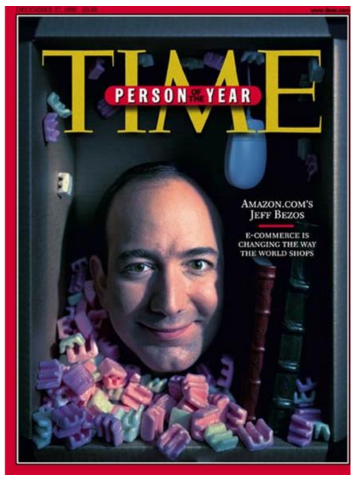
MIKE CHADWICK'S **MONEY MATTERS**
ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

Volume 18, Issue 4 | Because Money Does Not Come With Instructions! | April 2022

History Doesn't Repeat, but it Rhymes!

Let's push the clock back 20 years; the internet is the new rage. We're getting routers and putting access to virtually unlimited data in the hands of most people, those who have an internet connection. Fast forward to the present, just a few months ago Time Magazine named Elon Musk the person of the year. Back in 1999, it was Jeff Bezos who was given the same award. Below are the covers of each magazine.



A quick history lesson shows us that Marc Benioff from Salesforce bought Time magazine a few years ago as they were circling the drain. They needed a wealthy benefactor to prevent their extinction and they got it. Now with this new magazine under his control, they want to make some money and whether they're making it on sales of the paper product or clicks on the website, Elon is one of the most popular business people on the planet. They're Silicon Valley buddies; they fly in the same circles and they both control monster corporations which are game-changing and impressive. Marc is a confirmed owner of shares of SpaceX and likely Tesla as well, indicating that these connections run deep.

In late 1999, Amazon had just completed a stunning 6000% gain in the stock price with Bezo's vision of e-commerce reshaping the world. He forced retailers to either have an ecommerce option or lose business as the consumer wanted to shop online, period. The competitors who didn't move

Continued page 2, History

INSIDE THIS ISSUE

The Lunatics are Running the Asylum

Let's take ourselves away from the current macro-economic environment and think about things from the perspective of an alien, an outsider from our society. So much of what is going on today is surreal. From economic and political policies, to work ethic and entitlement, it's important to keep things grounded in reality (as opposed to crazy land, where many things are today).

Stan Druckenmiller is arguably one of the best investment managers of our time and ran one of the best hedge funds in history for decades. He often talks about listening to the bond managers and not the equity ones, as they know the reality and are less exuberant about things in general. With this thinking, it's important to note that the US 20-year treasury bond has had its worst year in decades, if not ever, this year. What does that mean for equity markets moving forward? Probably not the all-star year many predict, and we think it'll take a couple of years to cleanse the excesses of this prior cycle out of the system.

Here is the genius of Druckenmiller, who recently performed a thought experiment with his investment team. This is how he laid it out and I love every bit of it. He said, "I want you guys to block out where the fed funds are and just conisder the economic data…lets play a game. We've all come here from another planet and we're just here to analyze the economic situation based on the conditions of the economy. Where should the fed funds be with the following economic conditions?". At that time in the 4th quarter of 2003, the nominal GDP was growing at 6% year-over-year, retail sales were rising at 5%, inflation (headline CPI) was running at just over 2%, and unemployment was at 6%. Stan notes the responses of his team:

I'd say of the seven people on the team the lowest guess was 3%. Of the seven people, the highest guess was 6%. The real rate was 1% at the time. So, we had a great conversation that the Federal Reserve was making a mistake with a way too loose monetary policy. We didn't know how it was going to manifest itself, but we were on alert that this was going to end very badly.

Now let's fast forward the clock and do the same things now. Nominal GDP grew 12% year-over-year in the fourth quarter of 2021; retail sales rose 16.5% in December from a year earlier; additionally, inflation grew 7% year-over-year and the unemployment rate fell to 3.9% that month.

