

Aluminum Thick & Thin

Aluminum is truly an amazing product and it surrounds us in so many walks of life that people don't realize on a day to day basis. What makes this product truly amazing is that it's abundant and light weight, low density yet malleable and strong, resistant to corrosion and super versatile.

Aluminum is everywhere in our world from airplanes to the kitchen. The cans your food and soda are stored in are aluminum. Bicycle frames and ladders are many times aluminum. Mailboxes, computer towers, wiring, the silver lined wrapping of that food item, TV trays, the cap on the yogurt cup are often made of this recyclable wonder. Many kitchen tools are made of aluminum as are the wheels on your car if you've upgraded from the "basic" wheel package. The keys to your car and sometimes that key ring and parts of the key fob are made of aluminum. Part of the coins you use daily in commerce are made of aluminum and the skin of your stainless steel appliances are sometimes made of a blend of an aluminum alloy.

Your watch, the razor blade you shave with, measuring cups, the battery pack to charge your electronics as well as the cell phone charger body are often aluminum. The watering pot for your garden and the cake tins are often aluminum. If you're heating up that party tray with the sterno it sits in an aluminum tin can, which will turn into your soda can in it's next life. The panels on many cars are now aluminum as are the truck boxes on Ford pickups, all in an effort to save weight and increase fuel economy. The engine block of your car, or perhaps the cylinder sleeves are likely aluminum. The clothes your house is wearing (aluminum siding) will be the shiny metal as will your patio furniture, the frames of your windows and doors and some roofing panels. The garden furniture and window shades on many homes are a bright and shiny painted aluminum framed objects. The patriotic flagpole we all love to hang our good old USA flag from are almost always aluminum. Your heating units on the floor of your home are either aluminum or cast iron, and if you happen to have a 3D printer it's framed in aluminum. The license plate on your car that was stamped at a prison is light and rustproof because of the elements of aluminum.

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The Diversification Illusion

The old saying is very true, don't put all of your eggs in one basket. The concept is to have lot of different types of investments that all behave differently at various times so that overall, you're doing well yet you're protected from an unforeseen event that could potentially turn your 401k into a 201k. Nobody likes that kind of a demotion.

Today the world is awash in generic prescriptions that will solve all peoples financial woes as long as they have a certain mix of stocks and bonds. It may be all stocks if your 20 and then it slowly reduces stock exposure as you age and then in or near retirement it reduces it further. As if this mix of two asset classes is the panacea of fiscal safety and stability. We see many times they further cut up these two categories into smaller subsegments and add in other types of the same two items. Maybe in the stock side we have small stocks, mid size stocks and big stocks. Foreign stocks, american stocks and global stocks. We keep cutting and then we have value stocks, growth stocks and blended growth and value stocks. What we've seen in the past decade is these various slices of stocks perform very much in sync with one another with few exceptions. We saw American stocks dominate for years while foreign ones suffered. We've seen them all move together in either direction. Last year Brazilian stocks lead the way after 5 years of a pummeling. Most don't noodle the classed down to a country but at best a region of the world or a classification of markets perhaps developed vs. emerging markets.

Now we move over to the bond side of the house and we cut up the bond sector into various parts. We have corporate bonds, high quality bonds, junk bonds, government bonds, mortgage bonds, municipal bonds, revenue bonds, zero coupon bonds, laddered bonds, emerging market bonds and so on. There is more true opportunities in the bond world to have truly different assets that are not correlated and perform the same in any given market environment.

What the system fails to recognize in all of this slicing and dicing is what if the two categories themselves are out of favor? If that's the case well then Houston, we have a problem. We really do have a problem that nobody is talking about, we're in a bubble of asset prices that is far reaching. Stocks, bonds, real estate and most major asset classes are overvalued and in a big way. I feel like 1999 all over again but in reverse.

Continued on page 3, Diversification Illusion

Aluminum Thick & Thin (cont'd from page 1)

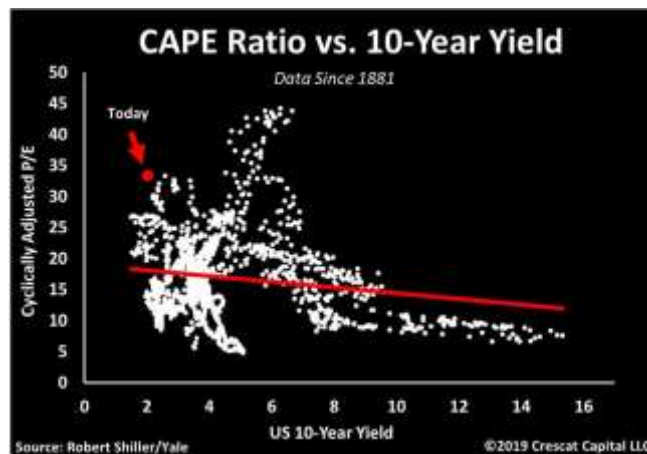
The most popular application around the house may be the good old reliable aluminium foil. What is the # 1 use of aluminum foil? Replacing worn out aluminum foil of course. We refer to this amazing use as duct tape for the kitchen. How is it used in your kitchen?

