MIKE CHADWICK'S

MONEY MATTERS

ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

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21st Century Crooks

The computer and other technologies we have today are truly amazing, and indispensable. If my internet connection is temporarily lost I feel that my intravenous line to the world has been disconnected! ☺ I have the capacity to remotely connect to my office from anywhere on the planet and conduct business or hold conferences with clients on several continents: they can see my computer screen on their screen. Even if they're 10,000 miles away the communication is constant and quick. For all of the positive attributes of this technology we have to consider the drawbacks, including the potential risk to our personal security. The computer people (not all of them are Geeks, yes many are not but not all ☺) have found ways to steal our identity and transact business as if they were us. This is how to best protect yourself from these crooks:

- Shred or burn financial documents or paperwork with personal information – birth dates, Social Security #'s, drivers license or passport #'s, account #'s, etc. Don't let anything go to the trash with your personal information on it. A sport of the computer crooks is dumpster diving where they jump in a dumpster looking for your personal data to pretend they're you and open credit in your name.
- Don't carry your Social Security card and don't give it to your doctor or the local Blockbuster. The only people who need it are the tax preparers or any financial

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Inside This Issue

Marriage & Trading

This seemingly unlikely combination in real life is a match made in heaven on Wall Street. Although we cannot trade spouses we can trade stocks and even marry the firms that specialize in trading the stocks. There has been some big news on February 11th with new members of "the DOW" (the Dow Jones Industrial Average tracks 30 "industrial" stocks that dominate the economic landscape today even though today they're not all industrial and more technological representing the US economy). Altria (formerly Philip Morris) and Honeywell have been retired from the DOW and replaced by Bank of America and Chevron.

Honeywell was the smallest of the companies that included in the DJIA. Honeywell had been a member of the DOW since 1925. Philip Morris joined the DOW in 1985. McGraw Hill is the owner of the DOW. The reasoning behind the recent change in DOW is that the current components do not accurately represent the significance of the financial and energy industries in our current economic landscape. The last time players in the DOW were changed was April 2004.

Often times when a company is added to an index or average its price jumps substantially because all index tracking funds (such as S & P 500 index funds) must, by definition, buy that stock simply because of its inclusion in the index: it may or may not be a prudent investment, but if it's in the index they are forced to buy and hold it. Similarly, those firms leaving the index sometimes will fall in value because all of the same index funds are forced to sell the companies that are no longer a component of the index.

DOW stocks, as well as all other stocks, trade on stock exchanges, where there has also been a lot of commotion in recent months. A stock can be listed

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institution where you want to transact monetary business. The Social Security administration legitimately needs it, health care people and video store salespeople do not

- Don't give out your personal info. over the phone, internet or through the mail unless you know for sure with whom you're dealing. Many websites today look and feel like someone familiar to you, but are really clones that steal your data. Financial firms never email you to check your PIN, SS#, account balance or anything else
- Never click on links sent by unsolicited emails. If you're looking for a particular website, type it into your browser as it's advertised
- Don't use passwords that are too obvious – your birth date, phone number, mother's maiden name, or your dog's name…
- Keep your personal data at home safe, especially if you have people working in your house or employ outside help

Pay attention to the basics in your life. <u>If a bill suddenly stops showing up at the same time or you receive statements or cards you weren't expecting this is a glaring red flag</u>. You'll need to open all envelopes that come to you. Some things you may think are junk are hints into criminal activity against you. Credit card offers that are pre-printed with your info should be shredded as should the blank checks they send you--these can be drawn against your credit line. If you're denied credit for no apparent reason or you receive calls or letters about purchases you didn't make these are all tell tale signs something is going on and you need to inquire further.

Review your financial statements and bills each and every month and check your credit annually, for free, by going to annualcreditreport.com or calling 877 322 8228. When you make purchases try not to let your credit card leave your hands, this is tough in restaurants: I wish the person swiping and the swiper machine were kept in my view, as they are at the supermarket checkout line.

Write down what you carry in your wallet or purse so if you lose it or it's stolen you'll have a punch sheet of whom you need to call and what accounts need to be closed and numbers changed.

If you're vigilant you'll never have to be a vigilante! ☺ Uncle Sam has more info at www.ftc.gov/idtheft ☺

Funny Math

The buzzword for the past six months has been 'writedowns'. You've read about it everywhere, heard about it on the news and on the radio -- you couldn't avoid that word in the past six months unless you lived in a cave. In the post-Enron era the accounting rules say that a company must value its securities for what they're actually worth if they were to be sold today. This law is here because Enron saw fit to just name a value to their energy contracts based on air – what they thought would look good for their quarterly numbers. In reality that is truly absurd and needed to be changed, and I'm glad it was.

As with virtually all legislation, there are unforeseen casualties in the wake. Now as we fast forward the clock into the era of the credit crunch and stupid real estate valuations the law is now unfairly hurting many financial firms. The rules today state that a security has to be valued for what it is worth if it were to be sold today and with the fear out there in the credit markets many securities either cannot be sold or can only be sold for 10 or 15 cents on the dollar. This is a fair estimate if you needed to sell you securities today, but for financial firms that are healthy and have a small exposure to the mortgage mess, they're being forced to write down their holdings as if they were going to sell them all today.

