

Housing and Autos

These are two massive sectors in our economy and prices of both are very high today. We always advocate looking to buy things at the best possible prices and now isn't the time for the best prices in either sector. Some deals can be had in certain areas, foreclosures are everywhere and they're mostly good deals if you're capable of fixing it up, building new is top dollar and autos are just out of this world price wise. The easy financing that's been going on for so long has pushed prices back to ultra-high levels. We're confident these prices will not last, so if you're in the market and can be patient, there will likely be much better days to buy big ticket items in the not too distant future. We look to the FRED system, the St. Louis Federal Reserve has a wonderful computer system where anyone can go in and generate reports or graphs on a plethora of data that is kept in the system. We just ran the housing stats data for new privately owned units and we can see they've gone negative again. The trend here over the past 5 years is clearly a downward one, yet prices keep going up, sounds illogical on the surface.



Demand for housing is strong, the supply of nice homes is stable but not huge and many folks don't want to go after the homes that are true values, those needing a lot of work or having legal issues surrounding them. The people today want to buy a beautiful, move in condition home, and for those homes they're paying top dollar. There is a very strong market for

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Under the Covers

Markets have been shaky for the month of August and from now until year end is the weakest time of year for markets. Ironically, years ending with 7 are traditionally also very weak for equity markets. We're seeing markets relatively close to all-time highs, but when we look under the covers we're seeing far more stocks at or near all-time lows than at their highs. What this tells us who are looking closely is that the market is being supported by fewer and fewer stocks and once the big popular ones start to give it up, the bull will slowly turn into a bear. This is textbook market cycle tops. Look below as the Bloomberg terminal shows the number of stocks trading below the 50 day moving average. It is where it was in September of 2016, yet the stock market is substantially higher. This massive divergence will not last, the question is does the market come down to meet the average or do many stocks suddenly wake up to catch up with the indices in general.



Showing it a tad differently, the number of new highs lower than the number of new lows, we haven't seen this since 1999.



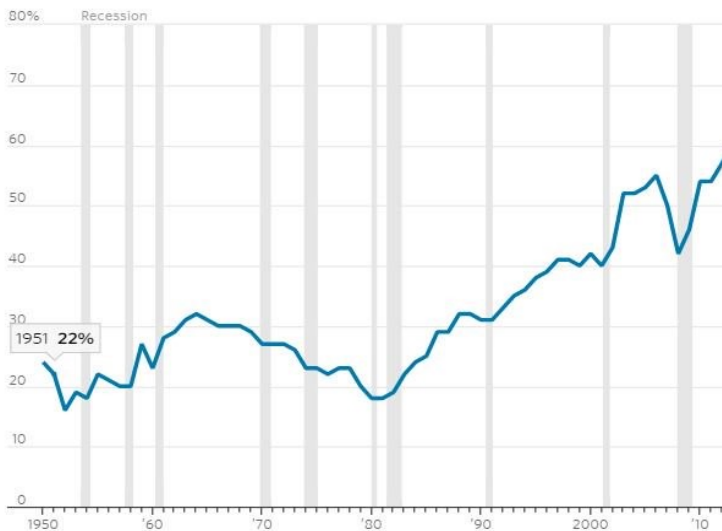
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Housing & Autos (cont'd from page 1)

average to lower end homes but the high end of housing is very slow and the prices are not stable. We've got a handful of people trying to sell beautiful homes now, and they're not having a ton of success. They need to be very flexible price wise in order to make a deal. The high end market is not a sellers' market, it is a buyers' market. People often ask why it's so expensive to build and the answer is twofold, first the regulations are a lot more strict and demanding today which force a lot of additional work, studies and reports and secondly the prices of materials are out of this world. The mark ups for products today have gone haywire in recent years, this is across many industries but is particularly evident in the building trades. The attached chart shows just how far mark ups have gone over time.

More Power to Them

The 'markup' that companies can charge over their marginal cost has risen steadily, potentially a sign of declining competitive forces that keep prices in check.



