

## Central Banks Foolishness

Most developed countries have a Central Bank, these are institutions whose purpose is to manage a country's currency, money supply and interest rates. They're supposed to keep the economic system running smoothly, give the economy a shot of adrenaline when necessary to prevent a depression and also slow things down when necessary to prevent inflation. Some governments call their Central Banks Reserve Banks or Monetary Authorities, but they're all essentially doing the same things within their country. These institutions do this by managing the interest rates, the money supply, setting the reserve requirements and a host of other tools at their disposal. They can act as the lender of last resort for the banking sector in times of insolvency or crisis, as we saw in 2008-2009 when the implosion of the credit default swap hit the financial sector hard. These bodies are supposed to be independent of political action and interference.

We're living in a world currently dominated by political promises and coordinated global Central Bank manipulation. This will not last and we encourage everyone to pay attention not to these promises, but to valuation of the underlying assets in the system, most of which are at unsustainable levels today. Let me say that another way, the current festival of high prices happening around the world with respect to real estate, stocks and all other financial assets isn't going to last, so when the music stops everyone will be rushing towards the same door, and not many will fit through it in time to avert some serious financial pain.

It is perfectly understandable why Central Banks did what they did in 2008 and 2009, people were concerned about the future of the banking system at large as people and companies had done a lot of really irresponsible things so they restored stability and people came back to the table to continue to run their lives. Here we are almost a decade later and we're clearly beyond any type of crisis event in our economic landscape yet Central Banks across the globe are still behaving as if the crisis was yesterday.

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## Global Macro Structural Shift

The wise man builds his house on a rock and the fool builds his house in the sand. The global monetary system as we know it today is headed towards a major structural shift away from faith in government and towards fiscal sanity without the possibility of manipulation. The current belief in "government can fix all ills" simply by printing money, lowering rates or otherwise providing monetary easing in some form is a complete fallacy. Debt has been spiraling out of control since 1981, but the debt trajectory has really gone vertical since the financial crisis in 08 across the globe. America has seen its national debt almost double from 2008 – 2016. From 1776 – 2007 the national debt went from zero to 11 trillion, then it went from 11 to 20 trillion in 8 years. That's a very sad state of affairs for our great nation. The impact of this debt is that it ultimately puts an anchor on the productive economy due to the cost of servicing it. We're trying to spend our way to prosperity but it is both mathematically and economically impossible. We're spending \$4 in new debt for every \$1 in GDP growth at current levels. In another era this would have been labeled sheer insanity but today it's all okay, for the time being. This has happened with rates artificially suppressed at zero or near zero levels and the true cost to service the massive debt load has not yet been really felt.

Rates are now on the rise, at least temporarily, and we're not even close to done reconciling with the debt situation that first caused global tremors in 2008 when the real estate credit market imploded. When this happened governments around the world decided to kick the can down the road and simply print more money to make massive bailouts and give people restored confidence in the system and lastly "reflate" asset prices. This was the chosen course over being responsible and dealing with the structural issues that caused the problem in the first place, excess debt. Looking back it is crystal clear an entirely different path should have been taken, one where over leveraged institutions were allowed to fail and fiscally sound policies implemented economy wide. The problem in the real estate bubble was they were lending money to anyone to buy a home that would supposedly go up in value forever. It clearly didn't and that bubble burst badly. Today people can still buy homes with virtually nothing down, but they'll now need a job and good credit to do so. Since they've bailed out everything and thrown money at banks, manufacturers and stock markets around the globe. Central banks have no business buying stocks, the fact that it is not being questioned is scary. The old adage of when nothing can fail everything has failed has never been more poignant.

All of the money being used today for stimulus is borrowed money, printed out of thin air and massively increasing the country's debt load and productive economy.

**Continued on page 3, Global Macro**

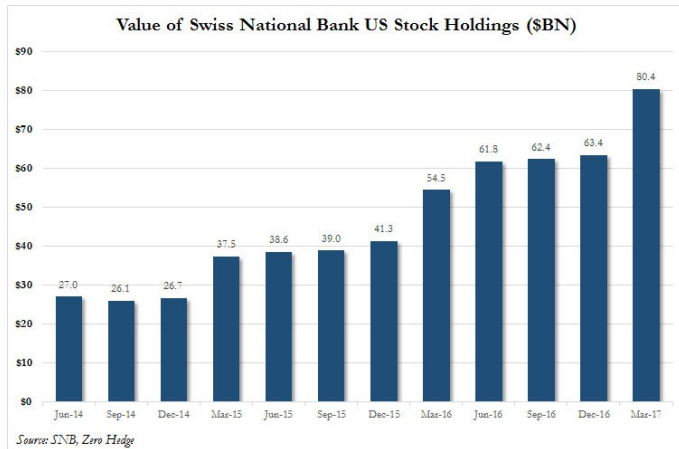
## Central Bank Foolishness (cont'd from page 1)

Here is a sample of what Japan has done to its market by buying stocks (ETF's to be exact, but the end result is the same) and Central Banks have no business buying stocks, ever.



