

One Month

In February everyone was raging about how much money the stock market was making for them and how they're going to retire 10 years early because of their superior investment acumen. We rolled our eyes for the past several years listening to people tout how smart they were and how buying any dip, buying index futures, indexing, and just being all in at all times in equities was the way to go. The fact that this technique really did work well for 10 years is mind boggling and not the normal way markets operate. We knew this wasn't real, wouldn't last and the folks doing all of the talking were not super investment smart, they were super investment lucky. Lucky because the market was pushing asset prices up, up and away regardless of logic, valuation or any other logical economic measure.

Thirday days later we've got a population who is mostly fearful and asking are we going to be okay after market fell nearly 44% in 30 days as measured by the Russell 2000! Fear and greed are amazingly powerful human attributes. When the crowd is all in and going after stocks at inane prices they're all happy, as long as those prices are rising. I'm extremely nervous and cautious in those environments. We've been talking for years now about how the pricing of most securities were completely out of wack and people shouldn't chase that action as it will not end well. Now comes March of 2020 and we have the most extreme fall from a high out of the stock market on record. It didn't end well in the first 30 days of the market fall and this is just the beginning.

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We Need More

We need more great guys & gals in our world like Daniel Acosta.

Staff Sergeant Daniel Acosta (USAF, Ret.) is one of the relatively few wounded veterans who did not serve in the Army or Marine Corps. A native Chicagoan, Dan joined the Air Force right out of high school in 2002 where a combination of natural skills and opportunity led him into a highly charged career path – explosive ordinance disposal.

Daniel's training in explosive ordnance disposal included 11 months of technical school at Elgin Air Force Base in Florida, and was assigned his first duty station for three months pre-deployment training at the Utah Test and Training Range at Hill AFB in Utah, about 30 miles north of Salt Lake City.

Daniel was assigned to the 775th Civil Engineer Squadron at Hill Air Force Base. From there he was dispatched to Iraq in 2006 as a member of the 447th Expeditionary Civil Engineer Squadron. Explosive ordnance disposal specialists were in high demand, then and later. Daniel underwent nearly three weeks additional training in Kuwait before deploying to Sather Air Force Base at Baghdad International Airport. He had been in Iraq performing missions for three months when he was injured.

On December 7, 2006 he was sent to disarm hidden improvised explosive devices (IEDs) and had disarmed two when the third one got him. "I stepped on a pressure plate," he recalled. "It wasn't detected (by the metal detection device) because it was wood." The IED that nearly claimed his life contained two 122 mm projectiles, Daniel said. His left arm was blown off in the blast and he received third degree burns to his legs. He also sustained arterial injuries to his leg and heart.

"In the back of my head I always knew something could happen," Daniel said. But he and his fellow airmen on his team had undergone combat life-saving training at Ft. Carson, Colorado, and he attributed that training applied by his teammate Staff Sgt. Joe Upton to his survival. The first tourniquet Upton used did not stop the bleeding from his severed arm so Upton took a water tank strap off a Humvee and was able to use that as a tourniquet. Also, Daniel said there was a Medic on the scene. "They (the doctors) gave me a 25 percent chance of living," Daniel said. "They said if I made it through surgery, I would have a 50 percent chance."

Continued on page 3, Great Guys and Gals

Our insistence on being safe, only buying undervalued securities with a margin of safety, and not chasing momentum at these insane valuations has paid massive dividends once the market finally changed its tune. We held a lot of cash, bonds, gold, some undervalued securities and the vix coming into March. Just about everything, including gold got smacked around during March but bonds and vix did extremely well for us.