Source: Jan De Loecker, Jan Eeckhout, National Bureau of Economic Research

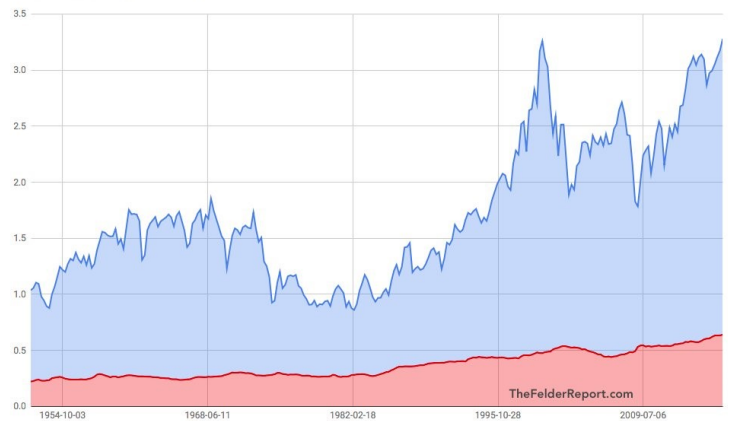
Now onto autos and the chart below from Bloomberg shows us that auto inventories are on the rise and this trend has been in place since early 2010. The big hurricane may help alleviate some of the short term pressure on the auto inventory problem as it has probably destroyed hundreds of thousands of cars. It is important to pay close attention to this trend. If you're interested in seeing some crazy pictures of just how bad the inventory problem is, look online for "Auto channel stuffing" and just let the pictures do the talking!



Valuation Smaluation

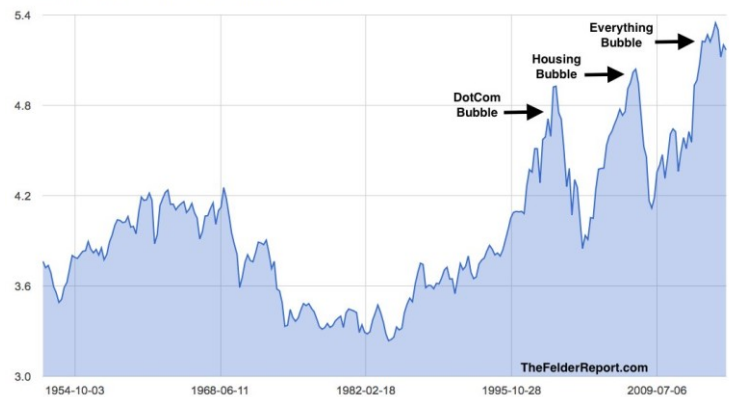
We've been talking about valuations for some time lately and apparently nobody is listening. Markets today are as overvalued as they have ever been, period. Worse than they were in 2007, 1999, 1987, 1964, 1957 & 1929. We're in the who's who of horrible times to be a value investor worldwide today. It is interesting to see the wide spread nature of the values today. In prior bubbles specific assets were out of hand but many things were normal, this time around we see just about everything at or near all-time highs. The big exceptions to this would be metals, commodities, VIX, energy and retail, some of which have just recently become lower priced. Our friend Jessie Felder has recently come up with the graphic below showing the overall valuation of equities today in blue against the overall levels of debt today in red. We see all-time highs in valuations while we're also seeing all-time highs in debts. Folks, the two exact same ingredients we saw in 2007 are here again, but now at higher levels, much higher levels.

Debt/GVA (red) and Equity/GVA (blue)



He's also come up with the below, asking "What is the prudent investor to do" during an everything bubble? We've been asking this question for some time now and since buying things at all time highs is working, people will continue to do it until it no longer works.

Household Financial Assets Relative To Disposable Income



Noteworthy News!!!

- Congratulations to Keith Wilcox on his new position with Pfahl's Mack & Antique Truck Restoration! 😊
- Congratulations to Stephanie Bissonnette on her new position with Boston Medical Center! 😊

