MIKE CHADWICK'S

MONEY MATTERS

ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

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2010 Outlook

Emotions are beginning to run high again following the news coming out of Europe in general and now specifically Greece & Hungary. Everyone is waiting for the next shoe to drop, and are acting on an emotional level as a result of it. Perhaps Tasmania will declare a fiscal crisis next? Moving forward we need to keep a clear perspective of what is really going on and assess what type of impact that has on the bigger picture, and more specifically us and our positions.

The train wreck of 2008 isn't likely to come again in our generation. Focusing on that and expecting each hiccup in the market to be a resurrection of that again is a big mistake. Most businesses are now out of crisis management mode and moving into executing their long term business strategies. This is what we want our businesses to be doing, expanding and gaining market share when their weaker or sick competitors are losing market share. Management is trying to figure out what normal demand will be for their products and services and how to best deliver them to the customers. This process may require expansion, acquisition or perhaps spinning off selling other non-core businesses.

There has been a sizable increase in merger and acquisitions lately and this is coming because of a few factors. It's a great way for a business to grow quickly, just swallow another business. It's especially attractive now as prices are very low and corporations are flush with cash so it's a perfect combination of opportunity and ability. This is why the old saying "cash is king" is so true, when great opportunities pop up like this, if you don't have the

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Inside This Issue

Perspective and Reality

The world you view is simply a culmination of your perceptions. A recent survey of 1000 Americans found the following: There are 307 million people in America, roughly half are men and half are women; 24% of the population is under age 18 and 13% is over age 65, the balance are between ages 19 – 64. This isn't too bad of a demographic when it comes to social issues, the young should balance the older in time.

The average person doesn't really have a good feel for the reality of the investment world. In 2008 the DOW was down 38%, in 2009 it was up 23%. Americans believe in general that 2009 was a bad year, 66% of people think that 2009 was a negative year for stocks. 2008 was the bad year and people confuse it for the good year. Gold was viewed as the best investment by far from all respondents in all categories. Today we have gold everywhere, TV ads are pushing gold, pawn shops, jewelry stores, computer vendors, radio ads, billboards, and even mall kiosks are all on the gold train. Why is this? It's because prices are high and people are attracted to higher prices. It's mind boggling to me that the average person behaves this way. When was the last time you longed to buy a gallon of milk for $7.00? Over the past 30 years, 60% of people thought gold beat stocks. Here is the real deal, a $1.00 investment in stocks 30 years ago would today be worth $26.82 (S&P 500) where a $1.00 investment in gold (SUP GSCI Gold Spot Index) would be worth $2.15.

It doesn't take a rocket scientist to see, gold isn't the best deal going, but because it's hot and expensive today people are after it. Human beings are hard wired to be poor, perhaps even awful, investors. This is where we bring amazing value to you, we can guide you to the places where you can profit and buy things at a discount rather than paying a premium. This is often hard to do emotionally because buying things that are a good value often have issues around them. Buying things that are expensive is easy and feels good, but it's not wise. The wise man builds his home on the rock and the fool builds it in the sand. The sand is much easier to work with, but whose house will still be standing after the storm?

This sounds eerily similar to what we saw leading up to the housing collapse. Houses were everywhere, advertised on every medium, there were even television programs aimed at helping the average Joe get a piece of the action with such shows as "Flip This House" and the like. We have since seen what happens to an asset that gets too heated up, the

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cash you cannot pounce on them. I'm happy to say that many of our businesses have been expanding organically and through acquisition lately. This is a very good sign for us and our future; these operations will make more money in a few years than they did a few years ago.

The future of our world in making money is going to be less about macro issues and more about just finding good values from the overall landscape available to us. Macro issues are the overall big picture issues like we're in an expansion; we're in a recession, etc. The GDP of any particular country doesn't' need to grow every year for us to make money. The housing market can keep going down, which it likely will, and we can make money despite it. Unemployment can remain high, which it likely will, and we can still make money. The world may not continue to grow economically and there will always be issues, as there always have been. The current gulf oil spill is a perfect example. I feel awful for the people; environment and animals being hit by this mess, but the firms responsible for cleaning it up and preventing the next one are going to have tremendous new opportunities moving forward in a market that didn't exist two months ago. This type of change, for better or for worse, is an opportunity for those with a clear vision.

We have a lot of changes going on and that is also good for us as investors. Changes ranging from headline risk to pending legislation as well as unique circumstances, there are a lot of moving parts to consider today. We're always looking at the bigger picture and looking for the chance to buy assets at discounts to their true value. When you go shopping for groceries and get a great deal on something you feel elated, I feel just as elated getting a great deal on an investment that helps you improve your outcomes.