Source Bloomberg

Now lets move across the pond to Switzerland to see some more insanity from a Central Bank.

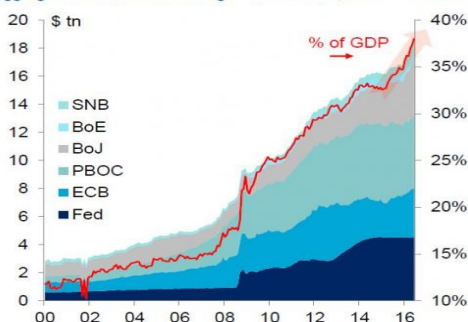


Source: SNB, Zero Hedge

Now let's look at the cumulative impact of Central Bank madness across the globe. In 2017 more than 1 Trillion has been injected into economies across the world. One must ask themselves if this is how governments work when the world is great and markets are at all time highs? The old concept of "If it sounds too good to be true it probably is" has never rung so loud! Don't drink too much of this Kool Aid, it's bad for your fiscal health!

### More and more and more!

Aggregate balance sheet of large central banks, \$tn & % of GDP



Source: Citi Research, Haver.

## Airlines in the Crosshairs

The airline business is suddenly in the spotlight and it appears things are about to change for the better for the consumer. This is a business that I hear the most complaints about and it has been okay for them to beat up the consumer in the name of safety, regulation and the state of the world.

The video showing them brutally removing Dr. David Dao from a flight that they overbooked and the subsequent removal of the Schear family from flight over the name on the ticket for the infant puts them in the crosshairs of an annoyed public and they're even now getting grilled by Congress. The Congressional grill is the mother of all double standards as they get almost nothing done yet keep their jobs and answer to nobody, hopefully that changes soon!

United has already changed some policies following them beating up Dr. Dao and other airlines are hopping on the bandwagon of having some semblance of customer service in an industry that hasn't had any for a very long time and it's well overdue. The public has opined and they're done with this nonsense so almost immediately people began creating new slogans for the airline industry and United in particular. I'm so saddened for the good doctor and his family but the public outrage is very justified in this instance and as you know I'm no fan of the whining public, this totally justifies what is happening.

Here are some of the slogans now all over the place comically showing how the industry and United in particular treat people:

- You carry on, we carry off
- Normal flights have cabin crews, we have bouncers
- Board as a doctor, leave as a patient
- You can run but you can't fly
- Would you like a neck pillow or a neck brace?
- Let us re-accommodate you!
- If we overbook, you'll catch a right hook
- Now serving punch!
- Tell us your safe word at check in
- We'll drag you all around the world
- No volunteers, unseat, beat, repeat
- The captain has turned on the no passenger sign
- We have first class, no class and business class
- We can re-accommodate you the easy way, or the hard way
- We have an offer you can't refuse – no really.
- We have red eye and black eye flights available

As pathetic as these incidents are, hopefully we've turned the corner and this industry begins treating people well.

### Noteworthy News!!!

- Congratulations to the Sales family on the purchase of their new home!
- Congratulations to the Greg Miller on his new job!
- Congratulations to Julia Boisvert on her new job!
- Our condolences to the Plourde family on the passing of Ronald, a wonderful man, husband, brother, uncle and friend.
- Our condolences to the Chapman family on the passing of Russell, a wonderful man, husband, father, grandfather, great-grandfather, brother, uncle and friend.

### Question & Answer

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

*Q: Should our grandchild go for a home purchase under the new home mortgage rules for those with large student loans?*

I would stay away from this and I'm blown away and saddened that the government is doing this, don't they ever learn? There have just been some adjustments made to first time home buyer mortgages, which apply mostly to millennials, many of whom are buried in student loan debt. FHA cut the premiums for mortgage insurance to 0.85% from 1.35% that'll save the average buyer about \$1,000.00 on the purchase of their first pad.

Fannie Mae & Freddie Mac also dropped the minimum down payments from 5% to 3% on some of their notes, although 3.5% down is still there for FHA notes. Home ownership is at its lowest level in 20 years at 65% of the population but there are a few good reasons for it. Millennials appear not to want the burden of a home, yard and everything that comes along with it in their lives. They're busy and prefer other things to taking care of a home, they'd rather rent something or live with family and do the things they want to do not the things they saw us having to do as they grew up.

