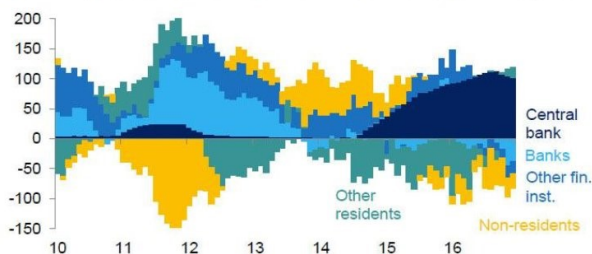


## Bonds and Bullion

We've been talking about these two items for some time. The bond markets are incorrectly pricing in risk on many levels today. Rates are finally going up here and in some other places, but they're also negative in places as well. Some places are in real trouble and the cracks are starting to show. As much as it kills me to say it, Italy, my country of heritage, is a financial train wreck. For the past few years the main buyer of Italian government bonds has been the ECB, the European Central Bank. That process has afforded a very low rate for Italy to continue its fiscal malfeasance. Sad to say, but I think the clowns running Connecticut are taking lessons from them financially. Look at this graphic on who has been buying the Italian bonds over the years and the recent slowdown on central bank purchases.

As a reminder, the ECB has been the only buyer of Italian bonds in recent years.

Figure 1. Changes in holdings of Italian gov't securities by investor type, 12m rolling, €bn



Source: Citi Research, Haver.

As bond prices fall the yields go up, that is the math of the process and we're seeing the yields on the short term Italian government bond really shoot up lately. The move is very large compared to other moves and it is likely the canary in the coal mine for us geeks who really pay attention to financial measures. The past 10 years or so have been financially unhinged as the backing of every type of financial asset in the world has caused risk to price incorrectly. What we're seeing here is a sudden move in the very beginning stages of correctly pricing risk.

Continued on page 2, Bonds and Bullion

### INSIDE THIS ISSUE

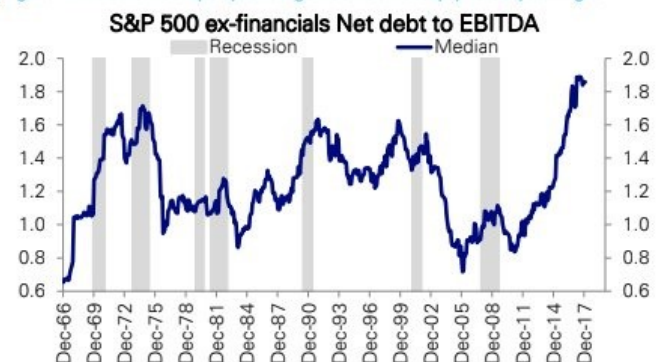
2. Bonds & Bullion; Buying Your Location!
3. Noteworthy News; ? & Answer; What Could Go Wrong
4. \$ Quiz; Job Opening; Phones & Fidgeting
5. Inspirational Quotes; Kids Korner

## What could go wrong?

We are captain conservative investors of course today amidst this asset bubble and we'll always be contrarians, it's our nature. Being conservative doesn't mean we cannot make money, we just want low risk opportunities to make money and we're not in the business of gambling. Aggressive investors can do well when things are going well and can get absolutely murdered when things go badly. We're not going to do as well as the aggressive folks when things are roaring ahead as they have been in the past few years, but we're also not taking anywhere near the amount of risk the average person is so the tradeoff is well worth it. We're protected and can be quite profitable when the tumultuous times inevitably come.

We've been talking about debt for some time and here is a wonderful graphic from Deutsche Bank that shows just how leveraged companies are today in comparison to the last 50 years.

