

## Junk Mail

We're all able to opt out of junk mail today in our postal mailboxes, on our doorsteps, or at the end of our driveways. What about the digital junk mail we have to see every day on our computers, cell phones, tablets and everywhere else we look online for everything we do in the digital world? We're in an era where some big firms that appear to be tech companies are perhaps simply junk mail empires in disguise. We've been watching this drama unfold and in so many ways we've been given free things by companies trying to lure us to their platforms so they have millions of users on the platform. Once the platform is popular and addictive in many cases, they then throw the users to the ad wolves and inundate them with electronic noise, what I'm going to call digital junk mail.

The laws are behind the times; laws written for an industrialized nation are working hard to catch up to digital worlds and tools. Getting our identity stolen is a nightmare and tracking down the bad guys is difficult if not impossible as they can be hiding anywhere on the globe and are masters of the computer and internet.

Sentiment is slowly changing about these "free services" and people are becoming more savvy about what is really happening here: they're selling their identity souls to be marketed to on a very granular level. The academic world also seems to be slowly coming around and seeing the spade for what the spade is. We're seeing medicine come on board as well and now they're starting to place clinical diagnoses on gadgets and online applications.

Gadgets we place in our home that seem cool like Alexa or the like have many wonderful benefits. Most people do not realize that these devices listen to every spoken word in their homes, record them all, and then simply feed the data back to Amazon so they know what to market to the family. It's truly a brilliant scheme, although a slimy one simultaneously.

We use outlook internally for our email but I was watching someone use gmail and as popular as it is, that thing really is nothing more than one massive billboard on your computer in your home.

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## That Peaceful Easy Feeling

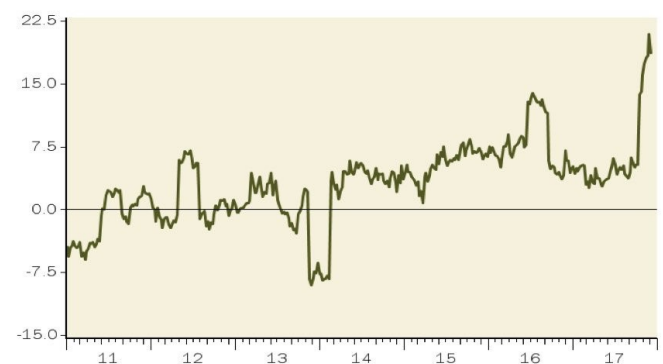
People are feeling peaceful today from a financial perspective. We're in what I call the eye of the storm today. The big scare in 08 made people think twice, but now all appears well on the Western Front. If you're really paying attention you know that is a fallacy and we'll share with you some charts to show what we're seeing and why we're cautious today. We're far more interested in managing risk in this environment than trying to knock the cover off the ball.

The consumer is buried in debt:

**CHART 10: CONSUMER LOANS: CREDIT CARDS**

United States

(13-week annualized percent change)



Source: Haver Analytics, Gluskin Sheff

People are behaving foolishly, at high prices:



This shows the net speculators' positions in equity index futures, note people don't buy at low prices but love to buy at high prices. I'll never understand this!

Continued on page 3, Peaceful Easy Feeling

The portions of the screen devoted to ads are mind-bending. When you're like me, and you don't partake in much of the "free" tech driven ad world, when you're exposed to it it is truly a breathtaking experience.

Competition is limited in the digital and ad space because just a few firms own it. They hold it hostage and it's not simply a matter of a monopoly, a duopoly or any otheropoly, it's a matter of people paying for things with their data and identity and not even knowing it. A new set of regulations or a breakup is coming down the line. The barriers to entry into this market are simply impossible to overcome with the structure of the current system. This isn't unlike anything monopolistic we've seen in the past; the same situation applies but just in a different business, one that didn't exist decades or centuries ago.

When you get a load of nonsense in your postal box (that is not unlike getting hit with email blasts, online ads or social media ads or suggestions), they're all doing the same thing, which is gathering data on you about your habits, likes, and personality and selling them to the highest bidder.

These tools that have been developed are wonderful things; they've changed the world in many ways and make our lives better in countless ways, but the ways some of them are being used are now in the crosshairs of many who have simply accepted them for decades. It's going to be very interesting to see how this drama plays out and how the game may change from a regulatory perspective.

