

Sector Stimulation

The economy is broken down into certain sections often referred to as “sectors.” These sectors each represent a specific part of the economy. I go in depth and track 197 of these sectors but for today just want to highlight some of them at each extreme of the spectrum today.

The sectors with the most demand activity in them in the past few weeks are the following:

- Internet Network Services
- Medical Biotechnology
- Leisure products
- Machinery
- Commercial Services
- Building Construction Products (yes, it’s true)
- Building mobile homes
- Chemicals
- Retail Auto trade
- Western Banks

When a sector has strong demand, prices typically rise in the sector because of that demand. Remember the markets are a simple auction house based on supply and demand. More demand prices go up, more supply prices go down. IT’s a very complicated auction market, but one nonetheless. I’m very much a maverick and tend to buy into the weakest sectors, waiting for a turnaround in them and then reap the rewards of the picks and the sector in general. This can be a double edge sword because if the sectors are down and out, it’s painful for a while until it turns around.

It’s best to have some exposure to several sectors to offset this effect, but many argue true big time wealth is created by concentration. Nobody can argue that, look at anyone who has made it big time in our

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Not so Gold at Goldman Sachs

Goldman Sachs is a monster investment bank that for a long time has been a global dominator. They’ve flourished with a culture of always doing the right things and being a very astute group of people. It has been argued in recent years that Wall Street and Washington are too greedy. I agree with it 100% and this executive by the name of Greg Smith recently resigned and wrote a public letter explaining why he resigned. It shows some real issues with the fabric of culture not only at Goldman, but in America in general. Here is the actual letter he published in the New York Times on March 14th.

Today is my last day at Goldman Sachs. After almost 12 years at the firm — first as a summer intern while at Stanford, then in New York for 10 years, and now in London — I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it. To put the problem in the simplest terms, the interests of the client continue to be sidelined in the way the firm operates and thinks about making money. Goldman Sachs is one of the world’s largest and most important investment banks and it is too integral to global finance to continue to act this way. The firm has veered so far from the place I joined right out of college that I can no longer in good conscience say that I identify with what it stands for.

It might sound surprising to a skeptical public, but culture was always a vital part of Goldman Sachs’s success. It revolved around teamwork, integrity, a spirit of humility, and always doing right by our clients. The culture was the secret sauce that made this place great and allowed us to earn our clients’ trust for 143 years. It wasn’t just about making money; this alone will not sustain a firm for so long. It had something to do with pride and belief in the organization. I am sad to say that I look around today and see virtually no trace of the culture that made me love working for this firm for many years. I no longer have the pride, or the belief.

But this was not always the case. For more than a decade I recruited and mentored candidates through our grueling interview process. I was selected as one of 10 people (out of a firm of more than 30,000) to appear on our recruiting video, which is played on every college campus we visit around the world. In 2006 I managed the summer intern program in sales and trading in New York for the 80 college students who made the cut, out of the thousands who applied.

I knew it was time to leave when I realized I could no longer look students in the eye and tell them what a great place this was to work.

When the history books are written about Goldman Sachs, they may reflect that the current chief executive officer, Lloyd C. Blankfein, and the president, Gary D. Cohn, lost hold of the firm’s culture on their watch. I truly believe that this decline in the firm’s moral fiber represents the single most serious threat to its long-run survival.

Over the course of my career I have had the privilege of advising two of the largest hedge funds on the planet, five of the largest asset managers in the United States, and three of the most prominent sovereign wealth funds in the Middle East and Asia. My clients have a total asset base of more than a

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Sector Stimulation (continued from page 1)

world, it's always been with monster concentration not only in one sector, but in one company. Look at the Ford's, Walton's, Gate's, DuPont's, Buffet's, etc. All examples of people who had virtually every nickel they owned in one firm, and the payoff was mind boggling.

These are the sectors with the least demand and price activity today:

- Solar Energy
- Coal Energy
- Mining Gold & Silver
- Food Confectionary
- Blank Check Companies
- Gas Utilities
- Oil & Gas Exploration
- Internet Retail
- Utilities Electric & Diversified
- Soap & Cleaning products

The concept of sector rotation is that as a sector goes from no attention to lots of it, the companies within that sector will begin to do well and vice versa. We've done a lot of study into this area and find it has merit. I've traditionally gone after what others have no interest in and waited for the crowd to come to me. With this sector rotation joined into my existing infrastructure we will be able to better time when to enter and when to exit sectors based on how they're doing overall.

The hottest sectors are the best performing ones and the dead sectors are the worst performing ones. I of course like what nobody else does so I'll move into researching the cheapest sectors and wait for them to begin to move, then jump in. We will use a combination of that strategy along with following the hottest areas if they make sense and there is demand.