Figure 12: Median company leverage has risen sharply to 50 year highs

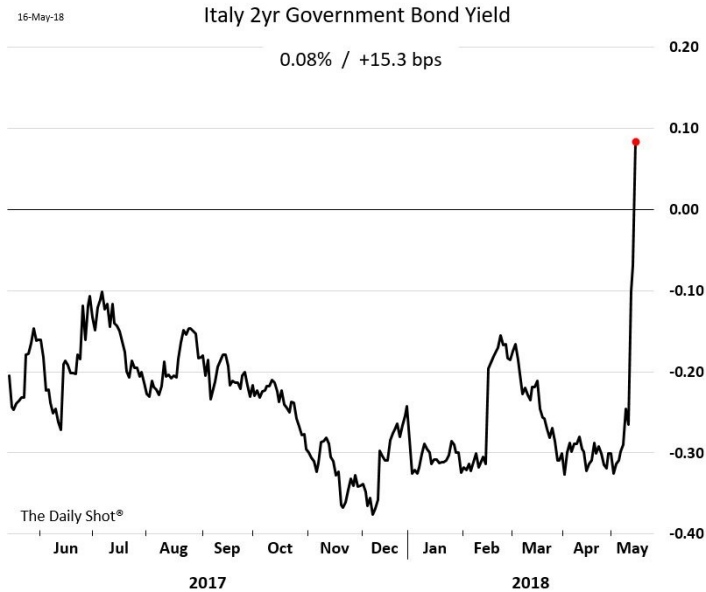


Source: Compustat, Deutsche Bank

We love data and we've got a lot of it to share with you. We quietly watch the on goings of the world and make the appropriate changes as time unfolds. We used to be a big fan of the Oracle of Omaha but in the past decade he's gotten away from a lot of his own teachings. We use the tools he published over the years as "this time is never different." Many of pundits will tell you it is but it never is. Let's look at valuations, our favorite tool to measure if the assets we are going to consider buying are worth it or not. This is just like shopping folks, when you go out in the world to buy gas, groceries, cars, homes, coffee or whatever it is you're buying you compare prices to what else is out there and then make your purchase

Continued on page 3, What could go wrong?

This is the graphic of the bond yields in Italy thanks to the Daily Shot.



Yields went from negative to slightly positive in a very short period of time in the past few weeks. This is a normalization of risk pricing just beginning. Look for this trend to continue for some time, Italy is such a financial mess they never should have these ultra low rates but supposedly the central bank bond buying bonanza for the last decade has artificially pushed prices up and risk down. It certainly pushed prices up but it actually pushed risk up as well and people are not recognizing that just yet as the general population feels that when prices are high and things look good risk is low. The opposite is true, risk is low only when prices are low and risk is high when prices are high by definition.

On to bullion – we’ve been very excited about the metals for some time and commodities in general. We love long term macro trends and low risk opportunities, this situation today with the metals and commodities at cycle lows and the general stock markets at cycle highs represent a fat pitch opportunity that we do not see every day, every year or even every decade. This is juicy folks, the financial engineering of the past decade is coming to a close and in the end, real value must come from earnings and not a political promise or an artificially suppressed rate or currency. As this cycle comes to completion we see the commodities, natural resources and metals as the big winner in the next cycle. We never know exactly when the top or bottom is so that is why we initially buy very small quantities of what is attractive. We’ve been slowly accumulating the commodities over the past few years and as they truly begin to turn the corner we want more exposure to the sector. The bubble we’re in today is so large it is hard to see as it is just about everywhere. As this cycle completes itself we’ll see very clearly just how out of hand things have become.

The big 4 US cell phone companies are now selling your real time location via your cell phone. AT&T, Verizon, T-Mobile and Sprint will now pay to the highest bidder where you are at any time. This is also going on with Canadian networks as well. We’ve mentioned privacy in past issues and noted mostly the social media sites and search engines of the world, but now the spillover is flowing right into the cell phone giants.

The company behind the curtain is one you’ve likely never heard of, Securus, a prison technology company that has the ability to track any phone at any time within seconds by using data obtained from the countries cell phone giants. This came to light when a former sheriff snooped on phone location data without a warrant which obviously brings up huge privacy concerns. Who has access to this data is the big question I have. Better questions were asked from regulators who in addition to who has access to the data want to know how the cell phone users consented to this monitoring, how the data was obtained and the answers thus far are scary.

