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

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College Cash Crunch

The costs of education are rising much faster than the overall inflation rate of 3.1%. College costs have risen at roughly 8% annually over the past 30 years. I have an old edition of an MIT (Massachusetts Institute of Technology) newspaper that shows MIT tuition in 1974 at a mere $4,000. In 2007 you'll pay $46,350 to send your young future engineer to the school.

Accurately predicting the real future costs of education is imperative if you are to implement a savings plan that will cover those expenses. If you are thinking it would be nice to send your child to a top notch school and your child is a newborn, watch the math. In 18 years at 8% inflation annual tuition at MIT would cost $174,426.25. Ridiculous? Not really, it's just 4 times what it is today and today's costs are 11.5 times what they were in 1974. Most of my mature clients paid more for their last car than they paid for their first home – that's the sinister nature of inflation: we call inflation 'the stealth tax.' To save enough for the MIT education for your newborn, assuming a 10% annual return on your investment, you need to pack away $3,333 each and every month: **Holy #@*^!**

There are many things to think about as it relates to college planning and here are the basic categories we

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Inside This Issue

Smooth or Sharp?

No, it's not cheese, it's your future. A keen acumen is necessary to differentiate investment products, theories, systems and software in today's world. With respect to investments, you must drink deeply from the fountain of knowledge, not just gargle. The timing of returns really dictates how much you'll have in the future when you begin to withdraw for retirement or some other purpose Many believe if the long term returns are the same and the "averages" come true, they'll be safe. Nothing could be further from the truth.

Let's look at the returns of the S&P 500 for the past 20 years with an initial investment of $1,000,000 and initial withdrawal of $75,000, increased 3% each year to compensate for the loss of purchasing power caused by inflation. Scenario 1 – actual returns:

Year	Annual %	Balance	Withdrawal
1983	22.51%	$1,000,000	$75,000
1984	6.27%	$1,141,659	$77,250
1985	32.16%	$1,133,569	$79,568
1986	18.47%	$1,405,763	$81,955
1987	5.23%	$1,575,884	$84,413
1988	16.81%	$1,571,683	$86,946
1989	31.49%	$1,741,629	$89,554
1990	-3.17%	$2,186,414	$92,241
1991	30.55%	$2,026,326	$95,008
1992	7.67%	$2,535,848	$97,858
1993	9.99%	$2,628,737	$100,794
1994	1.31%	$2,785,519	$103,818
1995	37.43%	$2,717,512	$106,932
1996	23.07%	$3,607,732	$110,140
1997	33.36%	$4,317,191	$113,444
1998	21.04%	$5,625,040	$116,848
1999	21.04%	$7,099,131	$120,353
2000	-9.11%	$8,459,774	$123,964
2001	-11.88%	$7,570,771	$127,682
2002	-22.10%	$6,551,266	$131,513

That looks impressive: drop $1 million in an account, take out $75,000 the first year and more every year

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analyze: cash flow; taxation; financial aid; investing. Your cash flow simply may not support a high-end college tuition bill. Remember to incorporate inflation into your calculations and investment plans now, or you will come up far short later. But even before you run the numbers you and your future geniuses need to ask some tough questions that could save you big bucks, and them a lot of career-related misery.

So… why is your child(ren) going to college? Because you went to college? To become more 'marketable' in the job place? We find most people spend far too little time thinking through the purpose of college and why it is right, or wrong, for them. Remember, your child must find a VIABLE career path—something they like and for which their temperament and skills are well-suited. Otherwise they will never be happy or excel in their work. And they will likely change careers later in life as they search for a vocation that is a good fit. This is especially true for men as they tend to strongly associate what they do for work with their self-worth ("they are what they do"). It is never too soon to raise the subject of careers with your kids. A good time to begin searching for answers is NOW, long before it is time to make a college/vocational school decision.

