

## Keeping Score

Keeping score of your finances is the only true way to measure your financial success. Ignoring it will lead to ruin, just like never stepping on a scale leads to obesity, never keeping score of your finances brings you financial problems. One of the most important things to track is income and expenses, each and every day, week or month, however you budget. There are a plethora of tools out there to help you keep track of your finances; it's just a matter of choosing one method, becoming proficient at said method and getting in the habit of doing it. The fundamental thing to keep track of is your monthly cash flow. The cash flow should dictate the decisions you make in life about purchases and life style, not wants or desires.

People hate budgets and discipline, financial issues have the ability to manifest themselves just like medical ailments, and they typically have both an emotional and physical component to them. Without budgets and discipline, we'll get into the trap of "checkbook syndrome". Checkbook syndrome is a condition where one spends everything in his or her checkbook, without regard to needs, common sense or amounts, just because it is there. Without a record of your cash flows and what you can and cannot afford, people get themselves into financial trouble. I see this all too often, people always think that if they could just earn a little more, they'd be comfortable and would no longer have financial worries. People seem to believe each step up in income above where they currently are will lead to financial bliss, but it's a complete and total fallacy. For those making \$75k annually, they think \$100k is the solution to all of their financial problems. For those making \$250k, they think

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## Trading Securities

People often wonder how trading in securities works because they never see the other parties involved in the transaction. When you call a firm or go online to buy or sell a stock, mutual fund, EFT or any other type of security, who is on the other end of that trade? It's a great mystery of our advanced society that less than 1% of the population really understands. This is a great question and there are a lot of different answers as to how a trade is processed. For the average consumer, trades are married via trading systems through any major exchange such as the New York Stock Exchange (NYSE), NASDAQ, etc. These systems are the ones people typically think about when trading in stocks or other securities. Virtually anyone can go online today to any of the exchange websites and see what a security is currently trading at, how many shares are being offered for purchase or sale, how many shares have changed hands today thus far, how many trades are placed on an average day, and make the appropriate trades. This is how 99% of the population trades securities.

Because of the growth of the past several years, making a trade is just not that easy anymore. We can certainly make trades that way if we chose to do so, but when we trade we don't want to be responsible for single handedly changing the price of a security. We are not here to change or impact prices at all, we're here to take advantage of price inefficiencies. If we were to make all of our trades through this normal route, we'd drive the price of many securities all over town. Let us take an example to see how this works in a real life situation. Let's say we want to buy shares in XYZ Corp. which is trading today at \$15.00 per share and in a normal trading day has 70,000 shares trading hands each day. If we buy 1000 or 5000 shares we're not going to have much of an impact, if any, on XYZ Corp. in the market today. Think about it, if 70,000 shares trade on average every day, and the price is \$15.00 per share, in a normal day this stock sees trading value of about \$1,050,000.00 every day. For buying or selling a few thousand shares, this poses no problem, but the problems appear as volume goes up.

I rarely buy a few thousand shares of anything anymore because we're trading on behalf of thousands of peoples' accounts and hundreds of millions of dollars. Sometimes we're buying hundreds of thousands if not millions of shares of any given security in a

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## Keeping Score

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\$300k is the solution. I've seen well-to-do families burn through millions each year, so there is no magic income; it's about keeping score of your actual cash flow and making decisions based on economics, not fantasy. Politicians could benefit from learning this concept as well. This is also why actors and athletes making \$20 million each year go broke, they fail to keep score and have discipline. They had enough discipline to succeed in their sport or career allowing them to earn well, but poor financial and decision making habits ended up sending them to ruin. We see this same issue creep up with those who win the lottery or big lawsuits. Financial issues can take hold of people just like drugs or alcohol can, be careful and don't push it.

For managing your monthly cash flow, I suggest Quicken for your home, Quickbooks for your business or an Excel spreadsheet for either. With Excel you'll need to do some programming with the software to make it work, or you can check out some pre-built templates on the Microsoft template gallery. The template gallery has a wealth of templates on virtually any topic for all Microsoft programs. Spend some time on it; it'll likely save you some time and perhaps some money in the long run. For the Quicken & Quickbooks products, you'll need to become proficient with the software, which is really quite user friendly. For Quicken, I use Quicken Home & Business 2002 edition. Don't feel compelled to go out and buy the latest and greatest software. The software today is so powerful and advanced; most people don't use a fraction of what the software is capable of doing. You can get an older version of Quicken on eBay for \$5.00. The paper system, or the envelope system works great too, but the data is harder to manage once it grows over time using a non-computerized system.

