

The Third Very Long Inning

Baseball games have 9 relatively short innings, they normally last anywhere from just a few minutes if all of the batters strike out, to twenty or thirty minutes if the at bat team is going on a big run.

When it comes to the economy and the globe in general, the economy is a very slow and different animal. The look back at these massive three innings in the American economy is quite intriguing. The three innings I'm talking about are periods where the economy emphasis is finances rather than the healthy building of a sound economy built on a solid foundation. Lately we're hearing a lot about "financial engineering" and "fiat currencies" and the like, all which are part of the larger picture of an emphasis on finance rather the building of a sound economy. The Feds of the world doing what they've been doing for the past 8 years have been the prime example of what is going on with a focus on finance in the economy and in the world today. The world is more interconnected today than ever before. Ramifications in Italy, Russia, Greece or any other country can have reverberations all around the world today.

Periods of normal growth compared to periods of leverage are the main comparison here. A normal growth period is one where products and services are growing in a healthy fashion while people are living normally and saving and everything is working as it should from a financial perspective. Periods unlike this are when global commerce is dominated not by healthy GDP growth and healthy financial behavior, but by credit growth as a substitute for normal growth. The first two periods of such global financialization were from 1907 thru 1929, and 1955 thru 1970. The first two secular leveraging's were followed by currency devaluations as a way for the government to ease the pain of the debt that was amassed. There are only a few possible outcomes in such a situation where a government has accumulated too much debt, to devalue the currency, cause hyperinflation or to file bankruptcy. The Greeks love bankruptcy, the beautiful small Balkan country has been in it bankruptcy 5 times in the modern era.

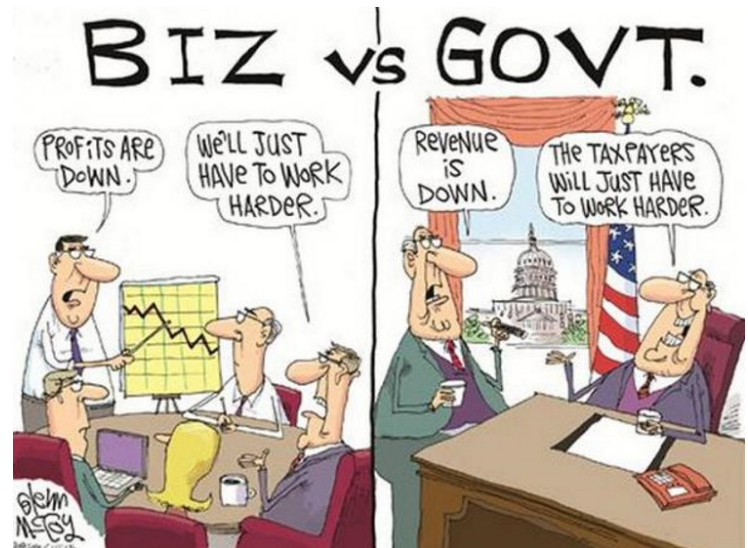
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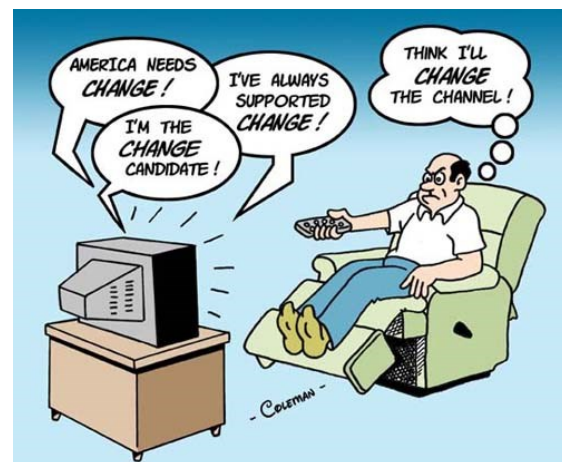
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Time to Laugh

None of us laugh enough and produce the free endorphins associated with laughter and adrenaline or excitement. Here are a few comical things we've run across lately that should put a smile on your face.



It irks me how government bureaucrats have somehow managed to change taxes to revenues. Let's set the record straight here, government only has tax income, there are no "revenues" generated by government, ever. People pay government at the threat of gunpoint, because if they don't they'll be hauled off to jail or their property will be confiscated.



