

## Oil Everywhere

When people think about a barrel of oil they normally think of heating their homes or businesses, powering their cars or lubricating something that needs to flow freely. While those are all very true and a big roll petroleum plays in our lives, we see many more uses of this amazing thing in our society. A 42 gallon barrel of oil produces about 19.4 gallons of gasoline, 12 gallons of diesel and 4 gallons of Jet Fuel. Diesel should be a lot more expensive shouldn't it? Same is true for home heating oil they're very much the same outside of dye. That same barrel weighs in at 300 pounds. You'll need some mechanical tool to move them around unless you're that gorilla on the TV commercial that "picks things up and puts them down!" ☺ So much more comes out of oil beyond gas, diesel, jet fuel, diesel, etc.

One barrel of oil will produce all of the following:

- Enough gas to drive a normal car 280 miles
- Enough fuel to drive a large truck 40 miles
- 70 kWhr's of electricity generated by residual fuel
- 4lbs of charcoal briquettes
- Propane for 14 home cylinders
- 1 gallon of asphalt roof patch
- 1 quart of motor oil
- Wax for 170 birthday candles or 27 crayons

When it's done doing all of that it'll also have enough residual to make one of the following:

- 39 polyster shirts
- 750 pocket combs
- 540 toothbrushes
- 65 plastic dustpans
- 23 hula hoops
- 65 plastic drinking cups
- 195 one cup measuring cups
- 11 plastic telephone housings

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## Interest Rate Suppression

Jim Grant of the Interest Rate Observer recently did an interview with Chris Gisiger of The Market NZZ and I felt it was so thought provoking I wanted to share blips of it with you. This is a super synopsis that is easy to understand of the things we've been writing about for some time now.

Here it is:

Once again, the expedition to go back to normal has been postponed. After the big market scare at the end of 2018, central banks have abolished their plans to tighten interest rates further. Wall Street loves it. The first quarter has been the best one for risk assets in a decade, and after Lyft's successful going public, a record year for IPOs seems to be in sight. Jim Grant observes the madding crowd from a sober distance. Interest rates are the traffic signals of a market economy. Turn them all green, and errors and pileups abound, says the sharp thinking editor of the iconic Wall Street newsletter Grant's Interest Rate Observer. He states that a decade after the financial crisis, many companies are so heavily addicted to easy monetary policies that they wouldn't be able to survive on their own. Consequentially, the proficient value seeker has a hard time to find attractive investments in today's markets. Where he spots rare opportunities, he tells The Market in this extended interview:

**Mr. Grant, once again, the Federal Reserve is giving investors the green light. US equities are off to their best start since 1998. What's your take on the current state of the global financial markets?**

Stocks are up, bond yields are down and economists are speaking of full employment: Everything seems perfect and improving. But I remain a non-believer in these modern monetary methods. If it were this easy, mankind would have solved the economic problems a long time ago.

**For quite some time, you have been warning that extreme measures like negative interest rates and quantitative easing will get us into trouble. But so far, the central banks remain confident that their policies are working.**

What we see is an attempt to make things smooth and to forestall crises through keeping interest rates very low. But central banks are arsonists and firemen. They are arsonists because they strike the matches which set off the fire. It's like an underground fire in a coal mine: You can see the smoke seeping up out of the ground and the ground is warm under foot, but you can't see the flames. Then, time passes and the fire spreads and becomes more fierce and hotter. Finally, it bursts out of the ground. That's in some way what happens in the credit markets.

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- 135 four inch rubber balls

Oil sure isn't a one trick pony! Here is a list of some other things that are made with oil, some are amazing and surprising!