Here is how I do it for both our home as well as the practice. Keep track of all income and expenses, don't use miscellaneous as a category for anything. You can use the programs to automate the entry of recurring events, such as your income or expenses, dividends or interest so you're not putting it all in there every time. If you use debit cards a lot, this will become time consuming because you're entering every transaction. As an alternative to debit cards, I use credit cards for the free money for two months, the cash back, the accounting and the ease of doing business. If you tend to carry credit card balances, stick to the debit card. Once all of your info is being put into the system religiously, compare month to month, quarter to quarter and year to year. Watch your behavior change when you know that there will be a score card on your budgeting. You'll also quickly realize where all of your money is going. ☺

## Close Track

### On Profit/Loss

We deal with a lot of business owners and many of them don't keep close track of their numbers. It blows my mind that they are not keeping track of their profit/loss per job. Depending on the type of industry one is in, this task can be simple or very complicated. If you're a home builder and build a home or two each year, you certainly know what your costs are and how much profit or loss you have per job or per home in this case. If you manufacture widgets and have a customer base of 100,000, it is an entirely different exercise. Owners in both scenarios need to know the figures to make great business decisions moving forward. I'm going to use an example of a local contractor, who may do 10 – 100 jobs per week. This is something that needs to be tool based, as in a computer software program, and once the tool is built, using it until it becomes second nature, like walking or riding your bicycle. I prefer Excel, but most industries have specialized software that can help with these calculations. It's okay to build this tool with pen and paper, but as the volume grows, it'll become unrealistic to be able to manipulate the data necessary.

Most business people don't have a good recordkeeping system of tracking their data and telling how much they made per job or per type of job when the dust settles. They're so busy day to day this information is never analyzed. The more detailed the data is, the better decisions the owner can make for the future direction of the business. For each job, there is going to be an estimate of costs given to the client, and then there is reality. I'd keep a spreadsheet of my estimated cost and actual cost, plus or minus any surprises. After I have the per job data I can now translate that data into per day, week, month, year, category, etc. The owner knows what materials (s)he may need, but something may come up during the job that changes or complicates matters, thus adding to or otherwise changing the costs. It's up to the business owner whether they'll pass the costs or savings onto the customer or eat them or increase margins. We also must consider time as part of the equation, as well as operational costs such as overhead, trucks, staff, etc. Few owners actually go back and check quotes against reality to see where the rubber is meeting the road. Once we have this system built and ironed out, we now have a tool that is absolutely indispensable, and the business owner can now tell how profitable each job was or wasn't. Armed with this information, the owner can now target the jobs (s)he does best, or those that are most profitable, and shy away from the jobs they lose money on or are difficult for them to do. The owner can now also determine business decisions such as should we change our business model, add new technology, etc. With this information, combined with the powerful gut instinct of any business owner, we increase our chances of productive outcomes exponentially. ☺



## Noteworthy News!!!

- Congratulations to the McKenna family on Amy's new job with LARC! ☺
- Congratulations to the Sage family on the purchase of their new home! ☺
- Congratulations to the Albert family on Nancy's new job with Clinical Lab Partners! ☺
- Congratulations to the Walsh family on Dan's new job at Hartford Hospital!
- Congratulations to Steven & Susan Ricca on their 40<sup>th</sup> wedding anniversary! This is a wonderful accomplishment and society would be a better place if more people could do it. ☺

### Thank You!

We're very honored, blessed and grateful to be chosen by you to be your trusted advisor. We do our absolute best to provide you with advice about finances and all related subjects. We're striving to help improve your outcomes and act as good stewards of your wealth and welfare as life unfolds. We're deeply touched and very thankful that you've voted us as one of the best financial planners in all of Connecticut. Never in a million years did I ever fathom we'd be honored in this way, never. We've had so many kind comments, letters, emails and notes because of winning this award in *Connecticut Magazine*, we're very touched and honored. It's truly our mission in life to help you however we can. We feel that we're blessed to have the best clients on the planet so once again, thank you so much from the bottom of our hearts for your vote of confidence in the state wide-survey of money managers.