The next stumbling block has been an economic one, with the massive student debt burdens this generation is carrying combined with slow economic growth and not a lot of jobs for many of our college graduates that leads us to a situation where it's a perfect storm of younger kids are not going to be in the home game until later in life. There are plenty of millennials who opt to buy homes and who can comfortably afford them. I'd stay away from borrowing as much as anyone will lend you, and don't get sucked into the vacuum of paying \$200-300k for an education if it isn't going to improve your economic outcome!

Central bankers call this "balance sheet expansion" to make it palatable to the public. It even sounds positive, as if a larger debt load on the balance sheet is a great thing! Think about the fact that they're attempting to fix a debt problem by creating more debt. The very problems we had in 05-07 have simply been moved from one part of the economy to another, now real estate lending is somewhat sane and controlled although down payments are still far too small. The exact same underwriting problems exist today in three different areas of the economy; student loans, automotive loans, and government borrowing. Governments now spend more than they take in almost every year and continuously add to the annual and total deficits. There isn't even talk of paying down debts, we just continue spending beyond our means. Economic principals do not exist for a short time here. In fact a few years ago when a politician suggested fiscal discipline and balancing the budget they were labeled a "terrorist!" This is like helping a couple with \$140,000 in credit card debt who has maxed out their cards and can no longer make the payments and now no longer have access to any credit, offering them a new, \$140,000 credit card at a lower interest rate and lower monthly payment for the combined balance. Insanity indeed!

If one continues to do what they have always done expecting different results is the definition of insanity. The fact that governments and central banks can print money, seemingly on an endless basis, will not provide for a positive outcome to the current economic situation. They're doing nothing but delaying the inevitable reconciliation. People have bought into this faith narrative, quite surprisingly, for some time now and the big question is how long will the "full faith and credit" of global governments last? How should one position to protect against the possible outcome of a loss of faith in an era of government financial engineering?

The current debt bubble began in 1981 when credit creation shifted into high gear. The big government experiment of "balance sheet expansion" forms the illusion that the only form of currencies or savings tools are those administered by governments. The truth is the polar opposite of this narrative. Governments are currently tasked with the complicated challenge of allowing debtors to service their debt while gross output grows at a rate lower than current debt creation. The other challenge the government must balance is to not diminish the purchasing power of the currency via runaway inflation without the perception of ongoing output growth and complete control.

The option many have not considered for some time is an alternative currency and store of value with a finite supply that cannot be manipulated by politicians – gold. The fact that we've gone off the gold standard is how governments have been allowed to accumulate such absurd levels of debt without being called out on it. The shift towards a sound fiscally balanced economy built on a stone foundation that cannot be manipulated will have clear winners and losers. Winners will be those who hold gold and other such assets and losers will be those who have too much debt and speculatively priced paper assets. Gold will one time soon anchor central bank base monetary supply once the current financially engineered model no longer produces positive output growth for major global economies. This isn't something government wants so they'll do anything they can to delay it, because when it does finally come it'll result in a serious power shift and that is what the political class is all about, power. We've been big fans of precious metals stocks for some time as they act as leveraged plays on the underlying metal. When the metals go, the mining sector goes a multiple of the price of the underlying commodity.

## Money Quiz



This month's challenge is on medicine, how much of a burden will our aging population put on the medical industry. How many doctors do projections show a shortage of by 2030 in America? Last month's quiz wasn't won, student borrowers have accumulated 1.31 Trillion of debt. Sad & unsustainable! © 05/01/17: 9

## Social Security Changes

The good old folks at Social Security are changing their security protocol on the website to keep everyone safe. They have decided that after June 10<sup>th</sup>, 2017 when you go to login to your account you'll need an additional form of authentication. Now you simply need a user id and a password to access your account. Now beginning in June you'll need the same user id and password, but you'll now also need another layer of security to get in. They'll give you a choice of how that additional layer is delivered to you, you can choose between a text message to your cell phone or an email message to your email box. Last year they had changed it to only be accessible via a text but the senior community understandably had a massive problem with this change as not all of our seniors are texters. Forget seniors, I'm not a texter and I'm part of Generation X. I'm a believer in that the phones and gadgets are bad for peoples social skills so the less time spent on them the better.