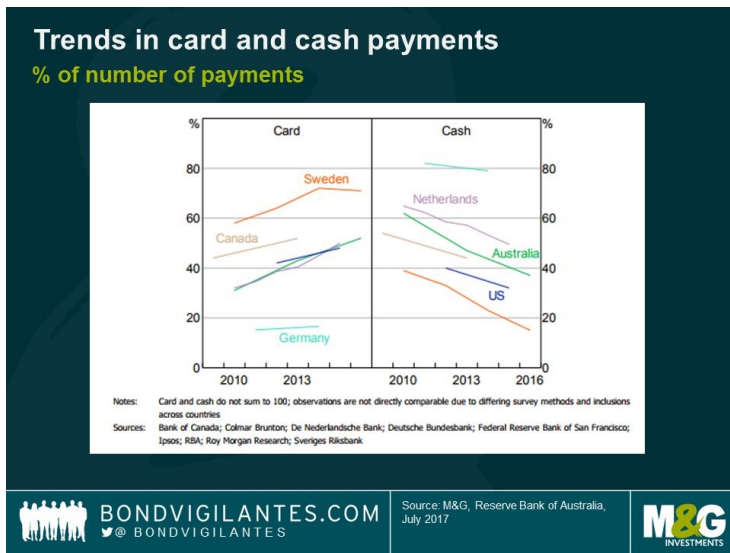
Question & Answer

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

Q: How is the government going to do away with cash?

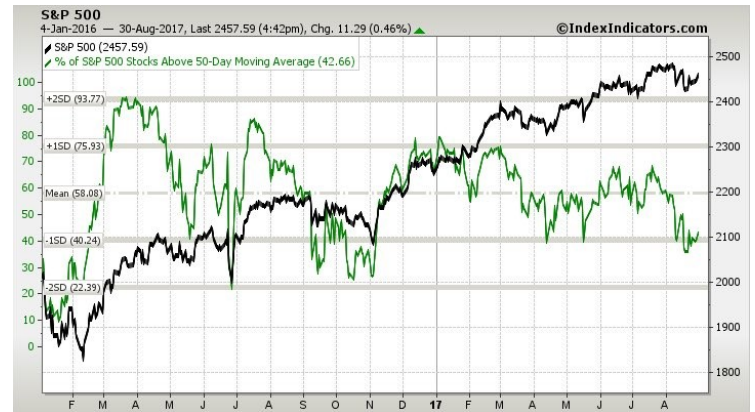
I don't think all governments are going to do away with cash, which seems to be a phenomenon that only India has embraced. There is a lot of talk about it, but I don't see anyone else aggressively pursuing that. The governments want to tax everything so in a cashless society they'd have a lot more to tax. That's a hard thing to do, we'll see how that plays out in the global landscape.

It appears to be a convenience factor that people are just moving towards plastic – ATMS or credit cards are just easy and they keep records for you so at the end of the month you know exactly where you spent your money and how much. Here are the trends of cash and plastic as provided by our friends at bond vigilantes.



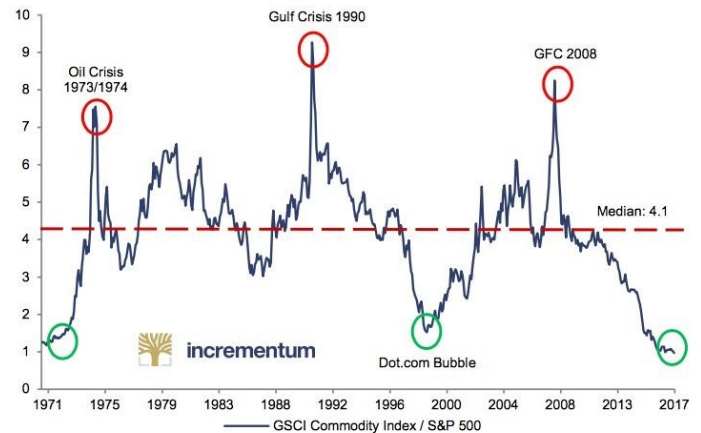
The trend across the globe is clearly less and less cash and more and more plastic. Why not, it's so much easier and there is less risk, the plastic is protected. Unless you're trying to skirt Big Brother there is nothing to worry about. Sweden seems to be leading the charge here and we're surprisingly in the middle of the pack. Germany isn't a fan of plastic, the trend is slowly moving in that direction but only for a very small portion of the country, less than 20% of Germans! Surprising to see such a difference in the various parts of Europe. 😊

Let's not settle just on the Bloomberg terminal for the data, we're going to cross reference this information with the data from stockcharts.com as provided here by Indexindicators. We're seeing the exact same thing, markets within a few percentage points of their highs but the number of stocks below their respective 50 day average just falling out of bed.