If you're ready to shop for a school you can stack the deck in your favor to try to get some favorable financial packages by "doubling up." This is applying to schools which court the same type of students. If your student is an athlete try several schools in the same athletic conference and engage in a polite bidding process for your scholar-athlete. Have your children involved with the entire process from choosing schools to how he/she is going to come up with their portion of the bill, spending money, etc. It is very important for them to have some "skin in the game" even if you can pay 100% of the bills.

There is nothing wrong with a few years at a community college and finishing at a public university or the four year university of your choice. Remember, when you transfer, credits follow but GPA does not, so it is also a nice way to revive the GPA for those late bloomers.

If paying for school was tough for you and your instinct is that you don't want your baby to have to live through that, think again. You are who you are because of what you learned from your good and bad experiences. If paying for school had been easy for you you would likely not be who you are today. Struggle builds character. Would you want to do it any differently if you could turn the clock back? ☺ ☺ ☺

Good Debt Bad Debt

The media would have everyone believing we're all drowning in debt – and it's all bad debt. If you are borrowing money just to consume stuff – cars, kitchens, handbags,etc., that is bad debt and it will eventually kill you financially. If you are borrowing for leverage, to make money with borrowed money and create wealth, it is a good thing.

Corporations borrow money every day as a course of business. GE, IBM United Technologies and Apple borrow money to expand their businesses, research, and develop cool new products. That is responsible and smart business. Consumers borrow money and the immediate assumption is everyone is a financial loser. Not true. The average American is in very good shape – better than most of the companies on the S&P 500 – but the media focuses on the few who are in real trouble. The average American has $24.00 in debt for each $100.00 in assets, a debt/equity ratio of .24.

Here is the litmus test. If you can earn more on capital as it is invested than you are paying on it, it is a wise decision. If you are paying more on borrowed capital than you are earning on investments, that is the folly of a fool. What is the right amount of debt? That is different for everyone and it depends on what type of debt it is. Too much house, which isn't an investment at all, will bury you. Debt on an investment that is making you money is a good thing – provided you can handle it efficiently and it keeps making you money.

When money is borrowed it is not created – it's recycled because it is coming from someone else. Once it's borrowed it is spent again on something else. For example, if you borrow money to buy a car the car dealer uses these funds to pay his cost of the car to the manufacturer of the car. He also pays his staff, rent, utilities, etc. The staff receives their paychecks and spends the money again. Money changes hands six times on average in its first year of existence. The rate at which money changes hands is referred to as the velocity of money, and is the lifeblood of a healthy economy. What is your velocity? Are you in reverse? Call the office to discuss this anytime. ☺

Noteworthy News! ! !

Congratulations to Charles Beal on the purchase of his new business, Marble Design. ☺

Congratulations to Brad Snow on his recent retirement. ☺

Cellular Savings

A serious risk most of us face without even knowing it is our cell phone. This handsome little tool that we cannot live without now is a liability if lost, stolen, or misplaced. If you lose your cell phone you are likely responsible for charges incurred between when you lose it and when you report it stolen. There have been cases where the bad guys have racked up over $25,000 in charges in days between the actual theft and the report of the theft – all of which the cell phone contract holder is responsible for. I don't want this to be you so here is how to best protect yourself: safeguard that phone at all times as if it were your wallet or Social Security card. If you have a higher tech device such as a Palm, Blackberry (commonly known as the crack-berry because it is so addictive ☺) or pocket PC, it is likely more valuable than your wallet because of the data it carries.

And password protect your phone. A really smart geek can bypass your password, but it at least puts a layer of protection between you and the crooks that makes it more difficult to victimize you. Though they're not too smart if they're stealing phones now are they?

