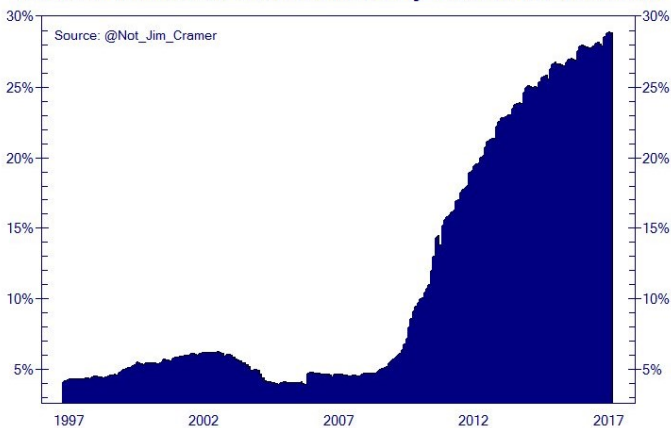


Central Banks Own Everything

Last month we discussed the levels of debt the central banks have taken on in the past few years in an attempt to avoid reality. This month we're going to give you a plethora of graphics to show just how crazy this has become. Let's start with how they're now backing consumer credit, this isn't something central banks were designed to do but since we're in "emergency mode" 8 years into an economic recovery apparently this is necessary.

Share of Consumer Credit Owned By Federal Government



Next let's move across the pond and see how they're doing in Japan in terms of debt. We must be a bit of a sleuth in determining what is happening with government lately because they like to change the terms commonly used. The Central Banks call debt "Balance Sheet" assets and governments across the world now call taxes "revenues" as if they're voluntary and not compulsory. Japan is the home of the most reliable manufacturing processes the world has ever seen, they specialize in taking a great idea, typically originated here in America, and tearing it apart and copying it, but making the copy somehow a far more reliable version of the original. They're not so good in terms of finances, they've been on a debt binge for decades and now they're at the point of no return.

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The Oracle of Omaha

This man is a legend in the investment business, Warren Buffet has historically been the man who would fairly tell people what he knows and help them try and do the same for themselves he's done for himself. In the past decade or so I've lost a ton of respect for him as he's no longer been fair in telling people about both the good and the bad in the investment world. 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.

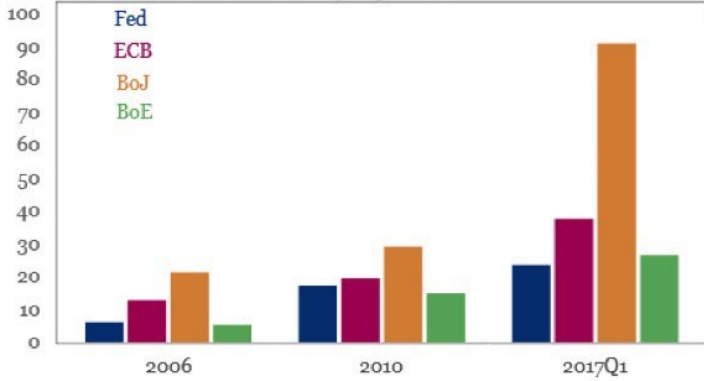
Rates are now on the rise, at least temporarily, and we're not even close to done reconciling with the debt situation that first caused global tremors in 2008 when the real estate credit market imploded. When this happened governments around the world decided to kick the can down the road and simply 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 countries debt load and ability to get really going economically. The real irony with the Oracle of Omaha is his constant pitch on buy and hold. This buy and hold guru has very quietly amassed a \$100 billion pile of cash out of his \$135 billion dollar portfolio. It's apparently okay for you to be always in and buy and hold but the Oracle is currently sitting on 74% of his portfolio in cash. Funny how that works, it sounds like something a politician would say not an advisor. Watch peoples actions not their words!

Central Banks Own Everything (cont'd from pg. 1)

I do not see any reasonable way that they'll ever pay back their debts but with Central Banks suppressing rates, it costs them less now to pay the interest on the debt than it did years ago when debt levels were much lower. As noted below, the debt of the central banks, note they're all out of hand but Japan especially so.

BoJ's balance sheet as big as Japan's economy
CB balance sheet as % of country/region GDP



Source: Macrobond, IIF

Now we'll go to Europe and see how they're doing. They had a bit of a good spell between 2012 and 2014 as they were actually reducing debt but ever since Mario Draghi's "at any cost" speech they've also been on a debt extravaganza printing money to backstop everything in the Eurozone so that people feel full faith and confidence in the system that isn't sustainable. Here is a recent snapshot of the ECB debt in a picture that is worth many thousands of words.