I'm always looking for opportunities for us to profit. Value thinkers always start at the bottom of the list and go for what is absolutely the cheapest thing out there. Growth thinkers do the opposite and of or what is hot today. No system is better or worse, it's just a matter of what you're good at or how you operate. I've been a deep value guy forever, but as time evolves I'm becoming more of a combination type where I am happy to be in either pale, as long as the risk reward ratio is satisfactory.

Cleaning the System

There is no shortage of issues today facing the world, but working simultaneously behind the scenes are a plethora of good news and steps being taken to move us in the right direction for a change. Congress will no longer be able to trade on inside information. Congress should live just like we do, absolutely no exceptions with the same rules and benefits. Push for this when you talk to them next time. The SEC is also working on stopping pre-IPO trading abuses. This has become a big deal in recent years as popular deals have become an active trading system in what was once an obscure market.

This is a wild market because before a company is publicly traded (pre-IPO) there shouldn't be much trade. It would be like me or any local business owner selling some shares in our companies to anyone else on the planet. Not an easy to do thing for anyone involved in buying or selling an entire business, forget a small fractional share. This has become big business because more and more people want to own a company before it goes public because many public companies "pop" or run up in price once the IPO hits Wall Street.

Unions in Europe and Detroit are losing their power so there should be fewer economic casualties in the future. I suspect unions will become a thing of the past in the next decade or two. Unions are currently dominating the public sector, but as it goes broke that'll change through the force of economic reality. It is sad to see the way things have played out, but will be a blessing when all is said and done. Unions have become so powerful and politicians have become so dumb that they have bankrupt companies, states and now countries. We're not done with the financial fiasco that started brewing in Europe, but we're on the right track in dealing with the real issues. Rhode Island has recently changed their pension laws to come in line with reality and many states are moving towards fiscal balance. Unfortunately, the liberal states like NY, CT, CA, and IL are all still moving in the wrong direction. This will change shortly as the population walks to smarter fiscal states and these states continue to fight deficits in the years to come where states whose leaders can add will have plentiful surpluses.

People are much more conservative with their financial decisions and concerned about their future, as they should be. People will be more responsible for themselves as government cannot take care of everything. Credit is unavailable to those who never should have had it in the first place. It's a painful reality for those who expect others to do for them wake up to the reality that we're each responsible for ourselves.

Technology and innovation continue at an unprecedented clip. Things are changing so quickly it is truly mind boggling. I recently had some people visiting and just looking at my screens and my watch lists they shook their heads in laughter, it's just too much to keep track of. For some maybe, but that is wonderful stimulation for me!

Noteworthy News!!!

- Our condolences to the Guastella family on the passing of Theresa.
- Congratulations to the Bourdeau Family on the purchase of their new home!
- Our condolences to the Gridley family on the passing of Lt. Col Timothy Gridley.
- Congratulations to Lauren Munill on the purchase of her new home

Question & Answer

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

Q: How are IPO's generating so much attention today?

The initial public offering (IPO) of a stock can be very hot if the company or industry is hot. It can simultaneously be a big dud. We've had a bit of each in the past few weeks, seeing the best and worst of the IPO world lately. Today social networking and technology companies are hot and the IPO market is as hot as it's been in a long time. The world is waiting for the big Facebook IPO that should be happening in the coming months as long as the markets don't have another meltdown. We've got a lot on the plate lately in the IPO space, many companies are lined up to go and price in the coming months. We don't participate in IPO's, but these initial public offerings of stocks are what make modern society work the way it works today. When a stock initially lists as a public company, it's now available to anyone who wants to buy it. When a company is private, it's only available to those who already own or close friends and relatives. Think of IPO's as new inventory in the world of things you can own. In the coming week's we're going to have a dozen or so IPO's in all types of businesses and industries. We'll have new companies becoming public in the natural gas arena, ad agencies for mobile phones, natural foods, cancer therapies, solar systems, makers of pipes, gears, pex, computer and internet service firms, computer chips, retailers and alternative loan companies.

Every public company was at one time or another listed on an exchange as an IPO. Some are newer listings and some are old stalwarts that have been around for hundreds of years, but the evolution of the company from a private firm to a public one is a very interesting process.

It can also be a huge opportunity to find and own businesses that can change the world and the way everyone works within it. Moving forward, some interesting spaces will be how the most successful businesses deal with pollution, water, energy, technology and healthcare in the coming years and decades. I'm on a constant hunt to find the best companies in the best industries to help improve our financial outcomes. Hunting is fun! ☺

Not so Gold

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trillion dollars. I have always taken a lot of pride in advising my clients to do what I believe is right for them, even if it means less money for the firm. This view is becoming increasingly unpopular at Goldman Sachs. Another sign that it was time to leave.