Kevin Bankston, director of New America’s Open Technology Institute, explained in a phone call that electronic communications privacy act only restricts the telecom companies from disclosing data to government, not from other companies. This may soon change as many in the political class are justifiably wound up over these discoveries.

Companies that aggregate the cell data to obtain real time cell phone locations claim to have “direct connections” to cell towers in real time. Many companies are in this business and cell giant Verizon is one of many companies who sell access to its vast amount of data on customer location information. They use the same data that is used to enable emergency assistance and it is useful for emergency purposes but the public has a creepy feeling around that data being sold to any company for marketing purposes. A person’s location can be had in as little as 15 seconds and it typically never takes longer than 2 minutes to figure out where someone is on a relatively accurate basis.

Banks are using this data to try and pinpoint where their customer is and cross reference that data to any charges in other locations. That’s a noble thing and it would protect us but what if I’m home in Connecticut and make an online purchase at Lowes which will come through as a charge in Atlanta? Using computers to do everything is a double edged sword, some good points and some bad. I’d hate to have my card turned off because of this type of information being misinterpreted.

Life is very much turning into George Orwell’s novel named 1984, talk about a visionary? Let’s hope the ministry of love he so accurately described/predicted doesn’t derail our way of life as we know it. It seems like things have gone as far overboard as they possibly can on many levels and need to begin to swing back to normalcy at some point.

- Congratulations to Diana DeConti on her new job!
- Congratulations to Chris Murtaugh on his new job!
- Our condolences to the Hawksley/Roberts family on the passing of Clifford, a wonderful man, husband, father, grandfather, uncle, brother and friend.

## Question & Answer

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

*Q: Where is inflation today and can we trust the government published numbers on what the inflation rate currently is?*

Inflation today as published by the BLS (Bureau of Labor Statistics) is 2.5%. This is overall, with specifics of food at 1.4%, energy at 7.9% and energy commodities at 13.7%. The general number of 2.5% is the number always used and when they come out with the CPI official number they've stripped out the food, energy, housing and other costs that are quite substantial that we all pay for every day. Living in society tells us inflation is an issue and the BLS may be trying to be more legitimate lately. They announced earlier this year they're adding a few new categories that will count towards the CPI calculation and those sub indexes are the following:

- Physicians services
- Smartphones
- Used cars and trucks

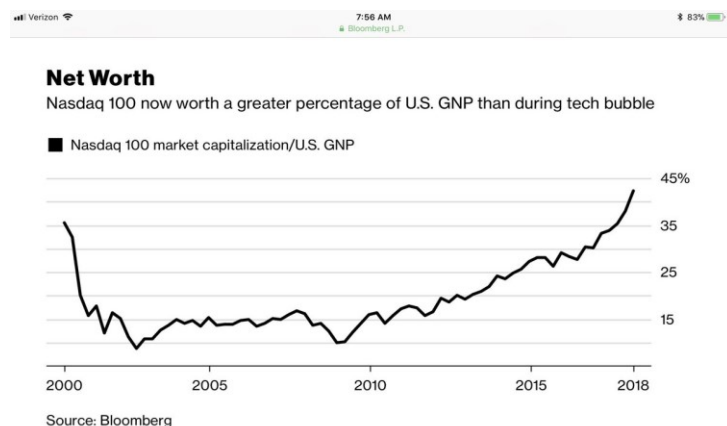
This is a step in the right direction but we're not going to celebrate just yet. The BLS has the sarcastic nickname of the BBS (Bureau of BS Statistics) for a very good reason and until the data starts coming out perfectly in line with the reality you and I live each day we'll take their data with a grain of salt! 😊