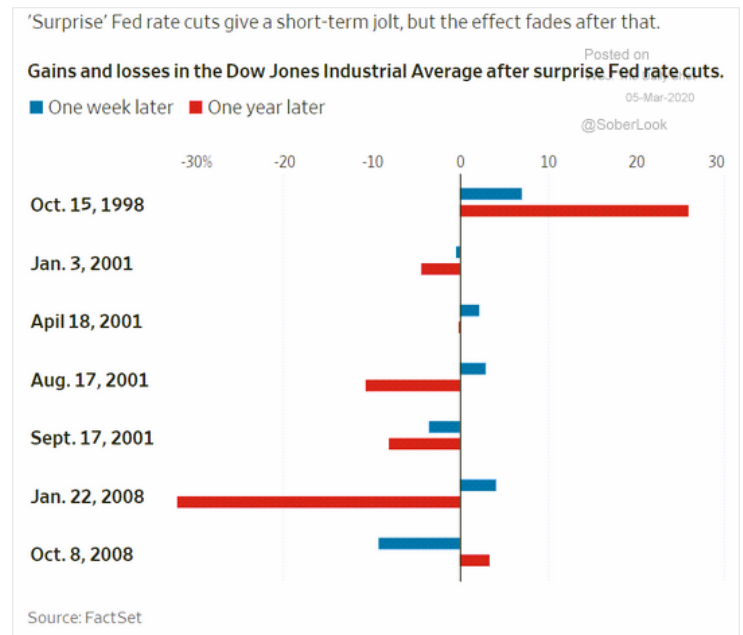
We're sticklers about valuations and I know many of you have been frustrated for years at our unwillingness to chase the nonsense markets were dishing out, regardless how attractive it may have been on the outside. We are also thankful for the trust and confidence everyone has placed in us over the years, it is being well rewarded now that reality is setting in.

The last 30 days have wiped out about 7 years of market gains. This isn't your normal every day correction, this is the beginning of a bear market, one that is grossly overdue. The easy money situation from the central banks around the world has unleashed the animal spirits in investors and they just bought, bought and bought any type of security that was listed on the markets.

It really didn't matter if the underlying investment even made money, if the story was cool and exciting the company just kept going up. Valuations had nothing to do with anything, it was all just about the story. 80% of stocks coming as new inventory to the markets, IPO's as they're commonly referred to, were money losers in the last few years. This is not unlike the 1999 tech bubble. The 2020 bubble will likely go down as the everything bubble because assets around the globe were overvalued and people just chased them because the rate on bank accounts is low or negative because of the financial engineering going on around the globe.

Now that we've seen the first big leg down in the markets we're going to be entering a phase where we'll see some massive rallies and some more big fallouts. There are serious values out there now so don't be fearful be smart. Energy is so juicy it is sick, gold continues to be a great long term play against fiscal insanity by our leaders and now there are a lot of other areas we're very excited about. Don't get locked into a long only, hold forever mentality. We have to do our best to buy the dips and short the rips for the next two years. Hang on tight and buckle up, this ride is going to be exciting! 😊

March 3rd marks a significant change in Fed policy, where they surprisingly, without announcement and lots of talking about it beforehand, cut rates as the markets began to roll over. There is a nasty history of how things normally unfold for markets after the Fed announces one of these surprise rate cuts. Normally markets perform very poorly after such surprises. I'd categorize this in the category of not the best surprises to have happen. Here is the data below in chart format, thanks to Soberlook & Factset for the data!



Think about the other times this has happened with the surprise rate cut. In 1998 it started and then happened 4 more times in 2001. The stock market, as measured by the NASDAQ index, fell from just about 5000 at its peak in March of 2000 to the low of 835 at the bottom a few years later in September of 2002. Not a good start to how markets unfold after "surprise" rate cuts. That's a fall of over 80%!

Fast forward to 2007-2009 and the Fed announced a surprise rate cut then too. They did the first on Jan 22nd and the next on Oct 8th. The NASDAQ peaked at 2256 in November of 2007 and the subsequently bottomed at 1017 in November of 2008 so these "surprise" rate cuts are normally not good news for financial markets. That was only a 55% shellacking so not so bad.

We expect this one to be no different, markets should lose 50%+ between the top and the bottom, which we expect to come in the spring or summer of 2022. Hang on tight, it's going to be a very fun ride for those who can manage it correctly going long and short, when appropriate.

Noteworthy News!!!