### New Website

We've recently done some upgrades to our website so you can now login and see the new site which combines both Chadwick Financial Advisors & Place Financial Advisors. We're still working on adding photos and article from our archives, but the site is now alive and working and you can access it from either the [www.fiscalwisdom.com](http://www.fiscalwisdom.com) address or [www.placefinancial.com](http://www.placefinancial.com). The way you access your accounts is slightly different now. When you go to our site there is no longer a login box. You'll now have to choose where you'd like to go and login directly to one of three places. You can go to the old login site, which is really our performance reporting software button in the upper left, which is still powered by Albridge internally. Your login credentials will remain as they always were, but there was a security flaw in the old system so you can no longer access right from our site. You can also choose to view your accounts directly at Fidelity.com if you've set up your credentials there, or if we've set you up with the online vault and plan, you can now link to it directly from our site as well. Enjoy surfing! ☺

## Trading Securities (cont'd. from page 1)

single trade. If I really liked XYZ Corp. and decided that we needed 2,000,000 shares to be purchased for some or all of our accounts, think about what would happen by just "pushing the button." For a company that normally trades 70,000 shares a day, my buying 2,000,000 shares would drive the price of that company way, way out of whack. It could potentially move the price of XYZ Corp. from \$15.00 per share where it was before we started trading, to perhaps \$20.00 or \$25.00 per share or more, just because of what we're doing. Remember the market is an auction - demand raises price and lack of demand lowers price, period. Not only would the trade impact price, just the knowledge of the size of the potential trade could and likely would greatly impact price. This is how emotional the market is, if the markets were to know someone wanted 2,000,000 shares of the company, the overwhelming response would be, "Wow, something big is happening here". The emotional herd would follow me and buy like mad, just because I'm buying, not for any good reason they know of, and this would further exacerbate our problem of impacting price. The same thing happens on the sell side, we'd drive the price into the ground if we were selling the security in those quantities. Obviously, we cannot do that to a price of anything we're invested in so we must find other methods.

There are several methods for use in trading large quantities of shares without having an impact on price and without letting people know what we're up to. We can use Dark Pools, Institutions or Algorithms to get in and out of shares without impacting price one iota! Dark Pools are not a creepy critter trap from Harry Potter, they are an electronic trading platforms set up for institutions to use in order to carry out major stock transactions anonymously. With Dark Pools, nobody knows who is buying or who is selling, and the number of shares open for trade remains unknown. In a "normal" trade, we would see that Fidelity is trying to buy 10,000 shares of XYZ Corp. In a dark pools, it's all a mystery as to who is buying what and how many shares are wanted or available for sale.

Institutions means simply two firms trading between one another. Perhaps we will partner up with a pension fund from Texas and trade a few million shares of stock, it's just between the two of us, nobody in the general stock market knows, no prices or volumes are reported, so we don't influence price at all. Both of the institutional traders involved know what we want and what we don't want, so we're happy to make the trade between ourselves, and everyone saves money in the process. The difficulty here is making a marriage between who wants to buy and sell the same security in the same quantity simultaneously. We can also use Algorithms to have our large trades broken down into smaller trades across all available markets over time with little to no impact on prices. Algorithmic trades are rapid fire trades, but very small. This system can take a lot of time, perhaps a few weeks or months to fully enter or exit a position, depending on market volume of the target security, and how much of it we want to accumulate or unload. ☺



## Money Quiz

This month's challenge is to tell me of the 76 million homes owned in America, how many of them are paid for and have no mortgage debt - first, second or home equity. Last month's quiz wasn't won. ☺ In 1979 the maximum contribution to the newly written 401(k) plan was \$7979.00. The winner will enjoy a meal on us at Ruby Tuesdays. ☺ 122010:6

## Grate Stuff

Now that winter is upon us, and it's a cold one, we're once again faced with insane energy bills. There is no shortage of oil or petroleum products, the pricing we have today is purely a product of trading pressures and is arguably highway robbery. Iraq will soon be producing more oil than it has in almost a decade and we're still seeing oil prices rocket up. The world is awash in oil. This is a sad situation, but the reality of our world today. I do not see it staying here, but it's here for now so we must either deal with it or find alternatives.

There are a lot of alternative energy sources that are becoming more and more mainstream and hopefully over time, we'll have fuel cells, solar and other options that get us away from Middle Eastern oil. An old school technology that has worked for centuries has just gotten a big lift with a very simple thing I've just discovered. Fireplaces have come under scrutiny in the past decade for their inefficiency, some claiming they lose more energy than they create. I cannot disagree with many of those notions as they just aren't pillars of efficiency. An insert turns a normal fireplace from a questionable heat source to powerful one, but inserts can be expensive for some people. Enclosed stoves are efficient and always a great idea, and for those with property it's a no brainer.