Now for some time we've been talking about what is truly a value today and we've kept shouting from the rooftops that commodities are cheap, super cheap, in fact they're as cheap as ever relative to equities.

GSCI/S&P500 ratio: equities expensive, commodities cheap?



People wonder why we'd rather buy something ultra-cheap today and wait patiently over chasing the lunacy of equity markets at all-time highs and this chart above from our friends at Incrementum shows quite well where we sit today, in a place that doesn't come too often. People don't think much about wheat, corn, coffee, soybeans, natural gas, oil, gold, metals and the other commodities as investments but as a deep value investor, these are the things that make us feel great knowing we can buy these assets at values we haven't seen in almost 20 years. After things reach these levels, it's generally pretty good news for the patient investor who was willing to buy. 😊

Money Quiz

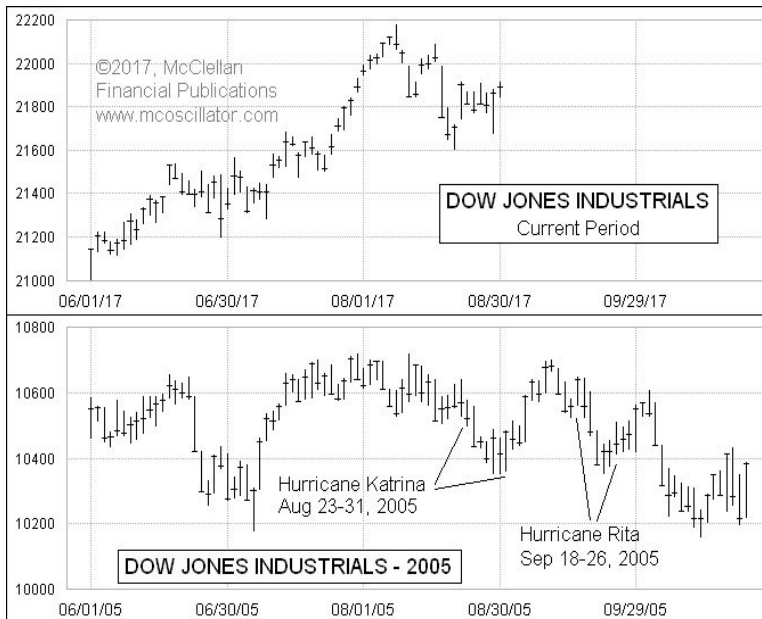


This month's challenge is on home ownership and staying put. In 2007 people age 55+ owned and occupied 43% of all homes in America. What percentage of homes does that group own and occupy today? Last month's quiz was wasn't won! ☹️ Sadly the answer is 67% of Americans working in the private sector do not have long term disability! Dangerous game! Winner goes to Ruby Tuesday on us! 07/28/17:10

Hurricane Harvey

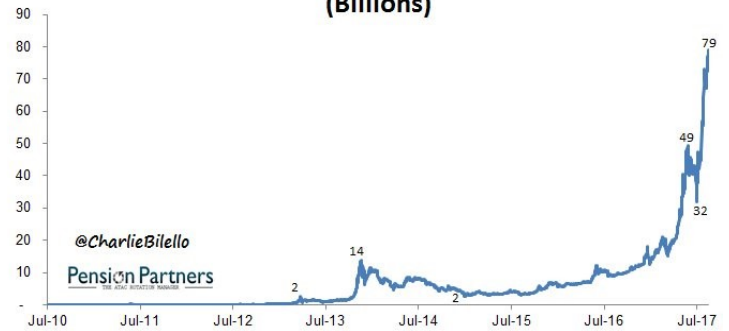
Our prayers go out to all of our friends in TX and in the area who were just devastated by the Tropical Depression or Hurricane now so commonly known as Harvey. It has made a complete train wreck of the area and millions have lost their lives, work, and possessions. As long as they're well, the rest can be replaced and we'll do all we can to help them.

The question has been asked how do markets typically behave around this type of natural disaster. Our friend Tom McClellan just happened to put this piece out on the comparison of markets today after Harvey against what they did just after Katrina and Rita. This is interesting, it appears markets spell a sigh of relief just after the event, but tend to have a tougher time once things settle down a short while later. This time will be interesting to see how it actually plays out, prices were much lower coming into 2005 during the last 2 big natural disasters.