- Cupcake uses it to line the stove when cooking to protected the stove
- Likewise it lines the baking pans so they're easier to clean and contain the mess
- They are instant covers to any pot, bowl or pan to house and keep the leftovers fresh for days to come
- Soften that brown sugar in the oven
- Protect the pie crust and don't allow it to burn or blacken
- Use it as a lifting and heat protection tool for picking up the pressure cooker lid or hot items if it's crumpled up with air pockets.
- Make that funny shaped cake pan in the shape of anything you can imagine and work it into. The cool birthday cake shaped like a 3D ball is only possible because a small aluminum ball was inside the cake pan.
- Wrap the heating element surrrounds of your stove with aluminum foil so they don't get all stained and burned as things spill over the burners.
- Clean those cast iron frying pans with crumpled up foil, while you're at it anything stuck on dishes or pyrex of the like are no match for the crumpled up ball of aluminum foil.
- Instant pan or cover to reheat that pizza or other fun food from yesterday.
- Scare birds away from your garden or boat with small strips that blow in the wind and appear to be a letha predator to the flock
- Clean your sliverware with the ionization effect of the foil
- Make sliding furniture around the house much easier with a small pad of foil under the legs of any heavy furnitue you need to move from time to time. They sell special sliders for this but the foil does the same job at a great savings.
- Forget dryer sheets, put a crushed up ball of foil in the dryer and the static is long gone
- Iron on a piece of foil to speed up that process, it radiates the heat back into the article of clothing and shortens your work.
- Sharpen your scissors with the foil
- Use it to protect your barbeque grill drip pan so it's easy to clean and protects the original
- Boost your wifi signal from your router by making a simple but effective antenna for your home or shop
- Tighten up those loose batteries in any electronic device where the springs are getting weak by stuffing just the right sized chunk of foil into the gap.

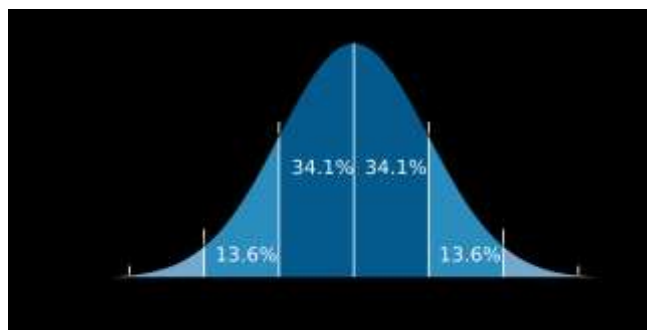
Share any other cool ideas you have with us and we'll pass them along!

Standard Deviations!

I love math and statistics and details. We present you with a very interesting scenario we have today where the CAPE P/E of the stock market and the 10 year treasury yield are 2 standard deviations away from normal. The red dot on the top left of this chart illustrates how the CAPE P/E is now over 30 with a historical average of 15-16 and the 10 year yield is at around 2%. We add in the fact that the yield curve is inverted and this is something we don't see every day.



Some refresher informantion on Standard Deviation from that statistics class reveals the bell curve. Here we go with a quick simple math history lesson. Below we have a plot of normal distributions of results and each column is a single standard deviation. Most results occur in the middle and 34.1% occur on each side of the middel so 68.2% of results occur within the mean.



27.2% of results occur within 1 standard deviations and 4.2% of retls occur within 2. We're now at a point where 0.2% of results occur within 3. Not a lot of company here in terms of how often we see this. It feels normal today, it'll feel very abnormal soon! ☺

Noteworthy News!!!