- Our condolences to the Collins family on the passing of Dennis, a wonderful man, husband, father, person and friend. He'll be missed by many especially those in the Collins and Portsmouth families
- Our condolences to the Susco family on the passing of John (Jack) a wonderful man, husband, brother, father, grandfather, uncle and man.
- Our condolences to the Krasnowski family on the passing of Alfred, a wonderful man, husband, brother, father, grandfather, uncle and man.
- Congratulations to Kim Marfyak on her new job! 😊
- Our condolences to the Bunnell family on the passing of Joe, a wonderful man, son, boyfriend and person.

Question & Answer

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

Q: What has changed in 2020 with the Secure Act?

Great question and some big changes here with this new law. Here is a quick summary of some of the major provisions of the law:

- RMD's now begin at age 72 rather than 70.5 This is especially important if you're turning 70.5 this year and do not need the money, you no longer have to take it until you're 72. Few know that if you're still working and not the business owner or part of an affiliated group you do not have to take RMD's regardless of age.
- Stretch IRA's are far less nimble, perhaps they should pick up yoga as they've lost most of their power. Now limited to 10 years from multiple generations, this stretch IRA concept has just changed monumentally.
- Spouses can still stretch IRA's for a lifetime, non spouse beneficiaries may no longer.
- Workers will have an option to select an annuity payment stream with defined contribution plans upon retirement
- Providing employers tax credits and protections for establishing retirement plans
- Protecting multiple employer plans to simplify the administrative end of pension plans on small businesses
- Making it easier for part time workers to utilize 401(k) type plans
- Allowing penalty free withdrawals of up to \$10,000 per year from 529 plans for repayment of student loans
- Changing provisions of the Tax Cuts & Jobs Act that raised taxes on benefits receive bgy family members of deceased veterans, students, and some Native Americans.

Growing Up! (cont'd from page 1)

Later Daniel's marriage broke up as he was in the process of leaving the military, but he does not attribute that to his injury. "It was not related to that," he said. "It was a communications issue." Daniel said the wives of injured veterans do have a difficult job. "Spouses have the harder job," he said. "We're prepared for things like this, but they aren't."

It is unusual for an Air Force guy to get blown up, Daniel said, but the Air Force still gets its fair share of casualties. "In the hospital, I was the only Air Force guy there," he said. "I ended up with 100 percent disability because of the loss of my arm. I did not have to wait very long to get my benefits perhaps because I was the only Air Force guy there."

Daniel said he has avoided the perils of post-traumatic stress disorder (PTSD) and traumatic brain injury (TBI). "The Veterans Administration rated me a minor case of PTSD. But I accepted the reality of my injury early on. I get around well. The injuries are there, sure, but I am capable of doing a lot. I play different sports. I am enjoying life."

Daniel was not one of the many who received financial aid from the Coalition to Salute America's Heroes when he returned from the battlefield. "I received no direct financial assistance," he said. "I didn't need it. My benefits came through fairly quickly. I am a modest guy. I don't ask for help if I don't need it."

But even so he has developed a close working relationship with the Coalition. "Early on in my recovery I learned about the Coalition through one of their reps at the hospital," he said. "My initial involvement was to attend the Road to Recovery Conference in 2008. That was a positive experience that helped me get moving in a positive direction. I enjoyed the time with other wounded veterans and benefitted from it, sharing our experiences, talking to other people who have been through the same thing. I wanted to be an active member of society and continue with my rehabilitation. "I support the Coalition through being an ambassador for the program and doing things on their behalf," Daniel said. "I come into contact with many guys who are in a much worse situation than I am. I have seen them dealing with their injuries first-hand, physical and psychological. A lot of guys cannot handle it and it's easy for me to see why. When (Coalition President and CEO) David Walker asked me to help host a fund-raising event in California, I was glad to participate."