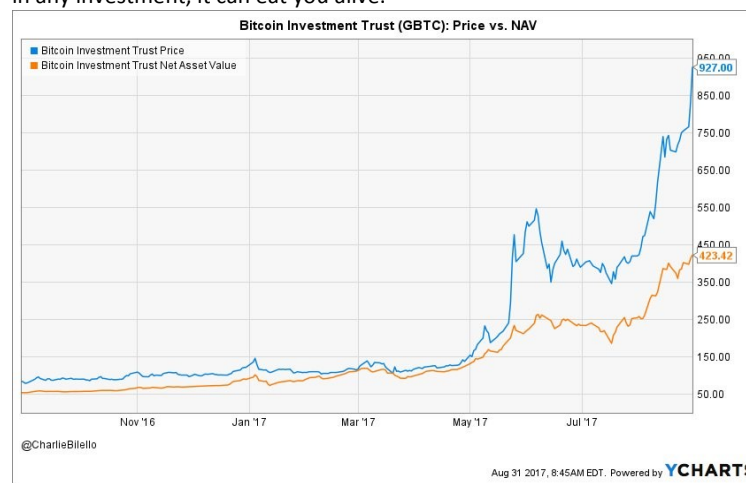
There is a steady growing concern over debt levels of governments throughout the world. They've been printing money for almost 10 years now with virtually no end in sight. The fear of currencies becoming fiat currencies is real for many places and has caused investors to flock to cryptocurrencies. The largest of which is Bitcoin, look at the virtually sheer vertical ascent of prices in the past few years.

Bitcoin Market Cap (Billions)



We agree with the basic premise behind having alternate forms of currencies that the government cannot manipulate but this may be a bit excessive here in terms of the sheer magnitude of the move. We've been expecting an issue with this for some time and have expected the metals and miners to be the true long term beneficiaries of this fiscal insanity. It's now possible things have gone a bit mad in the crypto currency world and if there is ever a flee from this area it'll make the metals that much more valuable.

As we see below, the mania portion of this move is that the prices of the investment as compared to the net asset value of the underlying assets is now over 100% off. This is the emotional part of the process, the move upwards is fine and justified, but the 100%+ premium to the net asset value certainly isn't. Watch out for this type of discrepancy in any investment, it can eat you alive.



Thanks to our friends at Pension Partners for the charts! ☺️

Inspirational Quotes

- Your life does not get better by chance, it gets better by change, Jim Rohn
- All great achievements have one thing in common – people with a passion to succeed – Pat Cash
- A friend is someone who knows all about you and still loves you, Elbert Hubbard
- There is only one person that could ever make you happy and that person is you, David Burns
- The words that enlighten the 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 things as we are, Anais Nin



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

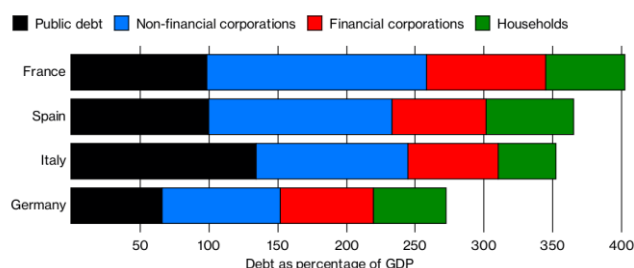
Kids Korner

As the kids are on the tear researching colleges they're being exposed to all sorts of things. Hannah spent part of her summer taking college classes (This is not my child, at 17 I only cared about baseball, girls and fast cars) and she was in classes with kids from all around the world, sharing stories of how each place does things.

Part of the conversation turned into bills and debts and since the Europeans all have the same mentality when looking at economics, the debt per country as a % of total GDP came up. After hearing this I couldn't help myself so I ran right to the computer to see what I could dig up. Here is an eye opening piece I shared with the kids on France.

French Makeup

France's total debt is a little more than four times its GDP



Data: Bloomberg calculations on ECB, Eurostat data; graphic by Bloomberg Businessweek

We live simply and below our means and this clearly illustrates that our wonderful friends across the pond are quite happy to have debt levels anywhere from 270 – 400% of their countries gross GDP. Priceless for the youth to see and understand.

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!

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