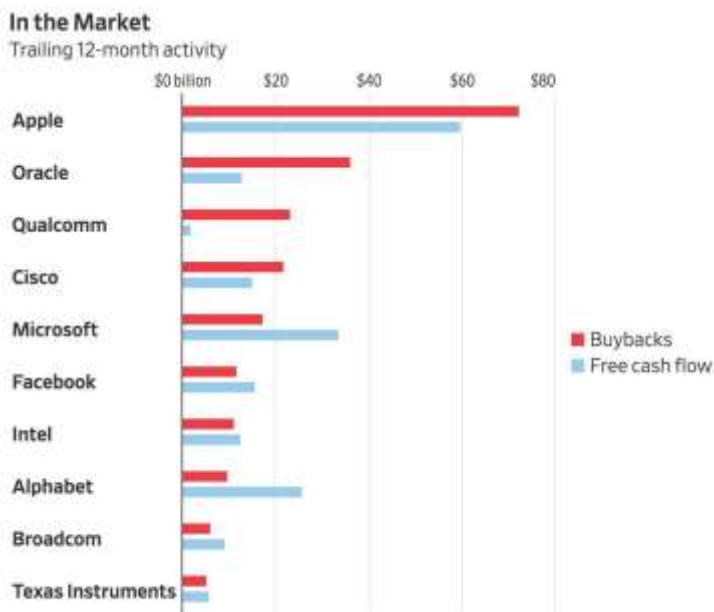
- Congratulations to Steve LePage on his new job as Superintendent of schools!
- Our condolences to the Pelletier/St. Pierre family on the passing of Renaud, a wonderful man, husband, father, brother, grandfather and friend.
- Congratulations to Stephanie Lauretano on the purchase of her new home!
- Our condolences to the Bartolomeo/Albanese families on the passing of Georgina, a wonderful woman, wife, mother, grandmother, great grandmother, sister and friend.

Question & Answer

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

Q: Do companies buy back shares at the best possible prices?

No, not even close. We find that companies for the most part buy back their shares when the prices are very high and conversely sell shares to raise equity when the prices of their companies are very low. Right now we're in an era of massive stock buybacks, sometimes above and beyond the free cash flow of companies. We're also at record stock prices across the globe, very bad timing. Here is a great graphic to illustrate this perfectly:



Source: S&P Capital IQ

In 2009 when things were cheap and people were scared companies were not buying shares, they were raising capital by selling shares, at a record pace. You can use company buybacks and capital raises as reverse sentiment indicators as to whether it's a good time or a bad time to be looking at the shares of a company.

Diversification Illusion! (cont'd from page 1)

Back in 1999 only tech stocks were out of control, the rest of the world was sane and there plenty of places that made sense to buy and hold, knowing cleared heads would prevail soon and the undervalued assets would finally wake up and take off at the expense of the hot stuff of the day.

Today we have almost the polar opposite most asset classes are heating up beyond boiling and they're about to spontaneously combust. The assets that really make sense from a valuation perspective are now the minority and in a big way. We feel that commodities, some select emerging markets, energy, shorts and managed futures are true values today. Not a big list in a world with tens of thousands of choices to pick from.

I'd call this the who's who of dangerous times to invest and we do a lot of pension work. We're so turned off at the basic illusion of diversification in most investors approaches today it's time to rewrite the play book on diversification. It needs many more asset classes that are not correlated and it also needs to build into it a valuation component. If certain assets are truly undervalued those assets need to be present in the allocation and instead of chasing the hottest markets out there, how about slowly adding to those undervalued categories slowly and methodically. We won't do what market averages do, but we'll be taking on a lot less risk and over a market cycle doing better than any one class by buying good things out of favor at great values.

The idea of getting in on the ground floor of asset classes after very unfavorable periods of time to ride them into favor and constantly rotating that process will make risk substantially lower than what most are assuming today. When we explain to people that many stocks are currently trading at 2 to 10 times normal valuations and many bonds are trading at 20 – 40% premiums to par and make the comparison to their home their desire for the asset changes. If your home is worth 400k and some offers you 800k I'm guessing you'll sell tomorrow, keep all of the furniture too just give me my pictures and personal items. That's at only double, what if it were 10 times and they offered you 4.0M? Keep the clothes too just give me the pictures and memorabilia. Folks this is where we are today and we want to be sure you're truly diversified and it's not an illusion.

Money Quiz

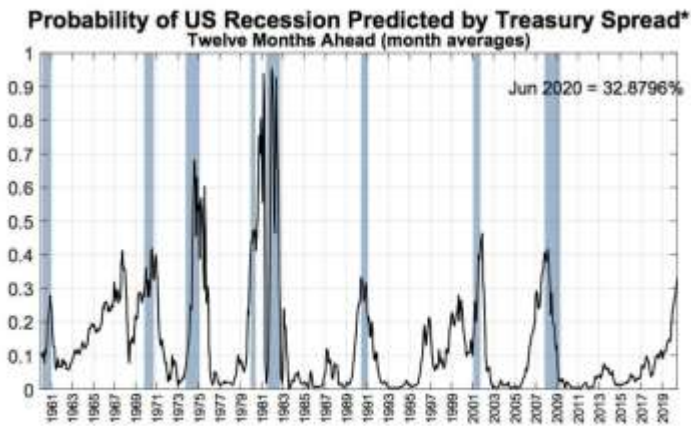


This month's challenge is on patriotism. What was the population of American when the Continental Congress approved the Declaration of Independence on 7/4/1776? This month's challenge is on small business. What percentage of small businesses have zero employees, just an owner run enterprise? ☺ Last month's quiz was won by Tito Melendez, 76% of US Businesses have zero employee! 06:24:19:14

US Treasury Spread

We don't see this every day but the US NY Fed's recession probability indicator is currently at 32.8796 as of June of this year. We look at the data going back to 1959 and historically whenever this spread gets above 30 we're not too far from entering a recession. The model has a 12 month window so they're showing a 32.88% chance of us moving into a recession within the next 12 months.