Probably accurately sums up how we've all felt for the past year?

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America isn't likely to take that route anytime soon, nor are most other major countries, but the other options are on the table. There are a host of countries who may likely face that very reality in the not too distant future including the southern European block, and the Asian duo of Japan and China are also overly debt burdened today.

The way this process unfolds is a very slow one. People see a slower growth rate than what they've had in the past and elected officials think they can solve the problem with massive public works projects, which by definition are inherently inefficient as they're government run and administered. Not unlike what they're talking about today with infrastructure. The big projects cause debt to pile up and the government always spends money very quickly with the greatest intent of paying it off over time. When they cannot repay in the original schedule, or they've spent a lot more before repayment is complete, because they've overspent along the way, they simply refinance the debt timeline and push it out. This happens time and time again and creates what would be a Ponzi scheme if any citizen or business attempted it. Look at Social Security, a perfect example. Its okay if government does it so they carry on doing it until markets reject the notion and something pops.

The magnitude and duration of credit growth over a few decades of slow economic growth coupled with debt accumulating simply goes beyond the underlying ability of the economy to sustainably productive scale and ultimately deal with the debt in realistic terms. This makes savers and other market participants wary of their wealth denominated in various associated credits. It also causes producers wary of accepting that currency in exchange for goods and services once the belief that the debt is not going to be paid back as originally planned sinks in.

Today is a very odd period of time, one that we've never seen before in modern times, where our government is backstopping virtually all credit in the system. The crisis of 08 isn't done and repaired as many believe and we're now off to a great trajectory of decades of enjoyment. There should have been much more carnage in the wake of 08-09 but the bailout mentality of today has pushed the can down the road and now the ultimate reconciliation of this massive debt pile will be more painful when the cycle ends. The pain isn't a bad thing and that is the problem, nobody wants to face the music today they simply want to keep on doing what they've always done. As we know doing that and expecting a different outcome is the definition of insanity. The process may be painful for some but also quite cleansing as it clears out all of the excesses built up in the prior period of leveraging.

Ultimately the currency(ies) in question will find a need to be de-leveraged and that typically requires a base currency to be used. The historical precedent for a base currency would be gold as it cannot be manipulated by men or any type of financial engineering. Since 1971 we have had no such base money, but that may change in the near term. If this does change, expect a very long and profitable opportunity in precious metals and associated vehicles. We're accumulating a position in the area as we see a fat pitch opportunity here.

The data produced lately shows home sales at almost record highs, coming near where they were in 2005 – 2007 just before the big implosion. Now we should be getting excited and take out the wine and celebrate, or should we? It's certainly good news things look better, but if one looks under the surface a bit we'll see some issues worth noting. Funny the media often talks about what they like to talk about but there are always two sides to every conversation. We look at not only the completed transactions but what about the transactions that haven't been completed. This is an issue some do not even know is kept track of.

Pat Clark from Bloomberg just put together a great piece showing the ratio of homes that failed to close once under contract from 2016 and 2015. The increase is staggering.



There are a plethora of reasons to justify this so let's look at a few of them. First is price, as we noted they're high so sometimes the appraisal doesn't come through and the bank only finances based on the appraisal. High end homes it doesn't matter as those buyers can put down enough to get the ratios right or pay cash.

The inspection today can be a train wreck for deals, inspectors have the knack of making a lot of little things appear that the house is going to implode tomorrow. If a buyer is scared away they shop more and for the buyer, the more you shop and the longer you wait the better deal you find, period. Around here the foreclosure market is booming so a deal that may have been close where any little thing goes bad can push a buyer away and a foreclosure can pop up and they can often sell for 20, 30 or even 50% off of retail price and they're often gobbled up pretty quickly. They mostly need work, some just a little and others a ton but the deals are real and we've seen many buy homes for less than you could buy a decent new car or used car.

This thing happens everywhere, from the city to the country from poor areas to wealthy ones it's part of the free market system. We find the patient buyer has the edge here as they need to buy far less than the seller needs to sell. Don't be complacent, prices are high today, really high and not likely to stay here so if you're on the fence about selling, do it sooner rather than later.

Noteworthy News!!!

- Congratulations to Sabra Becker on her new job with CHH Neurology!
- Our condolences to the Lozefski family on the passing of Carl, a wonderful man, husband, father, grandfather, brother and man.