"The Coalition's primary role is to provide direct financial aid to wounded veterans returning from the war zone who have to wait a long time for their benefits, sometimes for months," Daniel said. "In the meantime they have bills to pay and are unable to work. The Coalition helps fill that gap. Every veteran has a unique situation. When they are severely injured the transition time is difficult and financial aid is vitally important. Our veterans are not prepared for what they encounter. I don't believe the military does a very good job of preparing personnel for that situation."

Money Quiz

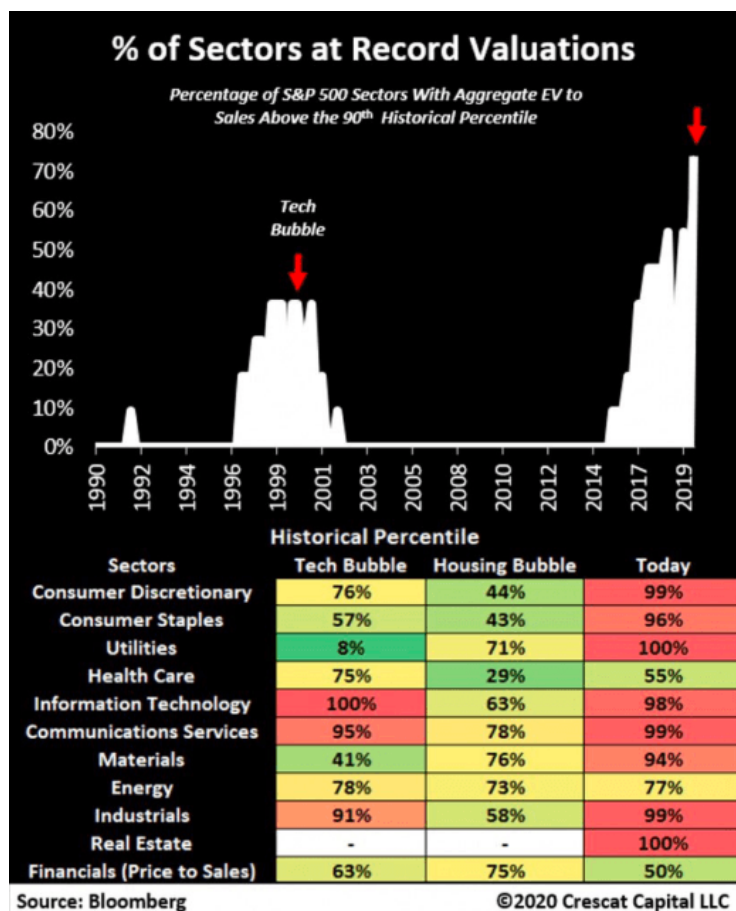


This month's challenge is on full employment! What % of first time jobless claims were filed for the week ending 02/01/20? Last month's quiz wasn't won, we'll recycle it at a later date. 😞 03:30:20:08

Are we in a Bubble?

Looking back to Feb 1st, the data below shows, absolutely, however because valuations have been so high for so long now it's hard to see it. We've found a great chart from our buddies at Crescent Capital showing just how stretched valuations are no compared to the last two bubbles in 1999 & 2007. This one is much more extreme in nature, it's almost everywhere.

This shows values in healthcare, energy and financials. I'd be cautious on the financial side as the engineered money situation with global central banks can really hinder that sector and make them face real losses when fiscal reality hits. A few categories that are juicy today and not represented in this chart are generic pharma, commodities, miners and some retail. Now in March of 2020 there are some seriously undervalued sections of these areas we love. I haven't loved any investments in years, what a joy! 😊



Financial Engineering!

Global central banks and the political class has been on a tear for a decade now trying to “engineer” an economic recovery by keeping rates artificially low, pumping money into the economic system and not allowing bad and insolvent entities to fail. The push has been so hard for so long that many can no longer tell what is real and what is not.