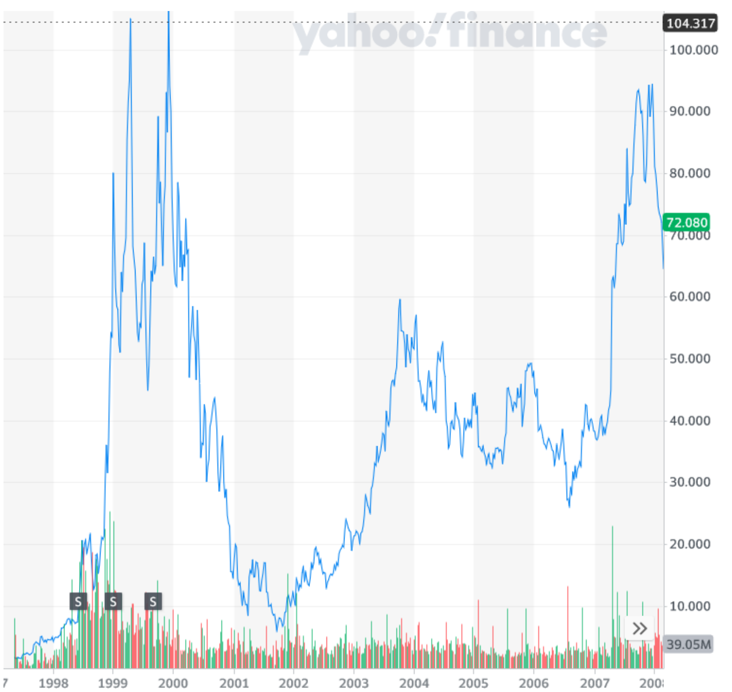
Continued on page 3, Asylum

History! (cont'd from page 1)

fast enough died a slow death. I remember going to Radio Shack back in the day and them charging $50.00 for cables to connect your computer to your monitors, while the same products could be purchased online for $2.50. Their death was imminent.

Elon has changed the world too; everyone is now in a race to make the electric car. Although he was the first to the game and came up with a cool product, all of the big boys are on it now, so we'll see how that plays out. Tesla's been the big winner of the past few years, despite the fact that they don't make any profits on manufacturing cars but only small ones on selling tax credits. How durable that business model is has yet to be determined. Furthermore, rolling a money pit of Solar City into Tesla years ago made no sense either and despite all of this reality, the stock is up thousands of percentage points. As it stands today in the 1st quarter of 2022, Tesla's market cap surpasses that of every other car manufacturer in the world, combined. Yes, COMBINED; nothing makes sense about this equation, nothing except the Gamma squeeze that is commonly noted as justification for the current valuation. I don't buy it and feel as though the outcome will be similar to that of Amazon in the 90's once the bubble pops, which we appear to be starting now.

From its peak in 1999, Amazon went on to lose 94% of its market value in the next few years. Yes, that is correct; 94% is the painful reality. Here is a graphic of that reality:



Quick lesson in stock history: Amazon shares went from over $100/share in 1999 and 2000 to well under $10/share in 2002. Now if history repeats itself moving forard, with Tesla doing today what Amazon did then, Tesla may very well go from over $1,000 today to $50 in a few years when this cycle completes itself!!! Interesting to say the least, and it'll be an absolute history lesson to see what actually happens in the next several years. Tesla sells 600,000 cars per year, and the automotive industry sells 21,000,000; to think the valuation of Tesla is worth more than all of the others combined is sheer lunacy.

Amazing Stats

We are definitly statistical sequential thinking people and we've found some cool stats we wanted to share with you.