- Parachutes
- Telephones
- Antispetics
- Deodorant
- Hearing Aids
- Carpets
- Rubbing Alcohol
- Pantyhose
- Safety Glasses
- Nylon rope
- Fertilizers
- Hair coloring
- Credit Cards
- Aspirin
- Glue
- Detergents
- Golf Balls
- Hand Lotion
- Shampoo
- Trash Bags
- Contact lenses
- Footballs
- Shaving cream
- Balloons
- Fan belts
- Antifreeze
- Luggage
- Dishwashing liquid
- Toothpaste (sounds gross!)
- Umbrellas
- Paint Brushes
- Tents
- Guitar Strings
- Ice Chests
- Life Jackets
- House paint
- Tennis rackets
- Ammonia
- Dentures
- Ski's
- Roofing
- Antihistamines (can't breathe ingest an oil based product! ☺)
- Bandages

YES for the most part. We're seeing a high level of euphoria in the financial markets and that euphoria tends to push valuations, prices and deals into uncharted waters as people think the good times will just keep on rolling. We love IPO's (initial public offerings, where companies sell their stock on public exchanges for the first time) if there is value in the offering. We're seeing people being pitched locally some pre-IPO deals as well, both locally and in Canada. The bottom line with any business is valuation. How much money is the company making, what is the investor being asked to pay for the investment and does it make sense for the investor over time with a conservative set of assumptions moving forward.

Much of what is going on today is being run with a perfect set of assumptions moving forward and if that goldilocks scenario plays out the firm will do just fine, but any performance just a bit shy of perfect performance will result in poor results for the investor and perhaps dissolution of the company in time.

We are at a point today where the dollar has been the dominant currently of the world for decades and the most liquid currency on earth. We've gone so far off the deep end as a society in printing money and accumulating debt the world is moving away from the dollar based everything. We're losing faith in government and people are trying to find ways to find more balance and other options.

See the chart below, this looks at what percentage of companies today are going to public markets in an IPO without any earnings at all. Danger Will Rogers, this often makes no sense so be careful as you navigate these waters. It looks and feels like 1999 all over again in many areas.



## Noteworthy News!!!

- Congratulations to Fernando Ortiz on his new position in Plainville One Health!
- Our condolences to the Galpin/Roman families on the passing of Anthony (Tony). A wonderful man, husband, father, grandfather, person and friend.

## Question & Answer

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

*Q: When is the best time to take our social security as retirees?*

I love this question and of course, we've built a spreadsheet to answer this question. It really boils down to when you'll pass, how long your family life expectancy tends to stretch, and when you want to be enjoying the fruits of social security.

We find most people reach the crossover point where they get more from waiting to collect social security later in life at the 86 – 89 age range.

The thing about this decision is if you're working between ages 62 and full retirement age you'll be penalized from social security for earning more than the specified amount, this year it's just over 17k/yr. If you're not going to work then collect for sure as you must think about collecting a little less for 3-4 years before collecting a dollar should you wait until full retirement age or even beyond.

Here is our analysis recently for a person who was thinking about retiring soon. We're happy to run this for you or your loved ones if you'd like it done to see which method is best for you. Reach out to us any time if you would like to see it, our report is too large for me to copy into this article and still be legible. We're happy to share this sample or give you your own one specific to you any time.

This person could collect 1590/m at age 62 or 1950/m at age 66, their full retirement age. This person would be ahead of the game by collecting early until age 87, at which point the cumulative benefits of collecting later eclipse the benefits of collecting early. We cannot quantify exactly someone at age 88 will do with the additional income to be had by collecting later in life, but it's a numbers based factual analysis. We're assuming a few things in this calculation, including 2% annual increases in the social security payments, the individual consuming the income and not saving or investing it and all other factors are equal. This is a long life to live to beat the odds and get more by waiting for the larger check at 66. We're seeing many people collect early and sometimes we have individuals who have hit DNA lotto and have very long and active life expectancies. For those people it's worth the wait and there are perks to waiting even beyond full retirement age if you have that luxury. The benefits grow at 8% annually if you wait to collect beyond the year of full retirement age.

Many people don't even make it long enough to collect any benefits at all, so consider yourself lucky if you're the recipient of a social security retirement benefit.

## INTEREST RATE SUPPRESSION! (cont'd from pg 1)

### What do you mean by that?

Robert Kaplan, the President of the Dallas Federal Reserve for instance, recently came out and said he is worried about the buildup of corporate debt, especially the lower rated portions of that debt. He's concerned about the risk that this debt is coming on the market in great waves during a recession. Therefore, the Fed should be very careful with raising rates, he argues. So basically, what he is saying is that the Fed must keep rates low to perpetuate the debt cycle which has given us an excess of debt about which he is worried. This is crazy, right?