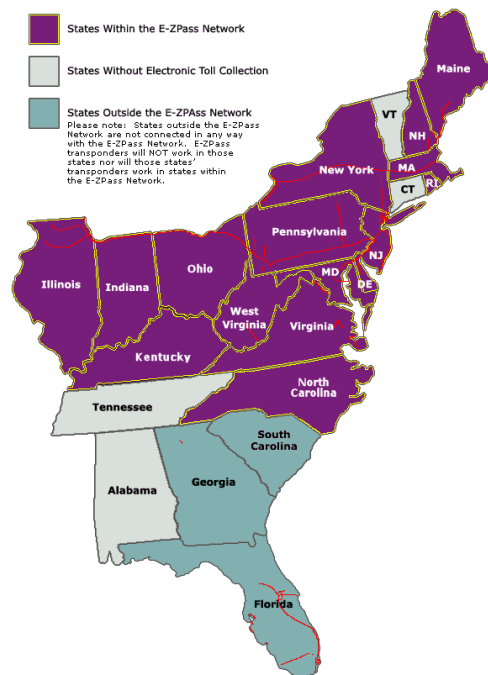
Here is the blurb right off the Social Security website, which can be found here: <https://www.ssa.gov/myaccount/message.html>

### Changes Coming To Your **my Social Security** Account

Social Security is constantly improving the way we protect what's important to you. Beginning June 10, 2017, we will use a second method to check the identification of **my Social Security** account holders when they register or sign in. You can choose either your cell phone or your email address as your second identification method. Using two ways to identify you when you log on will help better protect your account from unauthorized use and potential identity fraud. Since an email address is already required to use **my Social Security**, everyone can continue to benefit from the features **my Social Security** provides. If you plan to select email as your second method, you can ensure that the one-time security code email does not go into your spam or junk folder by adding NO-REPLY@ssa.gov to your contact list.

If you do a lot of traveling the EZ Pass is a huge time saver and can sometimes be a money saver as well. CT currently doesn't have tolls, and I hope it stays that way because any additional tax money the state collects it'll burn inefficiently so the answer isn't more taxes but efficiency and savings within.

When you're traveling about and have to stop at a toll booth it's a pain in the neck, takes a lot of time and heaven forbid you don't have the proper change! The EZ Pass is an electronic gadget that reads the toll booth and charges your account, which you fill electronically through your bank or credit card. EZ Pass is a system that works in most of the eastern US, but not the very southern tip. Here is the range of this technology:



If you're going to invest in one of these gadgets it'll save you a lot of travel time and sometimes some money too. States charge their EZ pass holders less sometimes for local tolls, forcing out of state users to pay a premium to drive by the scanners and use the highways. I have had a NJ EZPass account until just recently when I switched it over to a New York account for two main reasons – no \$1.00 monthly fee like NJ has, and discounts to go over toll roads I often travel. Here are the deals you can get on NY tolls. Tappan Zee Bridge commuter plan is \$3.00/trip rather than \$5.00 if you do 20/month. Thruway Grand Island is a 30% savings for 20/month. If you're not a commuter the holder of the pass automatically gets Port Authority, MTA Bridge & Tunnel and NY State Thruway and NY State Bridge Authority discounts just by virtue of having the pass. I'm in NY a lot so this makes a ton of sense for me.

If you're paying a monthly or annual fee for an EZ Pass account do some homework, you can go to a host of states now and get your account that'll do the same exact thing without having to pay a monthly or annual fee, and perhaps get a discount on the tolls!

## Inspirational Quotes

- When we get caught up in the busyness of the world we lose connection with one another and ourselves, Jack Kornfield (this couldn't be more true of our world today!)
- One sees great things from the valley, only small things from the peak, G.K. Chesterton
- You can't build a reputation on what you're going to do, Henry Ford
- The height of your accomplishments will equal the depth of your convictions, William F. Scholavino
- Some men see things as they are and ask why. Others dream things that never were and ask why not, George Bernard Shaw
- The noblest search is the search for excellence, Lyndon B. Johnson
- We are all born originals, why is it so many of us die copies? Edward Young
- Great effort springs naturally from a great attitude, Pat Reilly



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

## Kids Korner

What do your kids and grandkids believe to be true about themselves and your family? I've made it a big point to be sure my princesses believed in themselves and not to be afraid to tackle anything, anything at all. We believe they can shoot for the stars and if they hit the moon that is okay but under no circumstances can they do nothing, very little or the minimums. We see so much of that in the world today it is enough to drive you crazy. We should go back to the idea that we'll help anyone who is down and out, for a period of time or those who are disabled forever but we've created a generation of deadbeats with the notion that everyone is a winner and deserves something.

Here are some of the things we've drilled into the kids heads from the moment they understood the spoken word to this day:

- You can do anything in the whole world, anything you set your mind to! This is powerful and Cup probably thinks I went overboard on this one! ☺
- Be honest and always do the right thing
- Treat others as you would like to be treated
- Read, read, read, learning is the key to doing well in life and self-actualizing
- You cannot control what happens to you only your reaction to it

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

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 \_\_\_\_\_

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- ❖ Pensions – qualified and non-qualified
- ❖ Family Protection Strategies
- ❖ Retirement Income Plans
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