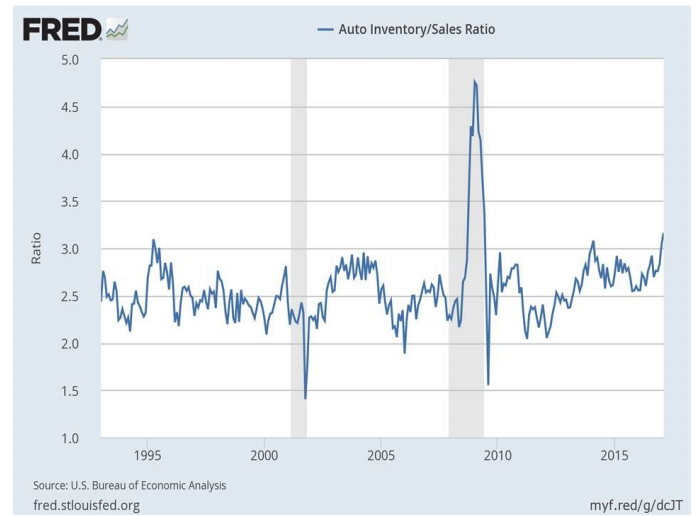


Thanks to our friends at Bloomberg for the image and a doubling of the debt from 2014 to 2017 seems to be okay and justified since nobody is talking about debt levels these days. We're the odd one out it seems in considering basic financial tenants in how to move forward. We'll soon get to see as Warren Buffet so famously quoted, "who is swimming naked and who knows what they're doing" when the final chapter of this cycle comes. ☺

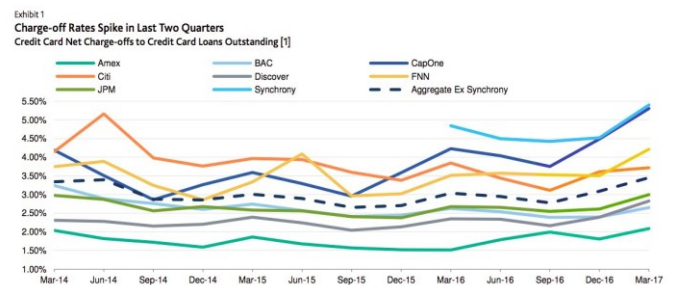
Automotive Overstock

If you're in the market for a vehicle it may pay off to wait a little while. The auto industry is starting to see some real headwinds, not unlike they saw in 2008 – 2009. They've been able to sell a lot of cars on easy credit just like the banks did with homes in the runup ending in 2007. The credit terms for autos today are just like they were with homes, anyone (almost) can get an auto loan from someone, and the money is generally really cheap unless your credit is an absymal train wreck!

To show some graphics of the current madness we turn to the St. Louis Fed's Fred system, which is free to everyone so feel free to replicate it if you so desire. The inventories of auto manufacturers are beginning to pile up and if you've read lately about the channel stuffing you'll see exactly what is going on in rented lots and airports around the world.



To illustrate the deteriorating credit charge offs in auto loans we turn to the following chart showing the big auto lenders and how they're doing in terms of people not able to pay their car loans anymore. We have been able to float the easy credit ride in cars for a long time, also note the prices of cars have gone so high because the money has been cheap, expect this to change soon so if you're thinking about buying a car it may pay handsomely to wait, prices will be lower in the near future as inventory continues to build.



[1] Amex: American Express Company; Citi: Citigroup, Inc.; JPM: JPMorgan Chase & Co.; BAC: Bank of America Corporation; Discover: Discover Financial Services; Synchrony: Synchrony Financial; CapOne: Capital One Financial Corporation; FNN: First National of Nebraska. BAC's Y9-C outstanding balances are increased by \$9.2 billion in Q4 2016 and \$9.4 billion in Q1 2017 to add back the UK card business balances that were transferred to held for sale. Source: Company 99-C reports, other company reports, and Moody's

Continued on Page 3 – Auto Overstock

Noteworthy News!!!

- Congratulations to Christie Fiori on her new position with Starling Physicians! ☺
- Congratulations to Penny Beckman on the sale of her home! ☺
- Congratulations to Linas Venclauskas on his new job with the State of CT! ☺
- Congratulations to Nick Russo on his new position with The Hartford! ☺
- Congratulations to Sue Boult on her new position with Fairview Commons! ☺

Question & Answer

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

Q: Why are Fortune 100 companies leaving CT? Why are so many people leaving CT in general?