- There are more twins in the world today than ever before. The older you are when you have kids, the higher your propensity to have twins and with families happening later in life, this is the outcome.
- There are more living organisims in your body than there are people on Earth. Not just 2 or 3 times, but many times, just how chock full of bacteria are we!
- The average 4 year old asks 400 questions per day
- If you eat a chili pepper designed to be a pain killer, it would kill you
- Your outer skin is totally replaced every month
- An average person sheds 40 lbs of skin in a lifetime
- In August of 2010, Beijing had the longest traffic jam ever, 62 miles long, and it took 10 days to clear
- The metric system is it; only 3 countries use our system: Liberia, Myanmar and the USA
- John D. Rockefeller is still the richest man ever; adjusted for inflation, it's 10 times more than Bill Gates
- Earths ozone layer should replenish itself in the next 50 years
- All ants in the world will weigh more than the human population on the planet
- Chickens are twice as numerous as humans on the planet
- Purple is the least popular color of national flags
- 67% of the people on the planet have never seen snow
- Domestic chicken is the closest relative of dinosaurs, not Crocodiles or Alligators
- Bart Simpson would be older than his mother if the yellow family aged normally
- Don't supress a sneeze unleess you have to, the pressure can blow a blood vessel in your head or neck.
- A town in honduras actually rains fish
- There are more than 24 time zones in the globe; some are 30 to 45 minutes apart
- JEEP is an abbreviation for a General Purpose Vehicle
- Sweden is the largest island country in the world, it has 221,800 islands. That's some water frontage there
- Jellyfish melt in the sun because they're 95% water
- In 2012, twins were born 87 days apart, the longest gap between the birth of twins
- All pandas in the world zoos belong to China
- Every video on youtube would take thousands of years to watch
- A mouse's bones are so flexible they can fit into a ball point pen
- Mandarin Chinese is the most popular language in the world
- Human fingers are senstiive; if your fingerips were the size of earth you could feel the difference between a car and a home
- A giraffe's tongue is 24" long
- A hummingbird's heart beats at 1,200 bpm
- 86% of the world adult population can read
- Lobsters can come back to life after being frozen and thawed…the benefits of being cold-blooded.

Noteworthy News!!!

- Congratulations to Vishwanath Sinha on his new job with McKinsey & Company!
- Congratulations to Jack Donahue on his recent retirement.
- Congratulations to Mike House on the founding of his new firm, House Mortgage Company!
- Our condolences to the Michaels family on the passing of Walter, a wonderful man, husband, father, grandfather, great grandfather, uncle, brother, and friend. our Superman!
- Our condolences to the Rosa family on the passing of Loretta, a wonderful woman, mother, grandmother, sister, and friend.
- Our condolences to the McMahon family, on the passing of Eugene, a wonderful man, husband, father, grandfather, person, and friend.

Question & Answer

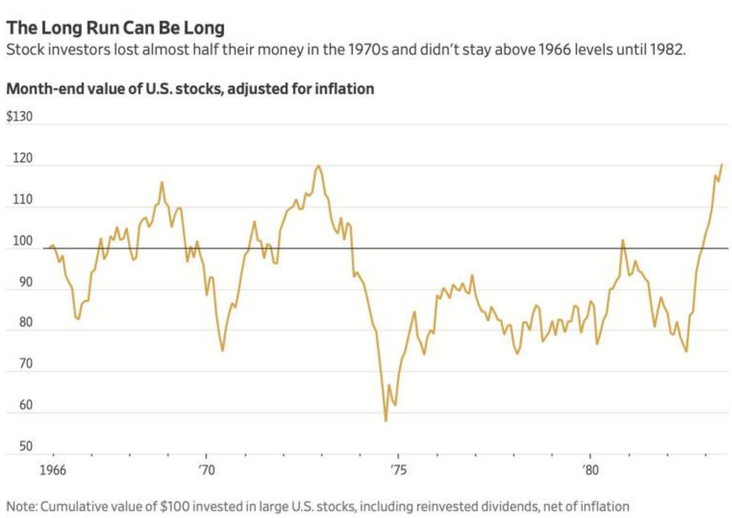
Ask any financial question you have, and we'll address it here.