Question & Answer

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

Q: Why are people thinking the economy will suddenly erupt into a high growth rate with the new change in governance?

I'm not buying it, but I would really like to see that happen and it would truly be great for our country. If we could grow at a 4-5% clip for a while that would literally solve a lot of our economic problems that we have today. That coupled with some fiscal discipline, assuming we can start spending less than we take in at some point would be game changing.

The reality is that the market has priced in an almost fairy tale scenario execution wise with what is being talked about with a new administration. There will be change for sure, the promises of a logical and cheaper health system with less litigation and more choice and it supposedly keeps the good of what there is now. Who wouldn't want that? The talk of stripping the massive buildup of government bureaucracy that has built up over the last 8 years and launching a big infrastructure plan for the country are all good things.

We do need these things badly, how they unfold are important. There is a lot of debate over people losing benefits and as with any change, there will be winners and losers. There will likely be a lot more winners and those who are abusing the system will likely find it much more difficult to continue to do so. The face value of what is said is one thing and all of this actually happening are two different things. We'll have to see how it goes but I can assure you it will not be a perfect execution. It'll probably be a better execution than many as this is not a traditional political crew coming in but a bunch of business people now running the government like a business is run, with common sense and efficiency. We've needed this for a long time, but these things will not happen overnight nor are they easy feats to achieve as there will be a lot of opposition to change the status quo.

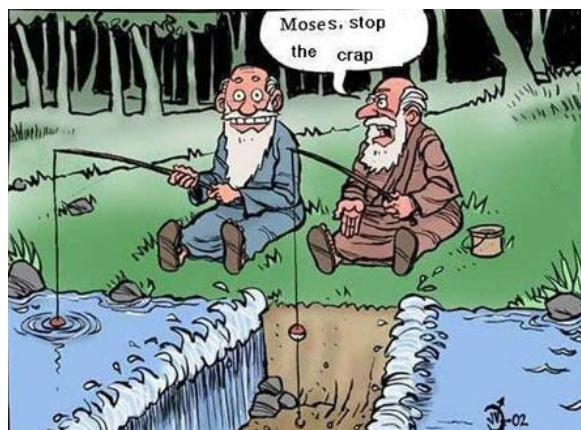
We've got a massive debt situation that has been brewing since the early 80's and it is at a tipping point. We've been able to print money endlessly for the past few years with no regards to budgets or the ability to eventually pay it back. We will see if the execution will be flawless as markets are currently predicting, or if it'll be a bumpy period through the transition and then we're off to the races. Our math shows it'll be bumpy for sure with a solid long term trajectory after we've worked off the debt bubble and current excesses of the easy money policies.



As funny as this may be, we must be sure it isn't our kids and grandkids who are unable to communicate with people. The kids are experts at machines, but the people skills can be a challenge! ☺



This would be a powerful advertisement for a gym, a CrossFit or a Yoga studio!



Now this is funny, and we could use a lot more faith in our society in general. Many teachers have told me that once we took God out of our schools it's been downhill from there. If the schools won't do it, it is our responsibility to do it within our families.

Money Quiz



This month's challenge is on government stewardship, or complete lack thereof. On 1/20/09 our national debt was \$10.267 Trillion, today (1/20/17) it stands at \$19.962 Trillion exactly 8 years later. Record deficit spending at 3.2 Billion a day[Ⓢ]. At what rate, expressed as a percentage, has the debt grown in the past 8 years? Last month's quiz wasn't won. Chicago has 12,061 cops on the beat today and is paying retiree benefits for 12,528 cops. Not the healthiest equation in economics, nor a sustainable one. Winner gets lunch at Ruby Tuesday's on us! © 1/16/17: 8

2017 IRS Limits

This New Year rings in the usual slate of changes for amounts from a tax perspective. Here are the big ones:

Type	2016	2017
401k, 403b, 457 plan limits	\$18,000	\$18,000
Catch up contributions	\$6,000	\$6,000
Defined Benefit Max Comp	\$210,000	\$215,000
SEP & Solo K Limits	\$53,000	\$54,000
SIMPLE Plans	\$12,500	\$12,500
SIMPLE catch up	\$3,000	\$3,000
IRA MAGI phase out single	\$61-71k	62-72k
IRA MAGI phase out married joint	\$98-118k	99-119k
Married joint no work plans	\$184-194k	186-196k
Filing separately	0-10k	0-10k
Roth phase out single	117-132k	118-133k
Joint or Widow(er)	184-194k	186-196k
Filing separately	0-10k	0-10k
<u>Retirement credits</u>		
Filing jointly	61.5k	62k
Head of household	46,125	46,500
Single taxpayers	30,750	31,000

This is an abbreviated version, if you'd like a copy of our annual tax update reference summary just send us a note and we'll email you a copy!