### How concerning is the situation in corporate credit really?

In a recent issue of Grant's Interest Rate Observer, we have a story concluding that many companies would get into trouble if the real interest rate on ten-year treasuries rises over 1%. These businesses are so leveraged that they can't cover their debt payments at levels even as humble and as low as a 1% real interest rate on ten-year treasuries as it translates into corporate borrowing. Just look at the growth in the herd of listed zombies; companies whose average operating income has fallen short of covering the average interest rate expense over three consecutive years. As it turns out, the corporate living dead, as a share of the broad S&P 1500 index, are close to 14%. Former Fed-Chairman Ben Bernanke once tried to reassure everyone that the Fed could raise rates in 15 minutes if it wanted to. Well, it turns out the Fed cannot do that. So, it's a brave new world we're living in.

### Where else do you spot things that make you go hmmm...?

There are all sorts of crazy stuff. The craziest, of course, is that around 20% or \$11 trillion worth of bonds worldwide are priced to yield less than zero. This is the greatest non sequitur in finance. David Hume, the great Scottish philosopher of the mid-18th century, observed that no man will settle for low interest when he can have high profits or, for low profits when he can have high interest. But today, at least in the US, profit margins are very fat and the ratio of equity market capitalization to GDP is very elevated. And yet, interest rates are very, very low. Not as low as they are in Europe or Japan. But the ten-year treasury yield which is meant to be the benchmark sits at around 2.4%. So, after inflation and tax there is nothing left. There is no real yield available, at least until the ten-year point of the treasury curve.

There is more to this if you're interested it can be found here:

<https://themarket.ch/interview/the-world-wide-suppression-of-interest-rates-has-been-something-very-near-to-a-crime-ld.85>

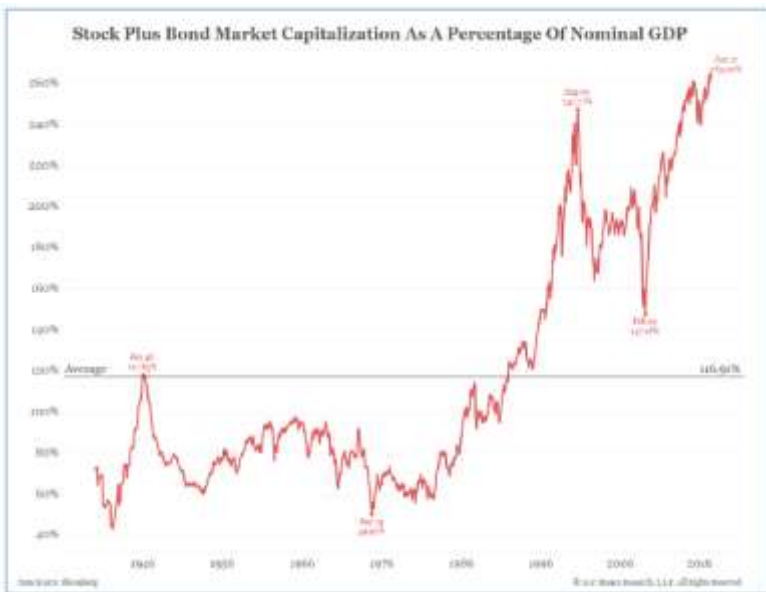
# Money Quiz



This month's challenge is on small business. What percentage of small businesses have zero employees, just an owner run enterprise? ☺ Last month's quiz was won by Joline Johnson, 27% of millennials spend more on coffee each day than invest monthly for their savings and retirement. (Folks this is a problem for that ¼ of the youth in our world!) Winner goes to Ruby Tuesday on us! 03:25:19:9

## Buffet Indicator Flashes Red

This isn't a common occurrence where the valuation of stocks and bonds exceeds a multiple of the entire countries GDP. We're at a juncture today where the value of all stocks and bond total market capitalization now exceed 260% of the GDP of America. We saw this level get very high in 1999 where it hit the 245% level, now we're even higher than we were in 1999 with this metric.