Remember- call the cell phone carrier immediately following a loss or even if you suspect a loss to establish a date and time that will limit your financial liability. Then file a police report-- not to increase the chances of getting your phone back but to make a record of the crime. Some cell carriers require the police report. Contact the FCC at 888 225 5322 if you feel the carrier is not responding in a timely fashion or with your best interests at heart. Carriers must respond to the FCC within 30 days. We all know the cell phone industry is the worst with respect to customer service – they define customer lack of service. The cell phone may often drop your calls, but they'll never drop your bills – they typically only raise them. Be a smart consumer! ☺

Smooth or Sharp *Continued from page 1*

thereafter, take a total of $2,015,278 in withdrawals and end up with $6,551,266 leftover. **This portfolio has an average investment return of 10.87% during the period**. That works well when the market is really strong for the first 17 years of withdrawals. Let's rerun that same example, but I will illustrate the returns being the opposite – 1983 return was -22.1% as in 2002, 1984 return was -11.88% as in 2001, etc. The results are drastic:

Year	Annual %	Balance	Withdrawal
1983	-22.1%	$1,000,000	$75,000
1984	-11.88%	$712,288	$77,250
1985	-9.11%	$555,006	$79,568
1986	21.04%	$428,502	$81,955
1987	28.58%	$428,083	$84,413
1988	33.36%	$453,953	$86,946
1989	23.07%	$503,944	$89,554
1990	37.43%	$520,320	$92,241
1991	1.31%	$605,572	$95,008
1992	9.99%	$517,875	$97,858
1993	7.67%	$466,865	$100,794
1994	30.55%	$398,014	$103,818
1995	-3.17%	$399,931	$106,932
1996	31.49%	$282,016	$110,140
1997	16.81%	$243,342	$113,444
1998	5.23%	$161,268	$116,848
1999	18.47%	$ 49,800	$120,353
2000	32.16%	$-70,533	$123,964
2001	6.27%	$-194,517	$127,682
2002	22.51%	$-322,199	$131,513

Not quite the same results as before. What a difference – you're broke in the 17th year. I illustrate your account going negative and you continuing to live, but in reality life as you know it stops in year 17. The big difference is simply when the returns happen, not what the actual average returns were. Since the two investment portfolios are the same, the long term average returns are the same, they just came in a different sequence. By definition, **this portfolio has an average investment return of 10.87% during the period as well**. We do not recommend taking 7.5% of your balance out as income, we prefer withdrawals in the 4%-5% range. <u>Consistency of returns is just as important as the returns themselves.</u> I have another piece I'll share with you at a later date that shows a lower-performing investment providing more actual dollars over the long haul because the returns were more consistent, not better overall. We try to make your life stress and worry free by providing you with consistency of returns. I know many times it's easy to say "let's be more aggressive and make more" when things are good like they are now. But we always tread cautiously to ensure you never find yourself in a scenario like the one above, where you'd be broke in 17 years. ☺ ☺ ☺

Money Quiz

Last month's difficult quiz was not won. There will be 1.8 Million adjustable mortgages that reset rates in 2007 or 2008. This month's challenge is to tell me what the average household savings rate is in China? The winner is going to dinner on us at any one of a few select fine dining establishments. BTN 043007

House Hunting?

The system works on supply and demand, period. There is a lot more supply (homes for sale) than there were just a year ago, so prices are falling. If you are in the market for a house, please go slowly and be patient. The more patient you are the better deal you'll find. If you are thinking of selling, sell now. Here is a list of the supply of housing in some major markets in various parts of America versus a year ago → more supply = lower prices:

Atlanta +36%	Boston +11%
Chicago +44%	Dallas +11%
Denver +2.2%	Detroit +19% (cars cost more than homes in Detroit☹)
Houston +12%	Jacksonville, FL +49%
Las Vegas +30%	LA +54%
Miami +58%	Nashville +32%
New York +14%	Orange County, CA +36%
Orlando +62%	Philadelphia +14%
Phoenix +36%	Portland +87%
Sacramento +22%	San Francisco +26%
Seattle +42%	Tampa +62%

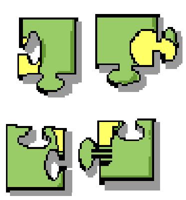
Smart People Bad With $!