This means the market may be flat for a very long time, but despite this fact the opportunities are very attractive. This means that if the DOW average today is around 9000, it may be around 9000 in 10-20 years from now, and that's okay. It's unnecessary to get all fired up when the DOW goes from 10,000-9,000, or 9,000-8,000 or 8,000-9,000 or 10,000-11,000. People have become trained to be elated when things are going well for a few months and depressed when things go badly for a few months. Stop that craziness. Turn the PC & CNBC off and live your life. No matter how we cut it up, it's too short of time horizon to make any judgment calls on what is really going on in a day, week or month. It's imperative to keep your eye on the long term and don't' feel that a few months or a few quarters is going to make or break your life. It's unhealthy to keep looking at the values of our businesses and other assets daily, weekly or even monthly. It's best to keep an annual perspective on things, and doing so will allow you to live a better life, without the hypersensitivity day to day gyrations. The day to day stuff is mostly emotion, with very little material information changing outside of headlines. ☺

Greek Reality

To put the Greek issue in perspective on the global stage it's important to realize how things are done there. The first thing to consider is size; the GDP of Greece is about the same as the state of Georgia and is less than 2% of the entire EU economy. The issues that are there will not send the world into another financial tailspin as the housing market did in 2008. The global banking system is much healthier than it was a few years ago, especially in the US where we are in the latter end of working through problem assets. This process is already underway in most of the world, ex Asia, but it's a bit behind in progress against the US. The people with the most exposure to Greek debt are French & German banks. If the Greek's cannot find a way, it'll become the problems of the French and German taxpayers to fund the pensions for Greek civil servants. Since civil servants now own governments worldwide, we should change the nickname from civil servants to societal masters. ☺

When the Euro zone countries all decided to join forces and create the common currency, the Euro, they were all committed to certain fiscal discipline. They committed never to spend above certain limits, to keep debt below certain limits, maintain a reasonable inflation, etc. Prior to the Euro, the rate of Greek inflation was four times the Euro zone average. Greece was given a special debt waiver to join the Euro zone with an understanding they'd clean up the debt, but they didn't. They chose to ride low rates and deflation to continue on their irresponsible paths. Nothing that is unfolding today is a big surprise to anyone familiar with the situation. Certain countries have not lived up to their end of the deal and they are Portugal, Italy, Greece and Spain and they've been given their own acronym, PIGS. It's ugly but it's painfully true, they're gluttons of fiscal abandon.

Greece in particular has a very painful attitude towards business; in fact they rank at the bottom in the global ease of doing business category. This ranks each country by how friendly or oppressive they are to business. Greece also ranks on the low middle range or the bottom of the list in many other categories, including starting a business, getting permits for construction, employing workers, registering property, getting credit, protecting investors, trading across borders and enforcing contracts. Greece ranks below Zambia, Rwanda and Kazakhstan in transparency in government and free enterprise.

In general the country is known for being hostile to free enterprise, full of corruption and willing to simply confiscate your property. Greece ranks very well at closing a business, but that's the wrong category to be famous for if you'd like prosperity. It's little wonder they're staring the bankruptcy judge in the eye. Clearly a losing example, let's hope global governments realize the path to destruction is a slow growth welfare state dominated by corruption, public unions, high taxes and deep red tape. ☺

Noteworthy News!!!

- Congratulations to Annie & Charlie Cronin Sr. on their 50th wedding anniversary! This is a wonderful accomplishment and I hope many more can accomplish it. ☺
- Congratulations to George & Jamie D'Agostino on their new home and on the birth of baby Rocco. He joins big brother Chase as baby # 2. It's going to be busy that house! ☺
- Our condolences to Janice Potter on the passing of her dear dog Randy.
- Congratulations to Richard Michaud on his recent retirement.
- Congratulations to Steve LePage on his new post as the principal of Plainville High! ☺
- Congratulations to Chris & Nikki Rinaldi on the birth of baby Gia Luciana, she joins big brother Costantino. ☺

Fiscal Fitness

The news lately over Europe's member countries having problems really boils down to overspending. When it comes to governments at all levels, they tax people and businesses for income and spend it on whatever they've decided is important. Taxes can be called taxes, fees, licenses, etc. Obvious taxes are income, sales and estate taxes, not so obvious ones are dog licenses and fees for everything you do at any federal, state or town agency. Services range from schools to roads to special services for the needy and disabled. Most of the spending comes in the form of employee wages, benefits and pensions for people charged with providing said services to the population, collecting the taxes, etc.