Q: Are inflationary periods good for stocks?

Not in general, unless the stocks are linked to assets that do well in inflationary environments, such as commodities. Hence, our love for the commodity complex over the past few years. We' ve been ringing the inflation bell for years now and only recently has the general public been awakened to this phenomenon.

What is almost certain is markets will not behave in the next 15 years like they have in the past 15 years. We've seen them go straight up since 2009 with relentless exhaustion. This isn't normal and we expect a tough couple of years in front of us with a series of ups and downs after that for many years. The digestion process of working through excesses takes time for financial markets and we epxect some type of flat market moving forward for years to come.

The best example of a historic precendent may be the 60's and 70's when inflation was last this powerful. Here is the market from 1966 to 1982 when it finally surpasses the highs of 1966 for a permanent takeoff. This may be our reality moving forward. It's not bad at all, it'll just require finding value and not banking on endless rising markets.



Breaking Point! (cont'd from page 1)

If you didn't already know where the fed funds rate was, where would you guess it would be? It's fair to say that nobody in their right mind would guess it would be zero AND that the Fed would be printing money at an annualized rate of roughly 6% of GDP at the same time (as they were very recently). It's just so far outside the realm of what is reasonable that it's laughable. The fact that the Fed's been printing money or doing some type of Quantitative Easing (QE) for the better part of 13 years now is stunning and it's all being accepted as perfectly normal and reasonable.

So, this is the world we live in today in the early spring of 2022. And the Fed just ended its money printing and raised the fed fund rate from zero to twenty-five basis points, as if that is any more reasonable given the context above. In truth, it's so absurd as to be totally unbelievable to anyone who hasn't become totally inured to absurdist monetary policy in recent years.

What is the point of the drill? The idea is to eliminate recency bias from the intellectual process. Recency bias is the human condition to continue to expect what has recently happened as normal and going to continue to happen. Being a math guy and knowing markets are two standard deviations away from normal we know this is false, but the world is operating as if it's a fact. So much of our thinking related to the Fed and markets and everything else is overly colored by recent history. It's only human nature to look at how things have behaved over the past few years and project those trends out into the future. 13 years is a long time as well; the fact that the past 13 years will go down as likely the craziest ever monetary-policy-wise will be great history lessons for future generations.

Seth Godin recently wrote, "Whenever there's a speculative bubble going on (or a cultural one, for that matter), life inside the bubble seems rational and normal." There is a very clear cultural bubble around monetary policy and the markets today that make the extraordinary feel normal. This really lines up with FOMO (fear of missing out) when people want what others are getting regardless of how nuts it is. We've spent so much time talking people out of horrible ideas in the past decade it's crazy. They loved the ideas until they didn't work anymore. Valuations always matter in investing, even if during brief periods of time in speculative blow off tops of bubbles can irrational valuations exist for some time. Times such as now, in 1999 and in 1929.

But this tendency of recency bias leaves us vulnerable to being irrational investors. Even if all of the fundamental and technical data have changed, and in an obvious way, most investors simply ignore those signals because their recent experience plays a far more significant role in their minds, conditioning them to expect more of the same rather than a shift to a new regime. We're seeing this everywhere, doctors, accountants and business advisors all say just buy an index fund. That's fiscal suicide at these valuations, and sadly, sellouts like Buffett deliver this message to the masses while they sit mostly in cash.

So here is another thought experiment for you: First, block out where the various financial markets are and how they got there. Again, you just landed here on earth from a planet far, far away. You come from a foreign place and are gifted; you have the general wisdom of Yoda and the fiscal wisdom of Stan Druckenmiller. In the context of this economic data and given where monetary policy is in relation to it, how do you think most institutional investors would be positioned? I suspect much more conservatively than they currently are!