I use an ad-blocker on my browser and any sites that do not allow you to browse them without the pop up blocker disabled I simply never go to. After viewing what my kids see as they surf the internet I was again blown away at just how full of trash the web has become. My girls were emailing their friends about prom dresses over the weekend and later we were having a talk on colleges (of course we were, with a 16 & 17 year old in the house, college has been the most talked about thing in our household over the past year or so). I was called over to their computers to read something and I was blown away: the top of the screen and both sides of the screen were littered with ads about prom dresses. I thought to myself, "holy cow this is invasive". I showed them the pop-up blockers and they've now seen the internet filtered, without ads. It's priceless and as I thought about it later on, I realized the brilliance in the model. Not only is it perfectly accurate but the speed in which it works is mind-bending. Not only did they see ads about prom dresses, but they were pointed towards places right down the road as well as online superstores.

Here is how we work daily to try and minimize our exposure to this:

- Only browse with the pop-up blocker on
- If the site will not allow it, simply find another site
- No "freeware" installed on our computers, we don't use freeware we own all of our tools and they're installed on the computers in house
- No social media usage. We do have social media accounts to educate the public on finances, but we never post what we're looking for so there is nothing to market to

The US Chamber of Commerce does an annual survey on the best places to have a startup company. It's very interesting how the economy is now embracing startups, as "entrepreneurs" are the new wave of people who are going to fix many of our problems. I agree with this and if we can just make things easier from an administrative and regulatory perspective, much more will happen in this arena.

Here is the list of the top 10 areas for Innovation! 😊

10 – Portland, Oregon

9 – New York City

8 – Seattle, Washington

7 – Dallas, Texas

6 – Atlanta, Georgia

5 – Austin, Texas

4 – San Diego, California

3 – Philadelphia, Pennsylvania

2 – San Francisco, California

1 – Boston, Massachusetts

Many factors go into determining which place is the best for startups and innovation. The people are the main ingredient and information is also a key ingredient, so it's no surprise that in each area you tend to see a very educated workforce and a plethora of capital and great universities. That is a great recipe for success: smart folks, cash and great learning institutions. Note these are not the only places and there are options outside of the coasts and Texas. Here are more great cities that are stoking the startup fire:

- Boulder, Colorado
- Provo, Utah
- Denver, Colorado,
- Chicago, Illinois,
- Phoenix, Arizona
- Columbus, Ohio
- Nashville, Tennessee
- Kansas City, Missouri,
- Charlotte, North Carolina

These are forward looking places, the notion that doing the same old thing will solve our current problems isn't going to work. Many of these little game-changers today will become the dynasties of tomorrow. Startups today, one day maybe the next generation of corporate giants!

# Noteworthy News!!!

- Congratulations to Jim & Marie Broderick on their retirement to sunny and warm Tennessee! ☺
- Our condolences to the Bengston/Forchette family on the passing of Ernest L Bengston Jr, a wonderful man, husband, father, uncle, brother, grandfather, great grandfather and friend!
- Congratulations to Jay Fredlund on his recent retirement! ☺
- Congratulations to the Kloppenburg family on their recent retirement to Sunny and warm Florida! ☺
- Congratulations to Cynthia Masters on her recent retirement! ☺