You would like to think that the government doesn't spend more than it collects in taxes, but it sometimes does. Sometimes it justifiably needs to for capital projects that require massive upfront infrastructure costs, but for ongoing operation, it shouldn't but often does. When the government needs more money than it has collected, it borrows the money by selling bonds to investors. These bonds typically carry a low interest rate, because governments have historically been very conservative with money and can tax their way out of problems. Greece has just experienced the lack of ability to use the bond markets to raise money because they're irresponsible with it. They don't have a revenue issue in that they take in too little, they have a spending problem. Investors decided enough is enough and now they cannot borrow money through ordinary channels. The good news is this has awakened many governments across the globe that have already begun spending cuts. Germany, U.K., Portugal, and Spain have all announced plans to cut spending as to not walk down the path of Greece. We face the same potential issues at many levels of government here if we don't change our ways. This trend may come stateside, it looks like New Jersey and California will be the first to recognize the need to show some fiscal discipline and stop spending money they don't have, just as you and I have always done. ☺ ☺

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subsequent fallout is painful. Commodities are heated up for sure today, so don't get on the bandwagon of buying what is expensive, stick to what makes sense and can be acquired at a good valuation, not what is hot and on TV.

In 2009 people took almost $8.8 Billion out of stocks while they were going down, yes while the prices were going down. That sounds insane, but it actually happens that way, when prices are attractive people sell assets. Think of going to the grocery store and paying $7.00 for a gallon of milk, then returning it the next day when it's selling for $3.99. I know there is no way on earth you'd ever do that, but this is exactly what people are doing to themselves as investors. I think this happens because they don't have comfort in what they own and they get too emotionally connected to the headlines of the day. If bad news persists in the media and prices fall for a few weeks or months, people get nervous and bail out. This is clearly not a long term investor strategy but it's the reality of human behavior.

When things are going down for emotional reasons that are not fundamentally impacting our positions, I'm adding to these positions. You need to try to view the world through my lens as it's more profitable and will provide you with less stress. I cannot control the market, nor do I know which direction it'll head in over time, but I do know a good deal when I see one. We have great deals today, not good ones so there is really no need to be nervous as most of the population currently is.

Today there is still $3.0 Trillion out of the stock market sitting in cash. This is almost double the 80 year average of $1.6 T typically in cash. That average is skewed as the population is large today and there is a vastly larger money supply, so there should be roughly 75% less in cash than there currently is. This money can't sit in cash and cash equivalents that are currently paying mostly under 1% forever. People need to get back to living and cannot earn a negative return after tax and inflation for long. The last month has again brought a flurry of selling following the panic in Europe that started with Greece. Investors typically do sell their investment assets when the values are the best for buying and vice versa. 2008 was the last time we saw net redemptions out of stocks and we're seeing it again today. This clearly illustrates it's a good time to buy.

This also clearly illustrates how pessimism blurs perception. The key is to shift focus from short term volatility to long term reality. We will all continue to live our lives and go about our daily business. We'll continue to have issues and eventually find solutions to the issues. You cannot control what happens to you or to the world, but you can control your reaction to it. Will you act by just having emotional knee jerk reactions to what happens in the headlines? Will you act by thinking through the bigger picture and trying to best position yourself for the next few years? The choice is yours, only you can decide which lens you'll view the world through. If you'd like to discuss this or any other issue feel free to reach out to us anytime. ☺

Money Quiz

This month's challenge is to tell me how many homes were repossessed in the first four months of 2010 per day. Last month's quiz was won by Luis Perez! ☺ The US State that has the same size economy as Greece is Georgia! The winner will enjoy lunch/dinner on us at Ruby Tuesdays. ☺ 052410: 12

Time Savings

We could all use more time in our lives. We all have so many things on our agenda every day and we're all so busy it's often mind boggling. To help save some time in our lives we can try to eliminate the telephone computer menu that is the ugly reality at most big companies today. When you call a monster corporation you're greeted with a friendly voice that typically says press 1 for English, 2 for Spanish, 3 for Swahili, etc. This menu system is very sophisticated today and sometimes you cannot get away from the endless menu of choices and must remain a prisoner of the phone system for 10 – 20 minutes before you're given the privilege to speak to a human being.

There is a way to shorten and sometimes completely bypass the evil phone gnomes forever. A website has been created to bring some time back into your life in this area and the site is www.gethuman.com

On this site you'll find a menu of almost 2000 companies and the secret short cuts to their telephone systems. You can often bypass the endless menu choices, selections and operators to get a real, breathing, living human being to help assist you with your concerns. They also list how long the average wait time is to try it the old fashioned way and listen to the phone menus, respond to them and be dropped into another phone menu. Here are some examples of what some corporate decision makers think you should endure prior to getting to a person:

- Face book 73 minutes
- AT&T 12.5 minutes
- Time Warner Cable 22.1 minutes
- Dell 25.3 minutes

These folks have also created an app for the iphone which you can download for free to help ease the pain when you're working the phone on the road. This is a great tool I use often and time is something none of us can get any more of. I hope this tool simplifies your life and removes some aggravation. ☺

Foreclosure Madness

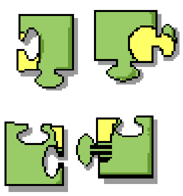
This is a growing business today, all over the globe. There is absolutely no recession going on if you're in any way related to the foreclosure business. Property managers, realtors, attorneys, bankers and the rest of the army of people surrounding this process are busier than ever. People are struggling to stay in their homes and many are losing the battle. Expect this to continue on for some time as we work through the current issues of reckless lending, high unemployment, poor savings and flawed government policy. There is also growing noise that people are just walking away from their mortgages, even if they can afford the payments, simply because the house is now worth less than is owed on it.