Money Quiz

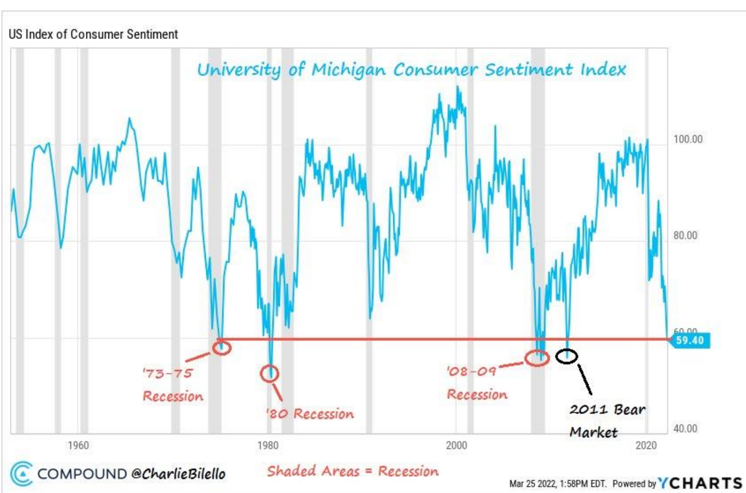
This month's challenge is on credit cards. What percentage of the US consumer population pays off their credit card bills in full each month?

Winner gets lunch on us at Chick-Fil-A! 😊 03.23.02.8

Inflation Nation

Consumer sentiment is a measure the University of Michigan keeps close tabs on. It is how the average consumer is feeling about the prospects of their life financially. What do they see in their short-term future in terms of finances and economic outlook, from the perspective of the consumer, not the professional? It's going to be tougher for people, as they're paying $5,200 more per year for staples than they were a year ago, so the obvious result is people are fearful.

The chart below shows us where people are right now in terms of future outlook and just how quickly things change in one year. The average consumer was feeling very average a year ago and now they're feeling about as bad as they tend to feel in the depths of a recession. The consumer sentiment is now at levels last seen in 2007-2009 during the great recession, the 1980 recession and in the 1970's recession. Ironically, we also saw fuel prices inflate back then as they are today. In 1999, the consumer was feeling much better than they do today, but market valuations exceed the levels we saw in 1999.

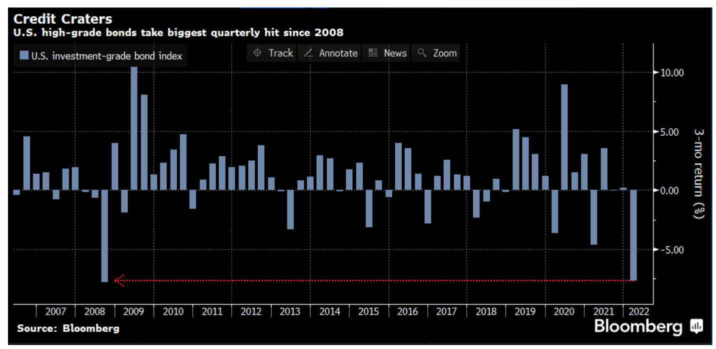


The current reading is comparable to lows in prior cycles. It's not very likely that we're at a cycle low today. In fact we're probably at the beginning of a new cycle down which typcially lasts 1.5 years to go from top to bottom. This one may last longer because things are far more extreme today.

What the Bond Boys & Girls Know

The industry generally recognizes that the bond investors are more rational and logical than stock investors. Bond markets generally act as truth serum in financial markets, and when bonds are worried about financial or global macro issues when stocks are not, the idea is that the bond investors are generally correct about what is going on in the world and stock investors are always happy and bullish, which is never the way to be at all times.

The first quarter of 2022 has been tough for both stocks and bonds but to put things into perspective, high quality bonds have had their worst quarter since 2008. We all know how 2008 was and it culminated in a very ugly 2009 which ended up being the bottom of the last big recession. As you can see, the covid recession, as it was self-inflicted with shutdowns, and it caused a small loss for high quality bonds but each year since there has been a very weak quarter for bonds that has gotten a little more acute each time.



