

## Nationalizing Banks

Global news doesn't seem to be making our headlines these days. There are a few important developments that are currently happening that we should know about but the media simply isn't paying attention to it. We're always on the hunt for news and data that impact financial markets and we're happy to share it all with you as it'll change the decisions we make.

Nationalizing a bank or any other company is when a government essentially takes over what was once a private business. We don't see this in America thankfully here they just tend to "break up" the companies that have become too big or have a monopoly on an industry. We also see bailouts here rather than nationalizing businesses, we saw a lot of bailouts in the banks and auto sector in the past 10 years.

We'd rather see the bad firms fail, this nonsense of allowing them to be saved by the taxpayer makes no sense. The weekend of December 17<sup>th</sup> saw the Ukraine move very swiftly alongside with the International Monetary Fund to take over PrivatBank. This is a big deal in a small country, the bank had a 5.5 Billion capital shortfall and the central bank of the country only has 15 Billion in reserves. One company having a 33% hole in the countries capital cushion is a real issue. I'm blown away how quiet this has been in the financial media in America! The PrivatBank is responsible for almost 50% of the payments in the country and 20% of the banking assets so if it had simply closed its doors we'd have a big problem there of course.

The idea of cleaning up the country's largest bank is necessary, but how the job is done is a tricky and sticky situation. The bank has 8 Billion of deposits they hold and they're mostly retail deposits. The depositors will be protected and keeping confidence in the banking system is paramount, but the stock and bondholders will get wiped out or mostly wiped out. Systemic issues like this are normally front page news across the globe, we're living in a world where the news only hits the major outlets if it fits the narrative. The current narrative is bad economic news simply doesn't exist we only focus on the nonsensical news. The on goings of the Ukraine are of big interest in Italy as they're having the same problems with the

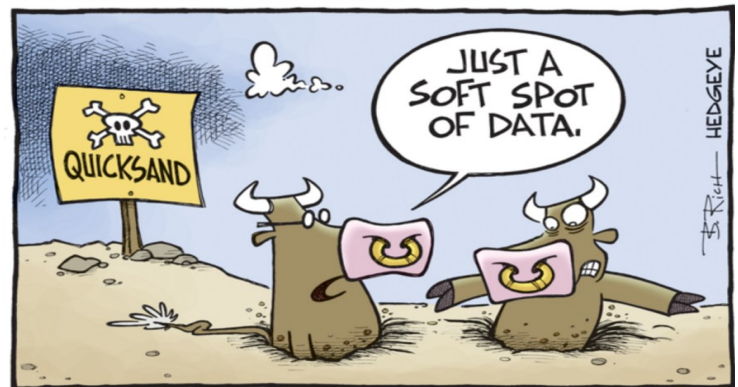
Continued on page 2, Nationalizing Banks

### INSIDE THIS ISSUE

2. [Nationalizing Banks\(cont'd\); Harnessing the Light](#)
3. [Noteworthy News; Whining & Rioting](#)
4. [\\$ Quiz; Real ID Act, Backwardation](#)
5. [Inspirational Quotes; Kids Korner](#)

## Trump Bump

Big surprises this year with elections across the world, first in the Philippines, then in Britain, here in American and then in Italy. The American election has stoked elation in financial markets in America. The night before the election markets were triggering the circuit breakers because they were limit down. The next day they recovered off of their lows and have since shot straight up. Does the election change the economic situation of the country overnight? Not a chance, folks what we have here is best described with a photo.



As comical as this is a couple of bulls in quicksand this is what's going on with financial markets, they're setting up what is often referred to as a "bull trap." This is a time when markets seem euphoric and draw a lot of attention and news and people think the good times will roll on forever. The markets are making people think stock values simply go up forever. The past 2 years have been essentially perfectly flat but the past 20 days have seen a big spike markets are now referring to as the "Trump Bump."

Certainly this new president elect may have changes that'll be positive for financial markets and have far less regulations. That'll be fine on a long term basis, but we've got certain macro issues baked into the current cake that need to be worked through the system before we have the celebration.