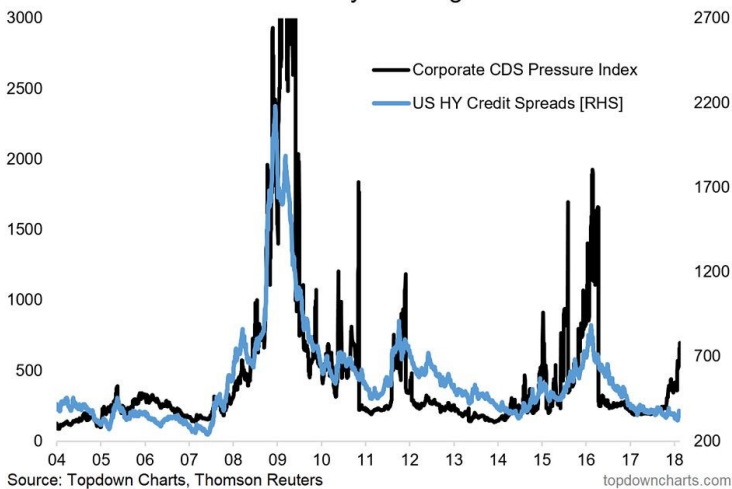
## Question & Answer

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

*Q: What are credit spreads and high yield spreads telling us about markets?*

This is a very keen observation, one that the general public pays zero attention to but we watch religiously. This metric tells us how the insurance side of the financial business is pricing risk, and understand that for the past few years risk has been mispriced by cavernous amounts.

A Potential Early Warning Indicator



Thanks to our friends at Thomson Reuters & Topdown charts for the chart!

The risk premiums paid by credit default swap buyers are going up substantially, just as they did in 07, 11 and 16 just prior to significant stock market action that ruffled a lot of feathers. The last few bumpy areas were at much lower asset prices so hold on tight, once this ride starts it has the power to be very extreme because prices are so much higher this time around the block.

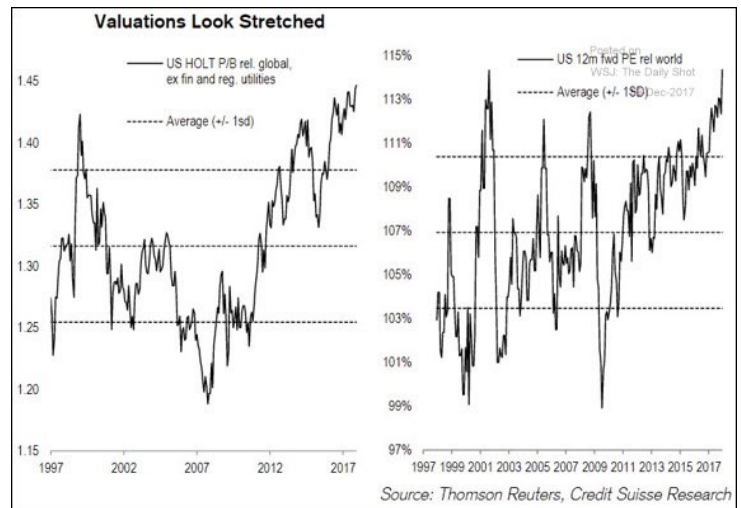
As a quick refresher CDS or credit default swaps are essentially insurance policies on the bankruptcy of fiscal failure of an entity such as a company, state or country. High yield bonds are junk bonds and the higher the yields go the more bond prices have fallen. High yield prices are at historic highs, many high yield bonds today yield 3-4%, which is what government bonds normally yield. 10 years of printing money has distorted the entire financial market complex, this period of complacency will end soon and end violently.

# Peaceful Easy Feeling (cont'd from page 1)

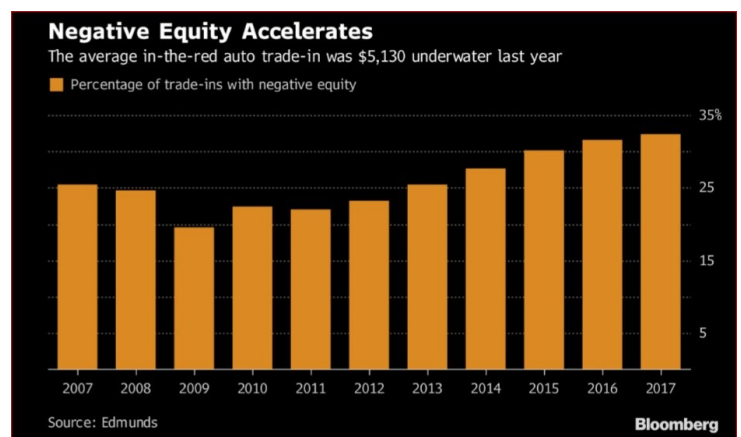
Loan delinquencies are on the rise:



Prices are higher than ever before, even higher than 29, 87, 99 & 07 now on a price/book metric.



Cars are worth less than the loans on them.



What could possibly go wrong?