In reality what will happen is the solvent firms will hold onto these securities and ultimately get most of their value out of them. They may not get 100% of their value out of these securities, but they'll likely get 85 – 99% of what they were worth a few months ago when they sell or mature. This insanity is emotionally based now because of the fear in the credit markets. Many of the collateralized loans are packages that include really good loans, fair loans and bad loans and market fears are treating these pools of money as if they're all bad loans. Now most pools offer a small percentage of bad loans and most will get paid according to the original terms. For the healthy firms taking big writedowns today, when these loans come to maturity or sale once the markets get rational again the firms will have a huge profit to be taken on paper as the loans are valued to then correct valuations.

The ultimate question is should the rule be kept the way it is now without exception or should reality be taken into account? If a firm has something it's holding that is experiencing a massive price swing should it be mandatory to report that price swing daily if they're not selling? What about real estate prices – will firms have to reprice their real estate now that that market is experiencing a meltdown? This is a complicated game we play with a lot of rules – what will come up next is a mystery but promises not to be boring! ☺ ☺ ☺

Noteworthy News! ! !

- Congratulations to Martin & Nicole Morris on the birth of their baby boy Ashton! He joins big sister Breana ☺
- Congratulations to Pam Morris on the birth of her grandson Ashton! ☺ You can never have too many grandbabies! ☺
- Congratulations to Mark Torello on his promotion to Vice President! ☺
- Congratulations to the MacNiven family on the birth of Jack Harrison, rugrat # 1! ☺
- Congratulations to David & Marcia MacNiven on his promotion! (good timing) ☺
- Congratulations to Rick & Yvonne Gamelin on the birth of baby Aiva Susann! ☺ She joins big brothers Ricky & Andre. ☺

Bank Failures

We often think about savings accounts when FDIC insurance is mentioned. The FDIC is expecting a wave of failing financial institutions over the coming months and years. The FDIC has offered to bring back 25 retirees who specialize in resolutions and receiverships. These are many of the same people who dealt with the 1000+ financial institutions that folded during the savings and loan dilemma of the 1980's and early 1990's. Regulators have been working vigorously behind the scenes to get a sense of how many troubled banks and thrifts are now considered at risk.

We hear a lot about what role government should play with a "bailout" of the mortgage industry and those with too much mortgage and not enough house. The FDIC says that as of the third quarter of 2007 there were 65 banks considered "problem" organizations, up from 47 a year earlier. This is a far cry from 1993 when there were 572 troubled financial firms back in the days of the savings and loan crisis.

Also realize that today there are far fewer banks as the financial firms have been on a merger and acquisition tear over the past 15 years. This is why you cannot remember the name of your bank: it has changed names 14 times in the past 15 years.

Even though there are fewer banks today, the dollar values may be similar because many of today's banks are so much larger. ☺

Marriage & Trading

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on one exchange or on multiple exchanges around the globe. Each exchange out there competes to have as many stocks as possible list on its platforms in order to capture trading volume (this equates to market share for them), which boosts the exchange's profits. The New York Stock Exchange recently announced an agreement to acquire the American Stock Exchange.

The NYSE is a product of last April's combination of the NYSE & Euronext/Paris exchanges. Today they're commonly referred to as NYSE but legally they go by NYSE Euronext. This merger will likely last and prosper. NYSE and AMEX have historically competed against one another just a few blocks away in lower Manhattan.

The NYSE has historically only listed the "big boys" (large established companies) while AMEX listed smaller firms and pioneered the creation of many new financial trading vehicles such as exchange-traded funds (ETFs) and 'spiders' (SPDRS: Standard and Poor's Depository Receipts).

The merger is expected to produce $100 million in annual savings for NYSE through reduced technology and staff costs while enhancing the exchage's ability to offer trading in stock options, exchange traded funds and several hundred smaller listed companies. Recurring technology problems and scandal at AMEX were factors that played a part in the urge to merge with NYSE.

The NYSE plans on bringing its technology platform to the marriage in an effort to increase trading capacity and profits. AMEX has been a private firm up until now and the deal will not have a final price tag until the sale of AMEX's building located in lower Manhattan: it is expected to fetch between $50 and $100 million. AMEX today has 380 employees, down from 471 at the end of last year due to a round of layoffs. Even financial firms in the Big Apple aren't immune to layoffs in tough economic times!

NASDAQ (National Association of Securities Dealers Automated Quotations) is the other big trading exchange on the block – it isn't actually a physical trading floor (like you see at NYSE) but is actually a computer system located in Fairfield county that has technology that is beyond reproach and arguably superior to its rivals.

We trade through whatever exchange gives you the best price.