This is very sadly a conversation we have to have almost every day and there is so much that is great about living in Connecticut but the administration here simply doesn't have any common or fiscal sense. They have great ideals but no way to afford those ideals and rather than live within their means they simply tax everything that moves and tax the most productive people while making things more unfriendly to business and productive folks. An award should be offered to this state government for successfully pushing two Fortune 100 companies out of the state, a feat never before accomplished. GE left Connecticut a while back and just a few weeks ago Aetna made the announcement that they're leaving too.

The real issue here is the administration in Connecticut is hostile towards business and in any economic system the businesses go to where people are friendly toward them. Even after the announcements the government leaders downplay it and claim they're not leaving because of taxes but for other reasons. Then they say it'll only impact a few hundred jobs. Don't believe any of this nonsense, in time they'll move many thousands of jobs and those few hundred jobs they're downplaying are the executive jobs paying high six and seven figure sums. These are the people that make towns nice, they build beautiful homes and buy a lot of goods and services and employ thousands of local contractors and service providers. We won't even talk about the income taxes these corporations will no longer pay to the State of Connecticut. The losses are huge and it should be ringing the bells of those in the seats of power to start behaving very differently.

The people that are going are doing it for the same reasons, they're willing to leave the few hundred family and loved ones to go live elsewhere simply to avoid being taxed to death on their incomes and their property. This is a scary trend, one which I hope has reached peak lunacy and the people in Hartford turn the ship around soon.

Automotive Overstock (cont'd from page 2)

Let's turn our attention now to the UK where they just reported the year over year change in new vehicle purchases. This isn't something we've seen in a long, long time but people are clearly not buying new cars at the same clip they were last year.

Figure 9: Vehicle purchases fell off a cliff in April



Source: Deutsche Bank, ONS, Bloomberg Finance LP

Adam Jonas is Morgan Stanley's well respected auto analyst and he was initially calling for 18.3 million vehicles to be sold this year. He's since revised his number down to 16.4 million and also says May's results do not support the new revised down number.

There are a number of things impacting the auto business on top of high prices and loans starting to go badly. The industry is seeing a trend change in that younger people are not as inclined to drive as quickly as our generations did. I remember chomping at the bit for my 16th birthday because I was waiting for my driver's license. Today some kids don't have their licenses until college, sometimes not until after that. Generation Y also tends to like cities and public transportation so these are demographic things going against the industry.

We shouldn't omit the new self-driving car segment which seems to be gaining steam, if this trend continues the industry will need to change a whole lot to accommodate a whole new industry. I'm not sold on that is going to take off, if self-driving cars kill a few people that'll be the end of that in a heartbeat.

Now we move to valuations, the car companies are cheap with the exception of the big electric one, they're nuts and despite the fact that they only produce a few thousand cars each year and aren't terribly profitable, the market cap for the big electric car maker is now larger than any other automotive company on the planet. We're seeing one of two things right now with this, the biggest bubble of all time in a single company or the beginning of a trend change where there will soon be more electric vehicles on the roads than gasoline or natural gas powered ones. I'm leaning towards the former and it's going to be a joy to watch reality unfold. Autos in general are dangerous today, but there are some that'll actually shock you!

Money Quiz



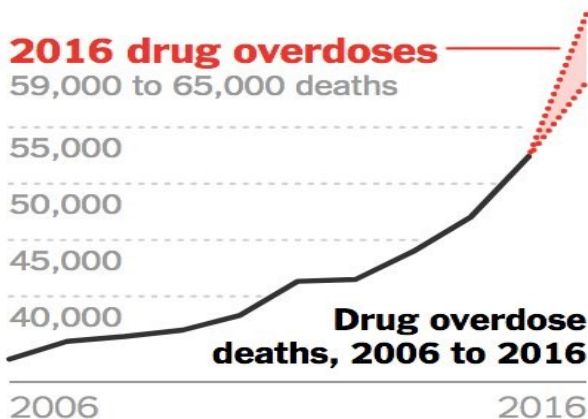
This month's challenge is on students and their view of college. What % of millennials who have student debt believe the education they received will never be worth the debt they incurred? Last month's quiz was won by Angelo Massini there will be a shortage of 104,900 docs in America by 2030, 43,100 of which will be primary care docs. © 06/05/17: 5

Massive Social Problem

We're seeing this addiction epidemic at a scary level today and it seems to impact everyone in some way. I'm guessing most families have someone who is struggling with addiction of some form or another. Our family has had two people who over the years have struggled with addiction and luckily they're still alive and well. We see so often super sad stories about people dying very young because of overdoses, even in the small community where we live there are far too many instances of this happening imagine how bad it is in a big city?