We've been concerned for quite some time with valuations. Both of stocks and bonds, and eventually they must come down to historical norms eventually. Eventually, that is likely much closer than most people think. The way markets operate is they will not likely just come down to average levels. When they do come down, they'll go way below the average levels because markets are very emotional on a short-term basis but more logical on a longer-term basis. When they end up stretched way above normal levels as they are now, they snap back and then end up way below average levels when the snapback is complete.

The current environment we're in has caused many market participants to behave irrationally as the political class has been intervening in financial markets for the past decade plus. This intervention of money printing and various forms of juicing the financial markets has people thinking and feeling this is the new normal.

I can remember vividly in 1999 and 2000 everyone talking about how this time is different because of the internet and new technology that is coming out and changing our lives. It's never different this time, be rational and not foolish. 😊

Inspirational Quotes

- The way to get ahead is to quit talking and begin going – Walt Disney
- Either you run the day, or the day runs you – Jim Rohn
- Action speaks louder than words, but not nearly as often – Mark Twain
- 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
- Success isn't the destination, it's a way to travel – Denis Waitley
- It's the rough road that leads you to the height of greatness – Seneca

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

Kids Corner

The idea that everyone should get a trophy just for participation, is counterproductive and lowers our standards and outcomes. When we were kids, you only got a trophy if you won the league, period. Very few of us got trophies and in my little world of baseball, we were blessed to have a plethora of them. We were a group of baseball nuts in our small town of Thomaston when I was a kid and many of us started young and played in little league, at home, anywhere we could find friends. Baseball, Wiffleball, anything worked for us. We had great parents that volunteered to coach us, and that benevolence carried into middle and high school.

We had incredible coaching in high school, and I don't think any of us really knew it until later on in life. A few years out of high school, I remember buddies at UCONN telling me what they just learned on the baseball field and thinking "We learned that in high school what cave did you grow up in?" I regret not playing sports in college, but I was too worried about building a career and not being poor anymore. A few of my childhood buddies are now coaches themselves, and great ones impacting many little lives.

The old school, hardnosed "get it done, you have to earn your spot on the team and time on the field" mentality was and still is a winner. We need to bring it back, badly. We all pushed hard, through workouts, hill sprints, and many calluses on our hands from swinging the bat endlessly at hypothetical pitches from the coach in the gym. 😊

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____

City____State______________________Zip Code_________________

Registered Representative, securities offered through Portsmouth Financial, Inc. a Broker/Dealer, member FINRA/SIPC. Investment Advisor Representative, Chadwick Financial Advisors, LLC, and Portsmouth Smartlife, LLC, all Registered Investment Advisors. Chadwick Financial Advisors, Portsmouth and Portsmouth Smartlife are not related.

Disclosure: Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results. This information is for educational purposes and should not be contrued as individulaized investment advice.

Visit us online at www.fiscalwisdom.com

Call Toll Free (800) 843-4513
info@fiscalwisdom.com

Please think of us whenever you or someone you care for needs the following:

- Stock option analysis, diversification
- Pensions – qualified and non-qualified
- Family Protection Strategies
- Retirement Income Plans
- Investments & Investment Advice
- Business Protection & Succession
- Retirement Plans
- College Funding
- College Financial Aid Strategies
- Tax Savings Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Employment contract negotiations
- Settlement option analysis
- Financial Advice – hourly or annual retainer
- Fee based investment management
- In depth portfolio & risk analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401k, etc.
- Retirement Income – Guaranteed or variable
- Income Replacement Techniques
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long-term Care Issues & Strategies
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance, and foundation planning

Mike Chadwick's Money Matters

61 Maple Avenue Canton, CT 06019

860 – 673 - 1942

Chadwick Financial Advisors

CFP | CERTIFIED FINANCIAL PLANNER™ | CFP®

The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.