We've got a great chart below showing what the 10-year yields are now on government assets across the globe. Negative yields mean the investor is paying to invest in government debt. Insanity! The number of countries in negative yield territory is mind boggling and there will likely be more to come. Thanks to Charlie Biello for the great work on the data!

| @CharlieBiello | Global 10-Year Yields (%) | | |
|----------------|---------------------------|-----------|------------|
| Country | 10-year Yield (Today) | CPI (YoY) | Real Yield |
| POLAND | 1.73% | 4.4% | -2.67% |
| CHINA | 2.80% | 5.4% | -2.61% |
| AUSTRIA | -0.42% | 2.0% | -2.42% |
| GERMANY | -0.65% | 1.7% | -2.35% |
| NETHERLANDS | -0.51% | 1.8% | -2.31% |
| FRANCE | -0.31% | 1.5% | -1.81% |
| BELGIUM | -0.24% | 1.4% | -1.65% |
| SWEDEN | -0.28% | 1.3% | -1.58% |
| IRELAND | -0.20% | 1.3% | -1.50% |
| US | 1.08% | 2.5% | -1.42% |
| UK | 0.42% | 1.8% | -1.38% |
| CANADA | 1.08% | 2.4% | -1.32% |
| FINLAND | -0.30% | 1.0% | -1.30% |
| INDIA | 6.35% | 7.6% | -1.24% |
| DENMARK | -0.47% | 0.7% | -1.17% |
| SWITZERLAND | -0.93% | 0.2% | -1.13% |
| AUSTRALIA | 0.78% | 1.8% | -1.02% |
| NEW ZEALAND | 1.01% | 1.9% | -0.89% |
| JAPAN | -0.13% | 0.7% | -0.83% |
| SPAIN | 0.29% | 1.1% | -0.81% |
| PORTUGAL | 0.29% | 0.8% | -0.51% |
| HONG KONG | 0.93% | 1.4% | -0.47% |
| SOUTH KOREA | 1.37% | 1.5% | -0.13% |
| ITALY | 0.63% | 0.5% | 0.13% |
| SINGAPORE | 1.41% | 0.8% | 0.61% |
| TURKEY | 12.84% | 12.2% | 0.69% |
| PHILIPPINES | 4.42% | 2.9% | 1.52% |
| BRAZIL | 6.75% | 4.2% | 2.56% |
| MEXICO | 7.05% | 3.2% | 3.81% |
| RUSSIA | 6.46% | 2.4% | 4.06% |
| INDONESIA | 7.04% | 2.7% | 4.36% |
| SOUTH AFRICA | 9.17% | 4.5% | 4.67% |

Inspirational Quotes

- Friendship is always a sweet responsibility, never an opportunity, Kahlil Gibran
- Storm's make trees take deeper roots, Dolly Parton
- Christmas waves a magic wand over the world, and behold, everything is softer and more beautiful, Norman Vincent Peale
- Man's inhumanity to man, makes countless thousands mourn, Robert Burns
- Avoid the company of negative people, never give up on yourself, fear nothing!
- The superior man blames himself, the inferior man blames others, Don shula
- Good, better, best, never let it rest. Until your good is better and your better is best, Tim Duncan



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

Kids Corner

High powered degree from an elite school is how to get ahead? Not the only way, in fact that path is great academically, but often comes up short in some areas. Common sense, different opinions and understanding all of societies members are a few areas that elite academia is simply not in touch with. We see a lot of brilliant youth come through these doors and many of them can solve many complicated academic tasks. Even more of them have a hard time communicating, looking into your eyes when they speak, shaking hands firms, understanding nonverbal communication, being able to communicate to all different types of people, having a work ethic. This list can go on and on and on.

There are so many paths to a successful life don't pigeonhole yourself into just one. Why can't you have a few paths that intersect and pick up wisdom and experiences from each path. When I was a kid, I was somewhat of a chameleon in that I was around many different types of people and benefitted from those experiences and picked up things from all of them. The shop guys at school and Pop's work, the medical folks at Mom's work, executives at friends families houses, Coaches in everything we went after chasing balls, teachers of every walk of life, troublemakers from the Hood, etc. Every aspect of these experiences helped shape me and they were all positive in one way or the other. Stress to the kids to experience a lot of different things, there is no one path to success. 😊

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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