The current debt levels across the globe are at record highs while growth rates are simultaneously very stagnant, this combination simply isn't a recipe for record high stock prices. The big change this time around has been zero rate interest policies from global central banks, with some having negative interest rates. The reconciliation of financial markets isn't far off, we can taste it at this point it's just a matter of when, not if.

Continued on page 3, Trump Bump

## Nationalizing Banks (cont'd from page 1)

Banca Monte dei Paschi di Siena SpA.

The Ukraine just did what needed to be done and overnight the bank was nationalized, not a lot of talking about it just take care of business. Europe on the other hand loves to talk about it, loves to lament over the right and wrong way and they've got a litany of laws that has people stumbling over one another in an attempt to find a way to keep faith in their banking system and keep one of the key banks in business. The EU has a specific set of rules for this known as the Bank Recovery and Resolution Directive (BRRD) (think they've done this a few times before?)

Will the Ukraine takeover become a model for Europe? We know this isn't the last bank that will have to be dealt with so it'll be very interesting to see how it all unfolds in the coming years. Monte Paschi is the world's oldest bank and they're not paying for past sins. This bank survived the Inquisition, the unification of Italy, fascism and two world wars but it couldn't survive mismanagements of corrupt bankers and politicians of the 21<sup>st</sup> century.

To put in perspective the size difference here in Italy vs. the Ukraine Monte Paschi has 360 Billion of Euro's worth of bad debt. They were thinking in early December the European Central Bank would accept their pleas for more time to come up with the 5 Billion Euros they needed to stay afloat. In the past few years the Italian people have been encouraged by leaders to buy into the big banks stock and bonds and now they're all going to get wiped out. Back to the concept of the sheep in line for the slaughter, don't always listen to what "leaders," especially corrupt political ones have to say.

The EU rules mandate the taxpayers will be the last ones to come to the table after the stock and bondholders are wiped out. Make no mistake here, the taxpayers will have a very hefty tab to pay for whatever debts they cannot make go away legally. You can bet your bottom dollar that the international players in this deal will not be rolling over but fighting as aggressively as they can.

The fall of this bank has been a long time coming, after they purchased Banca Antonveneta SpA in 07 they've been hemorrhaging cash. They've reached out to Deutsche Bank and Nomura to broker a deal to provide hundreds of millions of dollars to the bank in a complicated derivatives deal. Crazy, they're allowing the bankers to use derivatives to further leverage an already highly leveraged financial system. Pouring gasoline on the fire?

So this has clearly been a long time coming, but the political class didn't want to let the institution fail either so they've pumped into the dead bank over 4 Billion euros of public cash. So much for good stewardship of taxpayer funds? The interesting thing tying these two things together is too much debt. Too much bad debt is rampant in the world today. It's only a matter of time before these problems come to roost at a local stage near us. We've seen this coming for a long time and we're well prepared for it. We can find profits in such madness as things begin to work logically. Keep your seatbelts on it's going to be a fun ride!

## Harnessing the Light

We've discussed solar for many years now and some of the seemingly space age technologies just a few years ago have now come to reality. Normandy, France has just opened its first solar road, yes you heard that correct a solar road. The road itself is paved with solar panels not traditional asphalt pavement. Hopefully this will make us all think of Normandy is somewhat different of a sense now. Here is what it looks like:



The French officials are calling this an "unprecedented" new road and I'd have to agree this is wonderful to see. The road surface clearly has plenty of exposure to the sun and if the technology works as planned, will power streetlights in a small town of about 3400 residents. The road is "paved" with solar panels for about 1/2 of a mile and this road gets about 2000 cars a day traveling along it. These are photovoltaic panels meaning they only produce electricity. There was debate about installing panels that also produced heat as the roadways generate massive heat as well. That's a neat idea if it works, not only would the panels produce electricity but they'd produce heat, which in theory could melt snow and ice and also provide geothermal heat to anything around them.