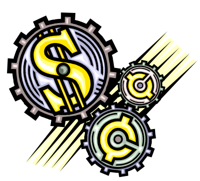
Your genetic makeup isn't a guarantee for prosperity. Many are blessed with high IQ's and photographic memories. (Everyone has a photographic memory, only a few have film☺). Really bright people can be financial boneheads while the average Joe is the millionaire next door. Smarter people often make more on the job, but that does not often lead to overall financial independence and true wealth. Financial mistakes have no IQ and they do not discriminate. An Ohio State University professor, Jay Zagorsky, studied the relationship between IQ & wealth. The average person has an IQ of 100, so those with IQ's at 120 or above rank in the top 10% of intellect, but of that group over 6% had maxed out their credit cards, 12% missed a payment in the past 5 years and 9% declared bankruptcy. With respect to annual income the same group, often members of the Mensa fraternity, clearly make more money each year. They earn between $234 & $616 more per year per IQ point above 100. But that earning power isn't translating into bottom line wealth. Many of the "millionaires next door" didn't go to college – they tend not to like structured environments and are mavericks in general. Zagorsky's study finds that those who had "street smarts" instead of high IQ were much more likely to succeed financially. Another big factor was the ability to keep getting up after failures—they never gave up.

My rugrats will ask for something literally a hundred times – until Cupcake and I either cave in and they get their way – or we stand firm. But they're relentless ☺. Although it drives me crazy I love the tenacity of youth and try to show my kids limits, boundaries and rules while not breaking their spirits. More adults should have child-like tenacity. Many immigrants to this country clearly have it while many that were born here do not – instead they feel a sense of entitlement and are plain old lazy. Some of those that are in the smart crowd are unwilling to take risks, which are required for success. They're too busy thinking through all the potential problems, victims of analysis paralysis. Thinking you can outsmart others and find the things everyone else overlooked can stop wealth right in its tracks. The biggest impediment to long-term financial independence for the high IQ crowd is living beyond financial means and the inability to say "no" to the extra's that prohibit them from saving and investing well for decades! Which crowd are you in? ☺ ☺ ☺

Inspirational Quotes

- You must look into other people as well as at them, Lord Chesterfield.
- Arguing with a fool proves there are two, Doris M. Smith.
- Let us believe neither half of the good people tell us of ourselves, nor half of the evil they say of others, J. Petit Senn.
- The less people speak of their greatness, the more we think of it, Lord Bacon.
- It requires less character to discover the faults of others than it does to tolerate them, J. Petit Sean.
- Impatience never commanded success, Edwin H. Chapin.





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

Kids Korner

Tips to teach our youth about money

Have the kids begin budgeting from the time you give them an allowance: they need to write down how much they get each day/week/month and how much they spend and on what. Don't bail them out when they've spent all of their money on candy and they want a new pair of roller skates that isn't on your agenda. Build this habit now and it'll be with them forever – you should do it too if you don't already. (Remember the rugrats will listen more to what you do than to what you say so it is very important that you also lead by example☺). Have them invest any "extra" money they have after they're done with video games, Barbie's and candy. Invest in companies they can identify with – Disney, Nike, Nintendo, Sony, etc. ☺ ☺ ☺

Company Directory

Mike = mike@fiscalwisdom.com, phone extension 202
Eric = eric@fiscalwisdom.com, phone extension 208
Nancy = nancy@fiscalwisdom.com, phone extension 201
Maureen = maureen@fiscalwisdom.com, phone ext. 206
Betsy = betsy@fiscalwisdom.com, phone extension 203
Telephone = (860) 673 1942 or (860) 489 8880 or (800) 843 4513
Facsimile = (860) 673 5177 or (860) 482 5300

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- Disability Income Insurance
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
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Mike Chadwick's Money Matters

199 Main Street
Torrington, CT
06790
860 489 8880

15 New Britain Avenue
Unionville, CT
06085
860 673 1942

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