This term normally applies to the weather as we think about it in New England with our 4 glorious seasons. I'm a particular fan of the fall but do love them all. Yes, I'm one of those crazy New Englanders that actually enjoys the winter. My preference is for snow and not rain or ice but the world is just so beautiful when it is all white and the large fluffy flakes are falling while you're going back and forth to work or just watching as you walk around or through the windows.

The concept of seasonality in investing is foreign to many but something we put into our research as it very much does apply and fairly accurately. During the New Year we typically see some volatility as the year changes and people adjust from whatever they were doing last year to their new plans for this year. Don't forget with all of the resolutions going on tobacco firms will go out of business and they'll have to build a lot of new workout facilities because all Americans will become in tip top shape in 2017! (I wish)

If volatility is a normal occurrence during this time of year we can profit from it if it happens again by having exposure to volatility instruments. Last year was a home run for volatility as it doubled in January. We're not likely to see that play out exactly again this year but perhaps we'll see a 40 – 50% rise in volatility in late January heading into February. This is a big change and although there is no certainty it'll happen, there is a clear pattern going back for many decades.

The big online movie outfit normally has a bang up January on earnings and this year was no different, earnings came out and there was a big pop in the stock price. It's not a logical one because the firm trades at 350 times earnings when a "normally" priced stock trades at 15 times earnings. The fact that the stock is 23 times normal valuation didn't stop it from doubling last year or going up 8% overnight on the earnings announcement.

Another interesting thing with this January time frame is energy, this is the best time of the year to be stalking energy type investments. With oil being down over the past few years this can make for a very attractive recipe on some real growth. We've got a beaten down sector with a lot of bad news around it, strong seasonality, and the potential for a change in a positive direction. This seasonality component of looking at history is very helpful in determining the timing of entry or exit into or out of certain sectors, securities, industries and markets.

Conversely this is the 2nd worst time of the year to look at airline stocks. They normally fall badly from November into February. They're normally falling again from April to mid-June. Perhaps the price fluctuations fall in line with the busiest times of year for the industries? When do people travel the most? Do they travel less in these seasonally weak periods? Always give us your input!

Inspirational Quotes

- No pressure, no diamonds, Mary Case
- All great achievements have one thing in common, people with a passion to succeed, Pat Cash
- Your life does not get better by chance, it gets better by change, Jim Rohn
- Do not dwell in the past, do not dream of the future, concentrate the mind on the present moment, Buddha
- A friend is someone who knows all about you and still loves you, Elbert Hubbard
- Words that enlighten your soul are more precious than jewels, Hazrat Inayat Khan
- The doors we open and close each day decide the lives we live, Flora Whittemore
- We don't see things as they are, we see them as we are, Anais Nin



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

Kids Korner

Teenagers and millennials are often accused of being impatient and I cannot disagree I have two of them living in my home. The one thing I see with this particular angle is that the teens may not necessarily be impatient as always labeled, perhaps it's simply an intolerance of inefficiency.

Think of how their world works, they have instant everything from phone conversations to video calls (Skype & Apple's version which seemed Jetsons like when I was a kid) to tweets, to social media of all kinds to Uber to instant music of their choice.

When they live this world of instant anything they can imagine at the touch of a button anywhere on the planet it is possible to understand they cannot stand inefficiency. For them to watch adults (us old folks) fumble with anything in life can certainly appear to make them seem impatient. Perhaps we've created a society where the youth know nothing else? Why hail a cab and stand in the snow for a few minutes when you can simply get one at your instant via an app so you'll simply walk from the building to the car. Their unwillingness to wait when there is no alternative seems ludicrous to us, but to them it seems foreign. Cramming something into a shorter period of time can result in an impatient label, but coming up with a new process to make things faster is weeding out inefficiency and is rewarded, perhaps we should be slow to judge and encourage certain aspects of this behavior?

**Don't make excuses; make things happen; make
changes; make history, author unknown!**

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