The government has said they'd like to pave about 1000 miles of road within the next 5 years if this project is as successful as the engineers expect it to be.

Not to be outdone, the MoDOT, the Missouri DOT, has announced plans to do just the same thing. They'll be announcing formal plans soon to become the first public highway in America to test out a new pavement that replaces traditional concrete and asphalt through a startup company located in Idaho called Solar Roadways. These roads could pay for themselves, talk about a no brainer for infrastructure! I'm excited about this sector today, it's cheap too unlike most things!

## Trump Bump (cont'd from page 1)

### Noteworthy News!!!

- Congratulations to Jennifer Penhallow on her job at Nuzzo & Roberts!
- Congratulations to Darren Hogan on his new job at Arrow Electronics!
- Our condolences to the Campion family on the passing of Martin, a wonderful man, husband, son, father, brother, uncle and person.
- Our condolences to the Sanford family on the passing of Diane, a wonderful woman, mother, daughter, wife, grandmother and person.
- Our condolences to the Kloppenburg family on the passing of Catherine, a wonderful woman, mother, daughter, wife, grandmother and person.

### Question & Answer

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

*Q: Why are people so consumed with whining, protesting, rioting and not acting like adults anymore?*

We get this a LOT and of course we're seeing the same thing in the world at large and we're thinking it is the "everyone gets a trophy" mentality in full swing. If a child always gets an award for participation, not for winning, this is a logical outcome of action as an adult. What is going on across the global stage is amazing on many levels. This won't stop anytime soon, people feel very strongly about their beliefs and we've managed to raise a generation of youth who do not know the meaning of losing.

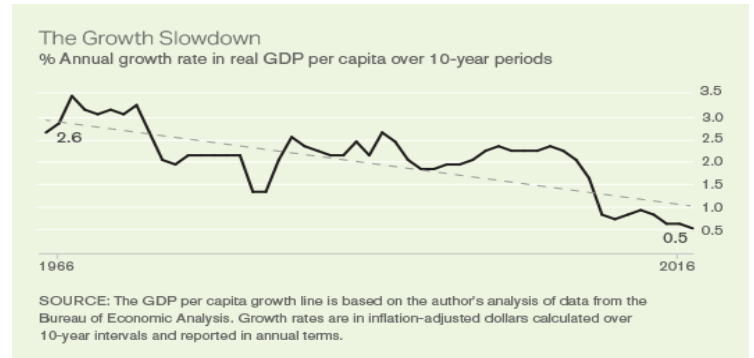
This is likely the first brick wall they've run into where things simply didn't go their way. Why now isn't easily pinpointed but the, we're all winners and free everything mentality simply isn't how the real world operates. Try competing for a job, getting into a great school or finding success in sports and that recipe simply isn't anywhere to be found.

The world has winners and losers, people have certain gifts and certain shortcomings. I'm not capable of matching colors, determining which clothing choices are fashionable or creating works of art. Give me a math, logic, or business problem and I'll have it solved in short order. We're often trying to fit a square peg in a round hole by awarding participation, not excellence or victory. This is a problem society has to address.

It's gone haywire not only for the kids but the society in general with political correctness. We should never intentionally say mean things about people but at this point it's getting ridiculous on every level. We do need to call a spade a spade and if something is wrong we must address it, not sweep it under the carpet for the purposes of possibly offending someone. We need to focus our energies on the important things in the world – God, family, helping one another and making the world a better place. We're not paying attention to those things and we're promoting nonsense. Scary!

People are looking out and seeing newspaper articles like "Dow 20,000" and the like, thinking that things are safe but in reality it is the polar opposite, things today are as risky as they've ever been on a historical basis.

Here is the long term growth rate of our economy, today's rate of change is a far cry from what we've seen in the past 50 years. It's all supported by massive debts and low rates, which the Fed is now trying to unwind in a controlled fashion.



On a shorter term basis, we see a bit of the same picture, but on a more ridiculous level.