We urge caution at these nosebleed levels. We're fans of value investing, not momentum investing. For those in the momentum crowd they have a very exciting couple of years behind them. We've been cautious along this rocket trajectory as the entry spots have been nonexistent and the overall situation quite dangerous.

Nothing lasts forever so hopefully the momentum crowd can step aside before the cycle completes itself and value has started to matter. Last year when the world got really scared and we had 800 point down days in the markets our portfolios were up. We're not chasing this madness but looking for fundamental value and margins of safety.

# Rarified Air

Once before in American stock market history has the market been this excited. We measure this level of excitement as an "overbought" condition where people are happily buying stocks at a rate well above the average over time. We're in such a rare position today it's not just rare, it's historic. See below for a graphic on how this looks in a long timeline and showing various conditions of neutral, overbought and oversold conditions in the last century.



Thanks to our friends at Lyons Share for the chart. The blue line is the average over time and the red dots show conditions like today where the conditions are overbought. The blue dots are oversold conditions and we can take these spots on the chart at warning signs. Blue dots below the trend line show fantastic opportunities to buy stocks, they're very cheap and people have been selling for years causing this overbought condition. The red dots or the ones on the top of the chart and on top of the trend line represent the exact opposite. They're the points in time when prices are very high, likely not sustainable and a great time to sell stocks in general. If you're not a seller in these environments you may want to become one as you'll have much more attractive entry points in the future from these levels.

We're in such a rare condition today we're 80% above the long term trend line going back over 100 years. We've seen this 3 times in the last century. We've got a big cluster of occurrences in the past few years, another large cluster of occurrences during the bubble of 1999 and then another occurrence in the 1929 era right before the depression.

In 2019 we're 122% above the long term trend line, only eclipsed by the bubble of 1999 when we were 132% above the same long term trend line. Looking back at a very long time and measuring where we are today vs historical averages we see there is a massive euphoric feeling today that will not last. We're excited about what is to come and there are many fantastic opportunities today outside of traditional stocks and domestic indices. Where are you today in this continuum? We're not chasing the insanity of this bubble and looking forward excited about the cycle completion. ☺

## Inspirational Quotes

- Everyone seems to have a clear idea of how other people should lead their lives, but none about his or her own. - Paulo Coelho
- The competitor who won't go away, who won't stay down, has one of the most formidable competitive advantages of all. – Bill Walsh
- It costs \$0.00 to treat someone with respect.
- Never reply when you are angry. Never make a promise when you are happy. Never make a decision when you are sad.
- Once you've accepted your flaws, no one can use them against you.



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

## Kids Corner

Kids need stability to do well in life. They need to know they have a loving home to come to, a parent or parents who love them and a community of people around them who they know support them. We've been very blessed to provide the princesses one home for their entire lives, a happy marriage, a strong town, school and church community. They've had the added benefit of extreme sarcasm in our home as well, which Cup may not agree with! 😊

When the kids have all of this "built into" their home and community life they can focus on their plans, hopes and dreams. That is where you want them to focus and dream, to work towards making those dreams become a reality.

If they don't have these things built into their lives as a given they are going to worry about things other kids take for granted. It's sad to think some kids have to worry about where they are going to get their next meal. Others worry about where they are going to sleep tonight. Many worry about if one of their parents are around, drunk, on drugs or even fighting with the other parent. Some kids live through terrible divorces, cheating, sickness, loss and other tragedy.

Our job as parents is to give our kids the foundational tools necessary for them to develop into productive and helpful members of our society. We have to be somewhat selfless as giving to these kids at the level necessary for them to excel and self-actualize often means we have to give up on some of the things we may have once wanted. Once you see the kids start to do good things, maybe even great things, the time and energy and sacrifice will all be worth it when they begin to do great things in life and for others. Please share your stories with us and we'll pass them along! 😊

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 \_\_\_\_\_

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## Mike Chadwick's Money Matters

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