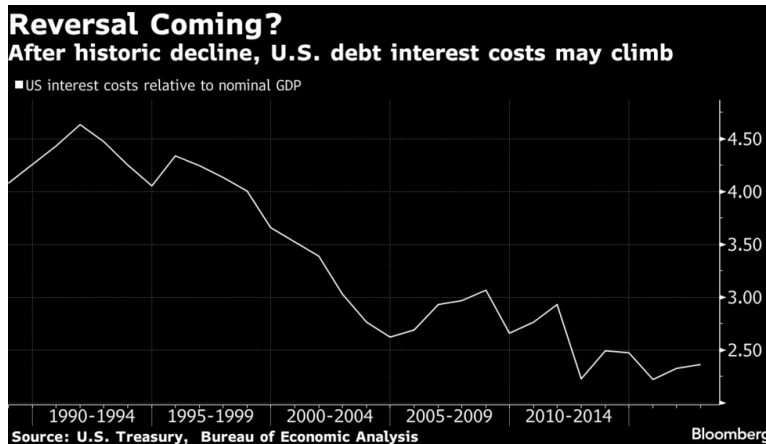
## Money Quiz



This month's challenge is on debt: what do the 4 largest retail banks in the country write off in credit card debt in 2017? As a side note, there are more open cards in America than there are people in the country, 488 million cards for 326 million people. Last month's quiz was won by Filomena Delanti, 17% of our 326 million people account for 29% of our national spending on prescription drugs! Winner goes to Ruby Tuesday on us! 01/29/18: 10

## Goldman Rate Forecast

The supposedly smartest guys in the room at Goldman Sachs have projected rates going up from here. It's been a long time since rates have risen substantially and we're talking a good 10 years +. We haven't seen what I would refer to as high rates in decades as the easy money era has pushed rates into negative territory in many parts of the world. Here is a look at the costs of US debt from the US Treasury and the Bureau of Economic Analysis:



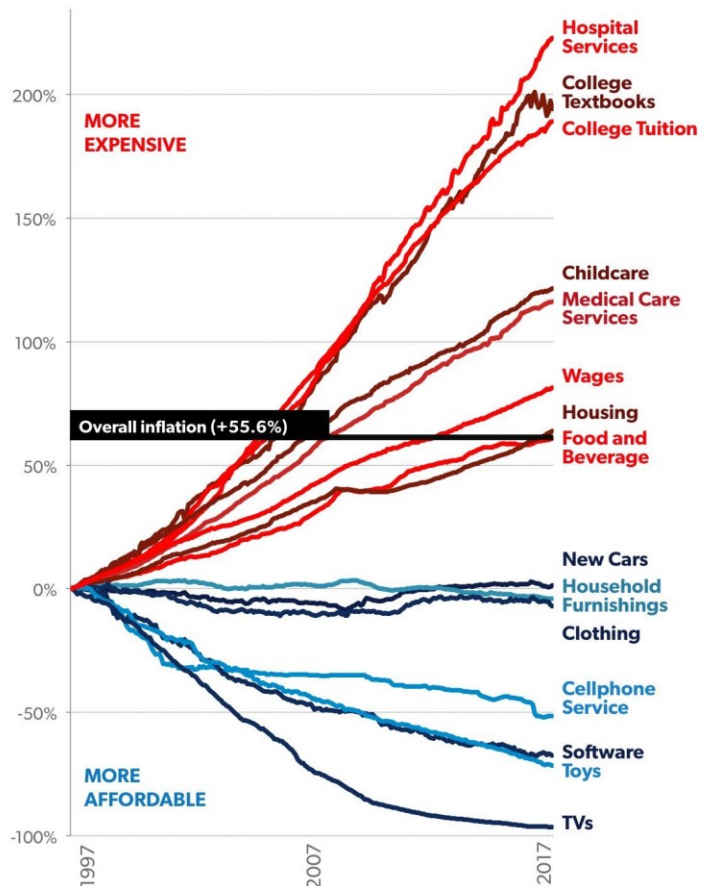
"Federal Fiscal Policy is entering uncharted territory" is what their most recent note to clients read. The Goldman guys are talking about how, in normal times, the economy is strengthening and in times of debt, burden increases and then Congress responds by raising taxes and paying down the debt. This time around has been very odd in that as the economy has done supposedly well, yet the government has continued to increase debt and spend recklessly. We're in a new ERA of how to deal with fiscal policy and as the debt burden rises, it'll become a larger and larger budget issue each and every year. Part of the theory many have is the rates have been kept artificially low to allow for massive government spending, but few have asked questions about how are we going to pay the Piper when he comes looking. Nobody has any answers but we remain cautious. The 30-year bond bonanza we've seen may be followed by a period of bonds performing very poorly because they've been pushed up so artificially high by low rates. As it unfolds, it will not end very well, it never does but we'll keep you ahead of this curve.