Locally right in Connecticut, we have a company called the "Grate Wall of Fire" and they make a fireplace grate that is a totally different design that what's been used for centuries. We recently tried these grates in our house and Pops house and holy cow, the results are impressive. I'd compare this fireplace grate to having almost the same type of heat radiation as a fireplace insert, for about 3% of the cost, no moving parts, and no electric bill. The typically dirty, smoky fire is also gone, no allergy, smoke or air problems with the fireplace now. This is worth checking out for anyone who has a fireplace or likes a fire. You can find them here at [www.gratewalloffire.com](http://www.gratewalloffire.com) ☺

## Mr. Bipolar Market

Bipolar disorder is defined as having periods of excitability (mania) alternating with periods of depression. Bipolar is tough for anyone to have to deal with - the affected and those who care about them.

There is a mechanism we deal with on a daily basis that is also very bipolar-like, though most people normally don't associate the two. The stock market operates heavily on mood and attitude in the short term, but in the long term it operates on logic. Day to day, events can cause massive swings not based on financial fact or fiscal reality, but purely based on mood and attitude. There is so much data that comes out in the world each day regarding the economy, politics, health etc., that it is difficult to find uniform and consistent data. The data is typically all over the map and very open for interpretation. How the markets react to certain data on any given day is a complete guessing game and is typically based on the mood of the day.

A perfect example of this is what recently happened with Bank of America. Over the past few weeks there has been a lot of data on how they prepare mortgage foreclosure filings with "robosigners" (people who sign off on a lot of foreclosure cases in a single day). On the day that the news came out, BoA was down 4% on the market. The next day another news story came out that a regional law firm was taking Bank of America to court over these same "robosigner" practices, and their stock is 5% on the day. Did either event really change who or what the company is? No, not at all. Both days' news might have an impact on the business long term, but it's not very likely with an institution of BoA's size.

What is really going to matter is how the business fares in the long term, in a year or two when the dust settles and the allegations prove true or frivolous, and how or if they impact actual earnings. When it comes to the economic reality of the business over a period of a few years, the value will be truly reflected in the share price. The day to day, week to week and even quarter to quarter fluctuations have more to do with the "bipolar disorder" or the market and the humans running it than they do with actual economics. In the short term the markets are like a voting machine, but in the long term they're like a scale.

Markets do operate as a true auction market each day, and sentiment determines the day for anything that trades on a market. If people are generally happy about a particular news item, it'll be in demand and price will rise. If people are sad, frightened or upset about a particular news item, price will fall due to lack of demand. This auction is much more complicated than the local house sell off, but the logistics and emotions that drive prices are exactly the same. ☺



## Inspirational Quotes

- Strength does not come from winning. Your struggles develop your strength. When you go through hardship and decide not to surrender, that is strength. ~ Anonymous
- Long-range goals keep you from being frustrated by the short term failures. ~ James Cash Penney
- The past cannot be changed, the future is yet in your power. ~ Hugh White
- Don't ask for a light load, but rather a strong back. Anonymous
- Accept challenges so that you may feel the exhilaration of victory. ~ George S. Patton
- Challenges are what make life interesting; overcoming them is what makes life meaningful. ~ Joshua J. Marine
- In order to be walked on, you have to be lying down. ~ Brian Weir



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



## Kid's Korner

Kids should be able to face adversity and challenges without getting bailed out. This is how they build strength. Some are spoiled brats because they were never forced to face a challenge and grow through it, life was always handled for them by a parent, grandparent, nanny etc. Issues were always resolved for them, so they didn't build the skills necessary to become self-actuated adults. This is a huge mistake in raising children. We all want our kids to do well in the world and have a good life, but if we shelter them too much they'll end up having a hard life without the ability to deal with tough issues that inevitably come up. I'm a huge fan of street smarts, and my fear is that we're raising a generation of kids who are brilliant with scholastic issues, but have little to no street smarts or communications skills. Always having them in a controlled environment, and having their faces in a phone or videogame for their entire childhood, does not teach coping, social and street skills need for their futures. ☺

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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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- Trust, inheritance and foundation planning

## Mike Chadwick’s Money Matters

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