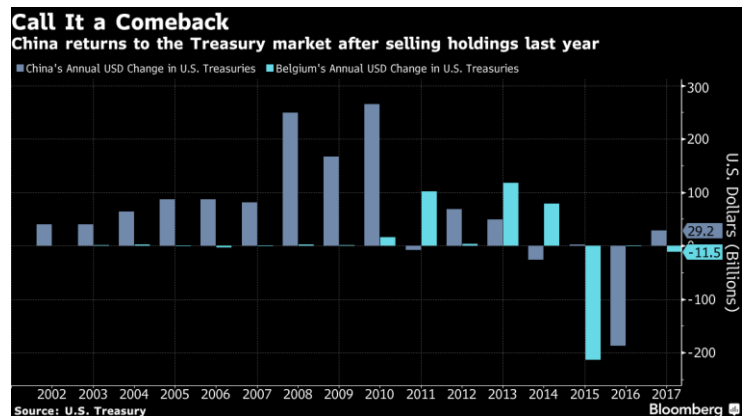
There is no easy answer to this problem, the substances people choose to abuse are many and the sad reality is, they're all so easy to get. We're seeing an industry pop up to deal with this epidemic as states are pushing the needs to the private sector, which will be a more efficient solution.

Just this week we have another sad passing of a young soul to the grips of addiction. Our prayers go out to all of those struggling with this, including the family members who often enable the cycle. Hopefully relief will come at some point soon.



We always hear commentary about how the Chinese people own us because they own "all" of our bonds. Of course this is just people talking and it's also interesting to see how the interrelationship between various assets and talking heads interact. The notion that they own us is simply ludicrous but it's also a great note of approval in that they're comfortable enough with America that they want to own our bonds. It's not just China, most Central Banks around the globe buy our bonds as they're viewed as the safest asset in the world.

I wouldn't necessarily agree with that view as our debt levels have gone crazy in recent years some emerging market bonds are safer now but current perception is we're the cat's meow when it comes to safe debt. I love the valuation of many emerging market bonds but the stability of the underlying economy and political systems are the real issue. We're at a point in time where not much matters in terms of valuation as the algorithms have taken over a whole lot of market activity and for the time being, valuations for the most part do not matter. They'll matter a whole lot very soon, but in the interim we'll just watch it all play out.



In a recent interview with Bloomberg, who gives us the above graphic, Chinese authorities have said they view the US treasury market as grossly undervalued. This is an interesting statement and relatively speaking, they're right. If we look at many bonds today trading at very high artificial levels the treasury does look like a bargain in comparison. Interestingly the crowd has been chasing junk bonds to nosebleed levels across the world and the treasury is clearly a lot cheaper than junk, with a whole lot less risk. European junk has never been more expensive as shown by the low yield. If price is above par (typically 1000/bond) then the actual yield will be less than the stated yield. Normal high yield bonds and demand anywhere from 8-15% coupon and today the prices have been pushed so high as investors chase yield. The current yield of Eurozone high yield bonds is under 3% because par value is high. It takes a massive premium to drive an average yield from 9-10% to under 3, this all happening in a time when corporate bankruptcies are on the rise. Watch out below in high yield!

Inspirational Quotes

- Action speaks louder than words but not nearly as often, Mark Twain
- Either you run the day or the day runs you, Jim Rohn
- The way to get started is to quit talking and begin doing, Walt Disney
- It always seems impossible until it's done, Nelson Mandela
- A river cuts through rock, not because of its power, but because of its persistence, Jim Watkins
- Excellence is more fun than mediocrity, Leonard Barry
- It is a rough road that leads to the heights of greatness, Seneca
- We need men who can dream of things that never were, John F. Kennedy



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

Kids Korner

I had a wonderful conversation this morning with a teacher and she expressed how our society is coddling the children who then don't have an opportunity to make many of their own decisions anymore. She sees that kids are always made to feel good and nothing they can possibly do is wrong or bad in any way, they're always a winner and society must never hurt their feelings. Now as the kids move through life they have this mentality that the world must accommodate their every whim, which as we all know is a far cry from reality and how the world works once you're out and about in the workforce as an adult.

Next the conversation went to colleges and their idea of furthering this mentality complete with safe spaces and not challenging the kids and their thoughts. We both sighed in amazement and disbelief thinking that college was where you went to be challenged and surrounded by smart folks who will make you think and grow as a person, not simply reinforce what you know, right or wrong?

It's going to be up to us as parents and grandparents to put the proper values into our kids young so that when they graduate from school and hit the real world they're not shocked into a nervous breakdown with the reality of it all. It makes sense to start trying to get education back to reality in terms of calling a spade a spade and putting an end to this coddling of the kids nonsense.

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

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