Onto something that cannot be manipulated is the data we find in corporate earnings every quarter and in that data we're seeing inflation rear up in many ways. This quarter, more so than any in the past few years has made it obvious just how much inflation is heating up across the board. Pepsi announced and they said across all operating units that cost inflation was the largest detractor from operating margins. Higher raw material costs were to blame in all brands from Frito Lay to Quaker Foods to beverages. Hershey had the same reduction where cost pressures were felt in packaging, wages, freight and logistics. UPS showed the same signs, where costs were with repairs and maintenance, purchased transportation, wages and benefits. Caterpillar had raw material costs along with compensation. You cannot mess with that data, and inflation is about to go on the move, we're positioned well to take full advantage of that move which we've all lived with for a while, now we can profit from it!

decision based on values. We love the words sale, discount, closeout, etc. as they provide us with a value for our hard earned dollar.

We never go to a store and see signs that say "Price Increase" "Markups" "Price Inflation" or any other type of message that shows the merchant is charging more for the good or service that we're after. This notion is comparing one similar class of products, obviously we'll pay more for premium brands or services over the discount variety but when comparing apples to apples we're never going to pay a premium over what is available to us elsewhere.

So now let's put in perspective the price of the top 100 stocks on the NASDAQ compared to the GDP of the country. Our friend the Oracle of Omaha has warned before that when the corporate profits exceed 10% of GDP of the country we're in a danger zone. We can translate the corporate profit number to a Market Cap metric but that is for a white paper not the newsletter.



When 100 companies have the same net worth as half of the countries GDP we need to look back and see how this compares to historical standards. As you can see in 2008 the ratio was about 18%, in 1999 in the midst of the tech bubble it was at 36% so we're in all new territory with the levels today. Transition here is prices are off the charts high and people should be far more worried than they are today. We're seeing more new faces than ever these days and the common theme is people are worried that this just cannot go on with the prices in the stratosphere so they seek advice on how to navigate the future. The past 10 years was easy and for anyone who just bought and held they killed it, the next 10 years will likely be the polar opposite of what the last 10 were so the question is how do you manage it. We know the answer, stick to valuations, don't be married to long term only and look in other places, the traditional asset allocation model will likely be a train wreck for years to come because of the size of the current bubble. 😊

## Money Quiz



This month's challenge is on education, which large public university didn't increase tuition this year? In fact they haven't increased tuition in the last 8 years, impressive. I suspect we'll be seeing this trend sweep the nation in the near future as the student loan bubble pops. Last month's quiz was won by Ken Bradley, 6955 retail stores closed last year, more than in 2008 or 2009, WOW! Winner goes to Ruby Tuesday on us! 04/30/18:14

## We've Moved

There is a lot going on around here at Chadwick Financial Advisors. We've been busy all around, not only serving you and navigating the macroeconomic landscape, but we've relocated one of our offices. The Torrington office has been closed and relocated to Thomaston.

Our new address is 226 South Main Street Thomaston, CT 06787

Our phone remains the same, 860 489 8880. Fax 860 673 5177.

The building in Thomaston is very similar to the one in Torrington, a classy 1900's era home that is converted into an office. Also very similarly, we are on the 1<sup>st</sup> floor and the building is on the corner of Center Street across from the firehouse. Our main entrance door is at the rear door of the building so park either on Center Street or in the parking lot behind the building and enter the building through the rear door across from the garages.

The Torrington office building is one I owned together with a dear friend of mine, John Ciesco, who owns the memorial business located at the same place. I sold my share of the building to John and he now occupies the entire first floor. We wish him well as he forges ahead with new faces.



## Open Position @ CFA

If you know anyone who is looking for a front office position please think about contacting us. The person we're looking for is someone who has great people skills, is highly organized, and detail-orientated. They must be proficient with computers, Microsoft Office & CRM. We know there are plenty of great people locally who are looking for a job and it's just a matter of making the fit. We're looking for another person with high moral character to join our team! ☺

## Phones and Fidgeting!

Recent studies show we never stop touching our phones, even when they're off. This is split across ages, not just our kids but for the adults in the room as well. 30% of men walk down the street with the phone in their hands and 37% of women do the same. When men are talking to women it jumps way down to just 18%, so maybe we should spend more time holding hands than phones?