How did we get here? The firm changed the way it thought about leadership. Leadership used to be about ideas, setting an example and doing the right thing. Today, if you make enough money for the firm (and are not currently an ax murderer) you will be promoted into a position of influence.

What are three quick ways to become a leader? a) Execute on the firm's "axes," which is Goldman-speak for persuading your clients to invest in the stocks or other products that we are trying to get rid of because they are not seen as having a lot of potential profit. b) "Hunt Elephants." In English: get your clients — some of whom are sophisticated, and some of who aren't — to trade whatever will bring the biggest profit to Goldman. Call me old-fashioned, but I don't like selling my clients a product that is wrong for them. c) Find yourself sitting in a seat where your job is to trade any illiquid, opaque product with a three-letter acronym. Today, many of these leaders display a Goldman Sachs culture quotient of exactly zero percent. I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It's purely about how we can make the most possible money off of them. If you were an alien from Mars and sat in on one of these meetings, you would believe that a client's success or progress was not part of the thought process at all.

It makes me ill how callously people talk about ripping their clients off. Over the last 12 months I have seen five different managing directors refer to their own clients as "Muppets," sometimes over internal e-mail. Even after the S.E.C., [Fabulous Fab](#), Abacus, [God's work](#), Carl Levin, [Vampire Squids](#)? No humility? I mean, come on. Integrity? It is eroding. I don't know of any illegal behavior, but will people push the envelope and pitch lucrative and complicated products to clients even if they are not the simplest investments or the ones most directly aligned with the client's goals? Absolutely. Every day, in fact. It astounds me how little senior management gets a basic truth: If clients don't trust you they will eventually stop doing business with you. It doesn't matter how smart you are.

These days, the most common question I get from junior analysts about derivatives is, "How much money did we make off the client?" It bothers me every time I hear it, because it is a clear reflection of what they are observing from their leaders about the way they should behave. Now project 10 years into the future: You don't have to be a rocket scientist to figure out that the junior analyst sitting quietly in the corner of the room hearing about "Muppets," "ripping eyeballs out" and "getting paid" doesn't exactly turn into a model citizen. When I was a first-year analyst I didn't know where the bathroom was, or how to tie my shoelaces. I was taught to be concerned with learning the ropes, finding out what a derivative was, understanding finance, getting to know our clients and what motivated them, learning how they defined success and what we could do to help them get there. My proudest moments in life — getting a full scholarship to go from South Africa to Stanford University, being selected as a Rhodes Scholar national finalist, winning a bronze medal for table tennis at the Maccabiah Games in Israel, known as the Jewish Olympics — have all come through hard work, with no shortcuts. Goldman Sachs today has become too much about shortcuts and not enough about achievement. It just doesn't feel right to me anymore.

I hope this can be a wake-up call to the board of directors. Make the client the focal point of your business again. Without clients you will not make money. In fact, you will not exist. Weed out the morally bankrupt people, no matter how much money they make for the firm. And get the culture right again, so people want to work here for the right reasons. People who care only about making money will not sustain this firm — or the trust of its clients — for very much longer. This is not only true at Goldman, but the world in general on every level — corporate, government and each individual.



Money Quiz

This month's challenge is to tell me how many publicly traded companies are headquartered in Connecticut with a market capitalization of \$10 million +. Last month we had no winner on the benefits question! 19% of the American population receives some form of benefits from the social security administration!

500 Billion

This is the current value of Apple as measured by market capitalization. They've officially joined the 500 B (billion dollar club.) This is a very exclusive club and not many companies ever get to this level. The big question is just how sustainable is this level. Let's look back into history to take a peek at other companies who have accomplished this feat and see where they are today.

Cisco hit 538 B in March of 2000. Today they're valued at 108 Billion. They've lost 80% of their value in the past 12 years. Intel hit 503 B in August of 2000; currently they trade at 135 B, down 73% from their high. GE hit 581 B also in August of 2000; they're now at 203 B, down 65%. Exxon Mobil hit 513 B in July of 2009; they're currently at 411 B, only down 20% that's still a painful loss if you bought it on top. Microsoft hit 600 B in Dec 1999, now it's trading at 268 B, down 56% from its top.

The bottom line here is that it's very difficult to hold onto that size of a market capitalization. Apple is currently larger than the country of Poland, the entire retail sector, the entire semiconductor sector. The sectors encompass every business in that space. Sustainability comes to mind? There is no doubt Apple is an awesome company with awesome products and a mountain of cash on hand, almost 100 billion. Everyone says this time is different with Apple. It was different with every other company listed above too. I see a distinct difference in that the valuations of Apple based on fundamentals are reasonable today; with many of the other high flyers in technology they were insane. The question is just how sustainable is the current trajectory? The growth in the past few months alone has almost doubled the market cap number. We didn't ride Apple much, but we will ride the next Apple, the next great game changer!