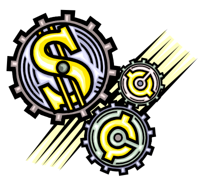
That may be the case in some instances, but the IRS has a powerful incentive for that not to happen. Even though someone can walk away from their mortgage since mortgages in America are non recourse loans, they're not going to walk away from any IRS issues that may be the result of irresponsible behavior. I think we should use recourse mortgages in America as they do in many other countries. With recourse loans, if the borrower defaults the only collateral is not the property in question, the lender can attach a person's wages or other assets to reclaim the balance of the note. With such tools, people's behavior would be better aligned with best interests of society, not just the "whats best for me" attitude that many people unfortunately have today.

So if you or anyone you love is in a tough space and contemplating a foreclosure move, they should also consider the repercussions of that decision from a tax perspective. There are two situations in which a homeowner can go under, one has no tax consequences and the other is a bloodbath in taxes. If you bought a home for $250,000 and financed the whole thing, never refinanced and then were unable to pay the note and lost the home to foreclosure there are no tax ramifications to this situation. If you were to buy a home for $250,000 and subsequently refinance, take out a new mortgage or home equity loan and purchased a car, vacation, furnishings, etc. and didn't make improvements to the property in question, there are serious tax ramifications. Here is the math. Let's say the home was purchased for $250,000 and then during the boom years it appreciated to $400,000 and it was refinanced and did a "cash out" refinance to buy a new car, take a vacation, pay for Juniors College and get a flat screen television. This is a nightmare for a financial advisor, when people live beyond their means and spend money they really don't have! It's very much like how governments are behaving today, such as Greece, Hungary, California, New Jersey, etc. In this case, when the home goes to foreclosure the homeowner has a forgiven debt of $150,000 used to pay for other things and it's considered taxable income. Assuming a 33% tax bracket, this is a $50,000 tax bill. It would have been easier to do the proper moral and responsible thing, keep the house, change your ways and work out a way to pay the debt off. The tax bill isn't going away! ☺

Inspirational Quotes

- There is no failure unless in no longer trying, Elbert Hubbard
- I find that the harder I work, the more luck I seem to have, Thomas Jefferson
- It's not the size of the dog in the fight; it's the size of the fight in the dog, Mark Twain
- The most wasted of all days is one without laughter, E.E. Cummings
- Never lose a chance of saying a kind word, William Thackeray
- The pessimist complains about the wind. The optimist expects it to change. The leader adjusts the sails, John Maxwell
- A ship is safe in a harbor, but that's not what ships are for, William Shedd





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

Kids Korner

When does a kid stop being a kid and begin to assume adult responsibility? We need to carefully assess when to allow use of the bank of mom and dad and when to ultimately turn it off forever. Typically when a student exits college armed with an education, the closure of the bank of mom and dad provides ample motivation to get the show on the road if the bank hasn't closed already. Today we see parents either unwilling or unable to close the bank and certainly unwilling to stick to tough underwriting standards. Kids in college should be paying for their own cell phones, transportation and clothes. We regularly see people helping their kids into their late 20's and 30's with such niceties in life. It's benevolent, but it's also dangerous for both you and the kids. It can stifle the child's ability to become a fully actualized adult as they never felt the fear we did entering adulthood and worked through it. This enabling behavior also may impact your future retirement, and don't expect this needy adult child to one day care for you. ☺☺☺

Connecticut Directory (860) 673 1942

Mike = mike@fiscalwisdom.com
Nancy = nancy@fiscalwisdom.com
Betsy = betsy@fiscalwisdom.com
Andrea = andrea@fiscalwisdom.com
Michele = michele@fiscalwisdom.com
Maureen = maureen@fiscalwisdom.com

New York Directory (315) 682 0348

Teresa = teresa@fiscalwisdom.com
Mark = mark@fiscalwisdom.com
Jackie = jackie@fiscalwisdom.com
Tom = tom@fiscalwisdom.com
Josh = josh@fiscalwisdom.com

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.

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CHADWICK
Financial Advisors

Connecticut Offices (860) 673 – 1942
CT Toll Free (800) 438 – 4513
New York Office (315) 348 - 0348
NY Toll Free (888) 693 - 8390

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Mike Chadwick's Money Matters

15 New Britain Avenue
Unionville, CT 06085
(860) 673 1942

Torrington, CT
Manlius, NY

Chadwick Financial Advisors
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