It's important to know that there can be huge swings in prices of the same company on various exchanges, that's why arbitrage exists. ☺ ☺ ☺ ☺

Money Quiz

Last month's quiz was won by Lynn Nauss! ☺ 87.2% of Ivy League School applications are rejected. She and a guest are enjoying dinner at Chili's on us. The month before was a misprint, Patty Capobianco won with an answer of 24 years of stock market performance were 15%+ in the past 50 years. ☺☺ ☺

This month's challenge is to tell me what percentage of American's save at least 10% of their income? The winner will enjoy dinner on us at Chili's. BTN 030308

Funding the Enemy Within

Mutual funds are great tools for investors to use to protect and accumulate wealth, but some of the biggest mutual fund firms are playing internal games I don't appreciate. When you buy a fund you're buying that fund for its process, research team, manager or some other reason, but you're buying that particular fund.

Many mutual fund firms today have created more internal funds that are not available to retail or institutional investors but are available only to the firms' other funds. The firms defend use of these "central funds" as an option for fund managers to park assets if they don't have any good ideas for the time being and to "increase shareholder value."

In reality what happens is they add layers of fees to the portfolio, dragging down returns and adding volatility to portfolios. The biggest culprits of this evil practice are Vanguard & Fidelity. Fidelity has 27 central funds that the manager of the fund you actually bought may choose as the 'best' investment alterative. For example the Fidelity Total Bond & Balanced fund may invest up to 50% of assets in a Fidelity leveraged central fund (leverage=debt). If you're buying bond or balanced funds, I'm guessing you don't want leverage in such a conservative space.

Vanguard doesn't list such 'central fund' investments as holdings, period, even though Vanguard Explorers' top holding was the Vanguard Small Cap ETF. So much for full and fair disclosure. ☹☹☹

The Tech Bubble Revisited

Bubbles pop, it's just what they do so to get a new perspective on bubbles let's look back on 1999 – 2002 when the tech bubble was popping. The main lesson here is not to chase investment performance, which many people did during that time period. I can't tell you how many physicians have told me their retirement plans have been delayed by 10 years because they lost 50% of their money from 1999 – 2002.

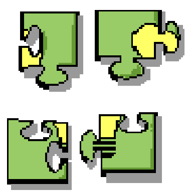
Here is the reality of investing and emotion during the tech bubble. There were 275 funds that posted 100%+ gains during the 12 months ending in 2000. The best performing fund earned 529.94% in 12 months. (It's now gone, merged into another fund after subsequently losing 28% annually for the next 3 years). Over 100 of the then top-performing funds no longer exist – they've closed, merged with other funds or were liquidated. As technology was heating up in the late 1990's, new funds focusing on that area of investments were being created at a rate of nine each year, then in 1999 when the bottom fell out 33 technology funds were created. This is very similar to the onslaught of real estate funds we've seen in the past five years and also very similar to the current sprawl of energy funds and ETFs.

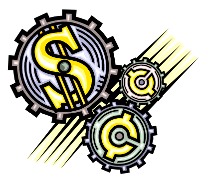
Here are a few stock analysts' quotes from the era: "The stiff market correction we've been in this year is over. The candles are lit again on the cake."; "Of course, the valuations are a little nuts, but the internet infrastructure is where it's at"; "I think there will be many, many disasters." Now we see there was wisdom in the last quote and foolishness in the first two. Analysts don't have crystal balls and neither do we. It takes a common sense approach to do well with investments. The Dow Jones Industrial Average peaked on Jan 14, 2000 at a level of 11722.98. It closed yesterday, March 10th, at a level of 11740.15. That shows a period of 8 years where if you'd invested in a DOW index fund over the past 8 years you have today almost exactly what you had 8 years ago. This blind indexing method is another foolish method of funding your future. Be careful with ETF's today, they've creating new ones virtually every week and giving investors the ability to make big bets on little sectors, which makes me very nervous.

This manic behavior is typically the beginning of a very ugly end. Call to discuss this or anything else anytime! ☺

Inspirational Quotes

- The more you can dream, the more you can do, *Michael Korda*
- The future has a way of arriving unannounced, *George Will*
- Love demands infinitely less than friendship, *George Jean Nathan*
- There are so many ways to fail but only one way to succeed; Never give up! *Johni Pangailila*
- Be a star and poke a hole in someone's darkness, *unknown*
- Life does not happen to us, it happens from us, *Michael Wickett*





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

Kids Korner

Allowing Lessons

Kids today need to understand the concept of delayed gratification. Generations X and younger seem to only know instant gratification and that is a real problem if you ever expect these kids to be good with their money. You and I make decisions every day about what to buy today, what to save for and what to say no to. It's imperative we teach our youth the lessons that we learned as kids and often times waiting makes things better, or makes the want go away. For young kids make a wish list and update it each week. Surprisingly you'll find kids cannot remember what they just had to have a week ago, and if they bought it that would have fed an evil downward spiral of poor stewardship and American consumerism. People in the world don't have food and we spend $36/gallon on Starbucks coffee. ☺

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