## Inflation Implosion & Explosion

Last month we discussed how the price of an education has gone vertical in the past few decades. Other areas where we've seen massive inflation are medical care, hospital services, textbooks, etc. We see massive inflation in areas where there is massive government intervention. On the flipside, many areas are actually a lot more affordable today than they were decades ago, most notably the cost of big flat screen TV's has come way down over the last few decades. The chart speaks for itself! ☺

## Price changes (Jan. 1997–Dec. 2017)

Selected US Consumer Goods and Services, and Wages



Source: BLS

Carpe Diem **AEI**

Interesting to see how many things fall in the middle of the graph with no real inflated value. Wages have done far better than most would think with all of the talk lately about how people are not getting paid more. Inflation is a slow, silent and deadly financial tool; most of us don't feel it day-to-day unless of course we live in Venezuela, where it's rolling along at triple-digits every year. A quick look into history shows inflation to be a normally well-contained item in most times in democratic societies. It is painful and poorly controlled in socialist regimes. College kids pay attention to this! Call to discuss this anytime!

## Inspirational Quotes

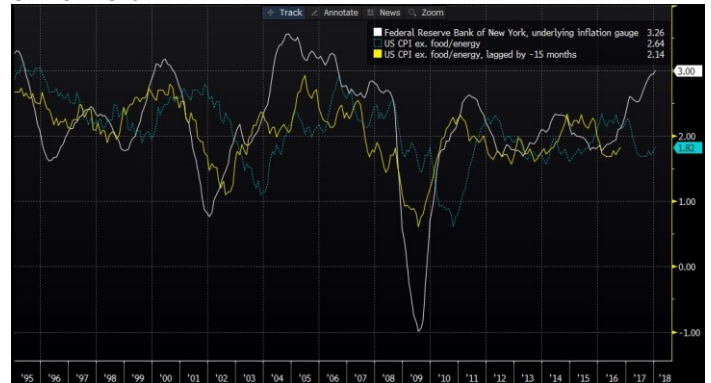
- The worlds most influential economic mentor is neither Keynes nor Hayek, but Charles Ponzi, Tim Morgan (Global gov'ts of today)
- Making good decisions is a crucial skill at every level, Peter Drucker
- If we do not plant knowledge when young, it will give us no shade when we are old, Lord Chesterfield
- We make our own fortunes and call them fate, Benjamin Disraeli
- In the midst of movement and chaos, keep stillness inside of you, Deepak Chopra
- Too many of us are not living our dreams because we are living our fears, Les Brown
- Good people do not need laws to tell them to act responsibly, Plato
- To see what is right and not to do it is want of courage, Confucius
- Educating the mind without educating the heart is no education at all, Aristotle



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

## Kids Corner

If the kids knew now what we know now their lives would be a lot easier. I'm a bit nutty with data (as we all know), but teaching them about inflation is truly important. I talked to the girls about how MIT tuition was 4k in 1971 and 75k today and it blew them away. Now when we look at the shorter side of that inflation equation, we need them to understand we have almost an "advance notice" inflation gauge. This gauge is the Federal Reserve Bank of New York underlying inflation gauge; it tends to lead traditional inflation by 15 months. This information is priceless and lets us know we want to be in a position to take advantage of those assets that do well in an inflationary environment.



The 17-year-old knew to look to go Gold and precious metals to hedge against inflation. Nothing makes me happier than kids who learn and listen so we get some confirmation we're not always ignored! 😊

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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## Mike Chadwick’s Money Matters

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