Now we move onto how people feel, and this is where we are true mavericks. When people are fearful we want to be heavy buyers of stocks, anything we want because the prices are low. Conversely when people are elated and think everything is great, we want to be sellers, even short sellers because the high prices bring high risk. Here is a snapshot of where people's minds are today in December 2016.



## Money Quiz



This month's challenge is on retired cops in Chicago. They currently have 12,061 working police officers. How many do they have that are retired? . Last month's quiz was won by Mike Stanczyk, the number of homeowners that represent a 1% reduction in the homeownership participation rate is 1.2 million! It's gone down 5% in the last 10 years, that's a lot of people who are out of the home ownership game! © 12/19/16: 14

## Real ID Act

This new law that hopefully will help in the reduction of fake ID's in the country can become a hassle for some of us. I'm all for the goal of making fake ID's harder to get, it'll make for a better world and a safer world for all of us. The Real ID Act requires certain things from a state issued ID to be valid for federal purposes. Notice when you renew your driver's license you can get a "standard" license that is simple and what we've always done or a more secure option that requires a whole lot more paperwork. This option is to comply with the new requirements of the Real ID Act which will be in full effect by 2018.

For residents of certain states, they're simply not going to offer the higher security version of the license and the airports will not accept the licenses issued from the following states:

Kentucky, Maine, Minnesota, Missouri, Montana, Oklahoma, Pennsylvania, South Carolina and Washington.

This won't be just for international travel, but even for domestic flights you'll need a passport, military ID, permanent resident card to fly the friendly skies. If you've traveled at all this holiday season the TSA is giving everyone the warnings now how they're going to start in 2018. This is impressive that the government is really thinking ahead here, giving people a heads up about something that'll happen in over a year! Bravo! Bravo! I hope they do this more in many areas.

If you have a passport it'll be your tool, if it's up for renewal anytime soon it may make sense to renew it now before the processing times get really bogged down when the implementation of these rules get closer and everyone rushes out to renew their passports at the last minute. It's kind of like everyone wanting to buy a generator on the day of the blizzard, only a few will actually get them.

This term normally applies to the options market but what is going on today is so nutty I chose to make an example of what is actually taking place in stocks today. Backwards is a great way to think of things here, especially since the election. Here is an earnings announcement from a major company on December 20<sup>th</sup>, 2016. This firm makes big machines, due to the litigious nature of the world I cannot mention specific company names but you'll get the basic premise loud and clear, these are actual facts as reported. This is directly from the conference call, the major notes are as follows:

**Joe's Machines reports November 2016 retail data: Total Machines Worldwide fell 17% YoY vs a 12% decline in the prior month, Total Energy & Transportation fell 25% YoY vs a 28% decline in the prior month**

### Total Machines (November 2016 vs October 2016)

- Asia Pacific +11% vs +12%
- EAME: -25% vs -14%
- Latin America: -32% vs -24%
- North America: -19% vs -16%
- **World: -17% vs -12%**

### Total Energy & Transportation (November 2016 vs October 2016)

- Power Gen -31% vs -33%
- Industrial -24% vs -29%
- Transportation -32% vs -32%
- Oil and gas -17% vs -21%
- **Total -25% vs -28%**

With this notice we can clearly see the sales of big earth moving machines are going down and pretty clearly. This isn't anything new, it's been happening for not only this firm but for the industry for a while now. What is truly nuts is this stock is up 50% on the year 2016.

Let's get our heads around this, sales are down 12-17% across the globe in all industries this month following a 17% decline last month. Some industries are down 25 – 28% and year over year things are down 25% in general. This business isn't booming, it's having some trouble, though no fault of the business it speaks volumes for the big machine industry. The stock is currently trading at 30 times current earnings (historical average is 15 times earnings so by this metric we're twice the normal price which is fine if the firm is experiencing rapid growth and revenue but it is shrinking year over year) and the stock is up 50% for the year. Backwardation? Go figure, but don't get caught chasing.