Funny thing about recessions is that we never know we're in them until after the fact. The data is typically very good as it is today when an economy peaks out and begins to complete the expansion cycle and move into a contraction cycle. The contraction cycle is a recession. Recessions are not a bad thing at all despite the big fear over them. They're a very healthy part of the business cycle and they act to cleanse out the excesses from the prior growth phase of a cycle. Thanks to FRED for the chart!



*Parameters estimated using data from January 1959 to December 2009, recession probabilities predicted using data through Jun 2019. The parameter estimates are $\alpha = -0.5333$, $\beta = -0.6330$.

For those overly aggressive in the markets this is an important parameter that shouldn't be ignored. We're at a place with asset prices in a bubble and we've had a decade of accommodative easy money. All cycles end, this one will end in fireworks as markets have gotten ahead of production.

New & Crazy Lending

With money being so easy to get across the globe with artificially low rates we're seeing the never-ending entrepreneur taking advantage of this craze. Young couple are now taking out "wedding loans" to pay for their weddings. I may sound old here but this is nuts folks. You need to save up and pay for the wedding, not take out a mortgage to pay for it. We were married at our church in Harwinton and then had our reception at the Elks Club and it was a very efficient way to do that activity. Of course we shopped around and got all of the available options and went for something that was very nice but reasonable as we always do.

The urge of course was there to go to the fanciest place but we simply couldn't justify paying the price of a very nice automobile for a party. It was a great party and one that changed my life forever as that's when I sealed the deal with Cup so a huge win in life. As a society we should perhaps consider putting more emphasis on being reasonable over being the best or the fanciest or the most expensive. Kids today are drowning in student debt, adding wedding debt to that mix seems like a scary recipe to me.

Next we're seeing another new area of lending, but this time a far more creative one. College grads can now sell a portion of themselves to Wall Street. Young students can essentially raise capital in themselves by signing an agreement with investors to turn over 1/8 of everything they earn for the next 8 years to the investors in return for an investment in their education. This is a neat concept and one that may get some traction as the cost of education is out of hand. This is a unique situation that only the students who seem to have a very motivated approach and excellent earnings prospects will be able to pull off.

These arrangements are called ISA's and stand for income sharing arrangements. There are risks as always and if the student kills it and earns big money the investor makes more money than they would have if they simply made out an interest bearing loan at a set rate for a set period of time. If the student struggles, works at Starbucks, a restaurant or is unemployed the investor can get the short end of the stick. That's the risk and it could be very appealing for both sides. I'm interested in seeing how this plays out long term and which degrees end up winning the money. My guess the science, math, business, engineering, medical, law and technology degrees will have a lot more appeal to investors over kids who end up majoring in gender studies, liberal arts or museum management. We'll see how it plays out!

Inspirational Quotes

- And, when you want something, all the universe conspires in helping you to achieve it, Paula Coelho
- He who gives to me teaches me to give, Danish Proverb
- Scared is what you're feeling, brave is what you're doing, Emma Donoghue
- The reverse side also has a reverse side, Japanese Proverb
- In order to really write one has to sink deep into the self and become lost there, John Banville
- The past beats inside me like a second hart, John Banville
- People do not change, they are merely revealed, Anne Enright



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

Kids Corner

Do your kids, grandkids or friends of the family that are young spend too much time on social media? I think this is a sickness and we're going to make sure the kids don't turn into antisocial robots so we're digging into apps that can point out just how much time the kids are spending on these devices. I don't think there is a need to turn them off at this point, but we sure do need to pinpoint how much time is being spent and I'd like to see how many times they interact with these toys.

Here are a few apps to try to detox the youth:

- In Moment – track how much you use social media and control yourself with a daily limit
- Moment – track how much you and your family use each app on phones and tablets. How often you pick up the phone every day
- Offtime – keeps you off your phone and focused on your work or the people sitting in front of you and allows you to compare your phone behavior to others
- Stayontask – as the name implies makes sure you're doing work and not scrolling through social media – this one helps workers.
- Appdetox – I love the name and it allows you to set your rules of how to use these things
- Space – formerly BreakFree is a personalized program to see your stats of how you use things and compare your habits with those around you.

All of these are great starts to stop the tech industry from filling our kid's heads with dopamine signals from apps and gadgets. We were blessed to not have these things as kids in many ways. 😊

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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