A recent study published in the MIT Technology Review titled "The Phone Walkers: A study of human dependence on inactive mobile devices" is worth a read and truly hard to believe. The normal question becomes why would we hold our phones if we're not using them? There are 4 possible explanations according to the academics doing the research. The first is we need immediate access to our phones in the event we receive a push notification. This reminds me of the Pavlov's Dogs study, now we're doing it with humans. Does this mean that soon humans will be chasing their newly grown tails in circles in the living rooms across America! ☺ Sorry I couldn't resist, in today's nutty world it just wouldn't surprise me.

The next possible explanation is that we're so dependent upon these devices that we'll have anxiety if we're separated from them. The result of having it in hand could lead to a decrease in tension or anxiety compared to when the phone is stored in a bag or a pocket. I've got a pet peeve about the phones on our person, mine is typically on my desk, in my car or on the windowsill at home, almost never on me and Cup hates it. I'm just not available 24/7 via a phone, old school for sure.

The third explanation is personal safety, people may feel young people have more confidence when facing the potential of a dangerous crime in a public place. People may hold the phones to be ready to make an emergency call, which is fine although I'd suggest if the kids had ample street smarts the clutching of the phone would be completely unnecessary.

Lastly the final possible explanation is simply show, we're out to impress one another with our fancy gadgets and ability to run them and "be important" by talking to people or electronically communicating with them at any hour. We'd all be far more impressed if we spoke to the person next to us and engaged on a human level.

## Inspirational Quotes

- Life lived without forgiveness becomes a prison, William Arthur Ward
- Resentment is like drinking poison and then hoping it will kill your enemies, Nelson Mandela
- The first to apologize is the bravest, the first to forgive is the strongest, the first to forget is the happiest, unknown author
- Now and then it is good to pause in our pursuit of happiness and just be happy, Guillaume Apollinaire
- Appreciation is a wonderful thing, it makes what is excellent in others belong to us as well, Francois Marie Arouet de Voltaire
- The doors we open each day decide the lives we live, Flora Whittemore
- The willingness to do creates the ability to do, Peter McWilliams



## Kids Corner

The youth today are mired in the electronic devices. We touched on this a hair last month but recent developments are cause for further digging. One out of two teens feel “addicted” to their phones. This information is now pushing the tech giants to offer more controls on how to protect kids from these devices and the associated addictions. Did I just write that? We’ve allowed companies to manufacture, market and addict our children to electronic gadgets and now we’re going to allow them to introduce tools to control the addiction? Wow, we’re in a rough shape as a society.

It’s not just the companies, the families are right on the line too allowing kids unlimited use of these gadgets which do damage to kids in their ability to socialize normally with other humans face to face, not through an electronic interface.

- A recent published survey in Clinical Psychological Science found that teens who spend five or more hours per day on their devices are 71% more likely to have one risk factor for suicide.
- A 2017 study published in the journal Child Development compared today’s teens to those of the 70’s, 80’s and 90’s and concluded that teens today are taking longer to engage in both the pleasures and responsibilities of adulthood.
- From 2010 – 2016 only 32% of 8<sup>th</sup> graders have worked for pay, down from 63% in the 90’s.

Folks we need to keep our kids interacting with other humans and away from screens and social media.

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

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 \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Name \_\_\_\_\_ Email \_\_\_\_\_

Address \_\_\_\_\_

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Financial Advisors

Visit us online at [www.fiscalwisdom.com](http://www.fiscalwisdom.com)

Call Toll Free (800) 843-4513  
[info@fiscalwisdom.com](mailto:info@fiscalwisdom.com)



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## Mike Chadwick’s Money Matters

15 New Britain Avenue. Unionville, CT 06085  
860.673.1942

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