Let's compare Apples market cap to some other big dogs out there and see just how big it is in comparison.

- Berkshire Hathaway – 110 B IBM – 226 B
- Wal Mart – 212 B AT&T – 177 B
- Johnson & Johnson – 177 B Google – 197 B
- Proctor & Gamble – 176 B Coke – 154 B

In Force Illustrations

There is great wisdom to be had from the faces of the pages of an in force illustration. This is special insurance policy paperwork and is very difficult to obtain. This mystical document called the "in force illustration" is the computer projection of how a life insurance policy that is currently in force will behave financially moving forward. It typically shows the guaranteed values, values projected at present levels, and some midpoint protection somewhere between guaranteed values and current environment.

When we are asked if an existing insurance policy is good, bad or indifferent, this is the tool we need to make the proper assessment. We cannot get this tool for you, you must request it from the company that issues, or services the policy if it has since been sold. Getting this is quite the project. You'll need to call and request it, but the insurance companies are typically reticent to give it up. If you really want to know how your policy is going to behave, and whether it's anything like what you were promised when you bought it, this is the tool you must use. If you call to request said document, be firm and try to get them to fax or email it as it's quicker. Many firms will claim they can only mail it, and that is a joke, but be sure you get it. Sometimes a few weeks go by and busy people forget to follow up and if it doesn't show up you'll need to get back on the phone.

Life insurance is complicated and comes in many flavors, but this tool is the only way to see how a policy is likely to work out and exactly what your guarantees are within it. It is critical you understand your policy and it's healthy to show a comparison of in force illustrations to original illustrations to see how you're tracking. It's also important you do this while you're healthy because if you need to make changes and go with a new policy, you'll need your health to do it.

This document will show you exactly how your policy will behave in the future. It shows the premiums you pay today, and what they'll be moving forward. It is critical you know exactly what is so you're not ending up with a policy that becomes unaffordable in time. This will also show you if you have a planned premium, whether or not it'll last long term or the policy will "explode." We call a policy explosion the point where you can no longer pay what you once paid for a given level of coverage. You'll have a choice of paying the same rate for a small fraction of the coverage or paying a lot more for the same coverage. Typically when you get to this juncture the cash value, if you ever had any, is gone and will never come back. This typically comes when people are in their 50's or older so getting insurance isn't so easy anymore if any health problems have emerged. This information is priceless and you should request this from your insurer every 5 years or so to make sure the original plans you set forth will continue on and there will be no surprises.

This is for information purposes only. This is neither an offer to sell nor a solicitation of an offer to buy.

Inspirational Quotes

- Don't wait around for other people to be happy for you. Any happiness you get you've got to make yourself, Alice Walker
- There's a beauty to wisdom and experience that cannot be faked. It's impossible to be mature without having lived, Amy Grant
- A person's true wealth is the good he or she does in the world, Mohammed
- The charitable give out the door and God puts It back through the window, proverb
- The unselfish effort to bring cheer to others will be the beginning of a happier life ourselves, Helen Keller
- A big shot is a little shot that kept shooting, anonymous
- There's always free cheese in the mouse traps, but the mice there aren't happy, anonymous



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

Game it!

Kids today are a generation of game junkies. This isn't a bad thing as long as parents find a way to moderate it. Today's games are incredible in every way. They are alternate realities and pull a lot of adults into the mix as well. I've found a fun way to teach kids about money and game it. Here are a few sites that can change the game (pun very much intended) for kids to begin their adventure into fiscal fitness.

These sites are great for the kids - Countmybeanz.com, tykoon.com Threejars.com, and orangekids.com.

For the sports fanatic, there is special great news, financial football. It's like fantasy football with a financial twist. Speaking of fantasy sports, a lot of my contemporaries spent a whole lot of their time and energy on that game. I think fantasy football and the stock market are almost identical. Players are companies, some win, some lose, but the time spent in fantasy sports isn't financially rewarding, investing is tremendously rewarding. The game I play is just as fun, albeit a bit more complicated, but much more rewarding!

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

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

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Visit us online at www.fiscalwisdom.com



Connecticut Offices (860) 673-1942
CT Toll Free (800) 843-4513
New York Office (315) 682-0348
NY Toll Free (888) 693-8390



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15 New Britain Avenue. Unionville, CT 06085
860.673.1942
Torrington, CT . Manlius, NY

Chadwick Financial Advisors Place Financial Advisors