## Inspirational Quotes

- No pressure, no diamonds, Mary Case
- You cannot perform in a manner inconsistent with the way you see yourself, Zig Ziglar
- Our chief want is someone who will inspire us to be what we know we could be, Ralph Waldo Emerson
- Never stand begging for that which you have the power to earn, Miguel de Cervantes
- Know yourself and you will win all battles, Sun Tzu
- An expert is a man who has made all of the mistakes which can be made, in a narrow field, Niels Bohr
- To conquer fear is the beginning of wisdom, Bertrand Russell
- Whatever you believe with feeling becomes your reality, Brian Tracy
- We are all in the gutter, but some of us are looking at the stars, Oscar Wilde



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

## Kids Korner

Teenagers know everything don't they? We've got a 15 & 16 year old in the house now and it is simply comical to see them exude confidence in areas where they are still essentially brain dead. The manner in which they can exude the confidence is mind bending, the process seems as though they're authorities on the subject matter, have PhD's in the subject, have written books on the subject and often lecture across the globe on the subject.

Driving has been a topic du jour lately and with a whole year or so on the road why would we even attempt to correct, advise or in any way impart some wisdom to the blessed teen? College is also a topic of the day and this can get hot because what the colleges are selling is sexy and has massive appeal.

We as parents are apparently low functioning people not worthy of the child's auditory attention. What is truly comical about the process is during the heat of the moment the kid of course is right and righteous. A few days or weeks later when the teen finds out from another source, as the parental source is invalid sometimes that the reality sets in. The best part of the deal is that the teen never comes back to you and mentions they now know the real truth and thank you for trying to help them. They simply sweep it under the rug. As the sarcastic adult it is our obligation to now let them know many times the error of their ways and in subsequent dialogues they're suddenly far more open to our suggestions. They're great kids 99% of the time, but the challenges that come along with teens are real and can be really fun if applied as teaching tools moving forward. ☺

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!

Name \_\_\_\_\_ Email \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Name \_\_\_\_\_ Email \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Registered Representative, securities offered through Cambridge Investment Research, Inc. a Broker/Dealer, member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Chadwick Financial Advisors and Place Financial Advisors and Cambridge are not affiliated. Opinions expressed may not necessarily be those of Cambridge Investment Research, Inc.

Disclosure: Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results. This information is for educational purposes and should not be construed as individualized investment advice.

Visit us online at [www.fiscalwisdom.com](http://www.fiscalwisdom.com)



Call at (860) 673-1942  
Call toll free at (800) 843-4513  
Email at [info@fiscalwisdom.com](mailto:info@fiscalwisdom.com)



Please think of us whenever you or someone you care for needs the following:

- ❖ Stock option analysis, diversification
- ❖ Pensions – qualified and non-qualified
- ❖ Family Protection Strategies
- ❖ Retirement Income Plans
- ❖ Investments & Investment Advice
- ❖ Business Protection & Succession
- ❖ Retirement Plans
- ❖ College Funding
- ❖ College Financial Aid Strategies
- ❖ Tax Savings Strategies
- ❖ Required Minimum Distributions
- ❖ Debt & Cash Flow Management
- ❖ Employment contract negotiations
- ❖ Settlement option analysis
- ❖ Financial Advice – hourly or annual retainer
- ❖ Fee based investment management
- ❖ In depth portfolio & risk analysis
- ❖ Estate & Income Tax Planning
- ❖ Distribution of Assets – IRA, 4019k0, etc.
- ❖ Retirement Income – Guaranteed or variable
- ❖ Income Replacement Techniques
- ❖ Widow/Widower Assistance
- ❖ Nursing Home Asset Protection Strategies
- ❖ Long-term Care Issues & Strategies
- ❖ Key employee retention strategies
- ❖ 401(k) & Retirement Plan Rollovers
- ❖ Philanthropic gifting & charitable planning
- ❖ Trust, inheritance and foundation planning

## Mike Chadwick's Money Matters

15 New Britain Avenue, Unionville, CT 06085  
860.673.1942

## Chadwick Financial Advisors

