it is completely true that you think you're invincible and know it all. How humbling it is to look back and know what a jacka\$\$ you were back then.

The question is how we get them to listen to us and maintain a sense of humbleness now as they go through these years. Brute force is always an option, but it shouldn't come to that much. Should it? We're lucky in that it rarely does, but they know where the white line is and we're ultra-consistent about how that line never moves and expectations.

We've found that watching others doing similar things and pointing out the issues is helpful in letting them see the error of their ways. This can be done when you have a teaching moment in life whether it be on TV, or when you're out and about and witness the madness we all do witness every day. What we used to consider unacceptable is now okay in so many walks of life. It's also important not to let the smart little brains act like a piece of hardened concrete – all mixed up and permanently set. We're open to any ideas here, these kids do not come with instructions so share the love. 😊

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