

Economics Basics

Economics as a whole is really a complex subject, but if people followed some basic financial laws pertaining to their individual finances and behaviors, most issues would likely never become issues. The first law of economics is keep score of your money; you must know how much you're taking in and how much you're spending each month, period. You must live below your means and try to save 10-20% of your pay for yourself, your future or a rainy day because they will come. Never borrow too much and don't borrow unless the terms are attractive. Borrowing can make sense to build businesses and wealth and buy homes and educations, but treat this leverage with respect, it's what makes bubbles and bursts them. Low leverage is by definition low risk and low risk is good when it comes to leverage for the most part.

Unfortunately the governments of our world don't behave this way at all; they are almost the polar opposite. They're all basically bankrupt and they just keep on spending and spending, assuming that they'll just endlessly raise taxes or borrow more in the future to pay for everything. They spend their budgets even if they don't have to, fearing if they don't they won't get the same budget next year. They need to make tough decisions and serious cuts to allow economics to unfold responsibly in the years to come. We're all forced to live within our means as individuals, but the government and politicians get a special exception to this financial law as they're spending our money and not their own.

If this scary trend continues, we'll have a government meltdown as serious as the financial one was in the past year. California is leading such a charge and close to such a meltdown. People would rather buy bonds of many other foreign nations above those in California: that speaks volumes for the display of the Governor's fiscal stewardship, or a complete lack thereof. Now we have a bankrupt U.S. Treasury attempting to save bankrupt States and corporations -- what a joke! The real answers do not lie in 'stimulus' spending, special grants, concessions or give backs;

Continued on page 2, Economics 101

INSIDE THIS ISSUE

- 2 News Blast
- 3 Noteworthy News; Paperwork Conundrum; Sacrifice
- 4 \$ Quiz; Trading Players, Let's Get Physical
- 5 Inspirational Quotes; Kids Korner

Socialism or Capitalism?

We all hear these terms floating around lately – are we going to turn the USA into a socialist state? I doubt it, but we had a period where supposedly smart executives ran things and did a poor job in certain areas, so now the political pendulum begins to swing in the other direction. Will it ever get there to a socialist state, not likely, but the pendulum will continue to swing nonetheless.

To put this idea into perspective, here we have a great analogy. An economics professor at a local college made a statement to a class that he had never failed a single student before but had once failed an entire class. That class had insisted that socialism worked and that no one would be poor and no one would be rich, a great equalizer. The professor then said, "OK, we will have an experiment in this class on socialism. All grades would be averaged and everyone would receive the same grade so no one would fail and no one would receive an A. After the first test, the grades were averaged and everyone got a B. The students who studied hard were upset and the students who studied little were happy. As the second test rolled around, the students who studied little had studied even less and the ones who studied hard decided they wanted a free ride too so they studied little. The second test average was a D! No one was happy. When the 3rd test rolled around, the average was an F. The scores never increased as bickering, blame and name-calling all resulted in hard feelings and no one would study for the benefit of anyone else. All failed, to their great surprise, and the professor told them that socialism would also ultimately fail because when the reward is great, the effort to succeed is great but when government takes all the reward away, no one will try or want to succeed. It could not be any simpler than that.

Along those same lines we now must visit the idea that our handout, entitlement-laden society is pushing a socialistic approach for the wrong reasons. When too many people are getting government handouts they become a sizable block of the voting population and they have pull. We're likely approaching that scale as today the politician that is the best

Continued on page 3, Social Capital

they lie in fixing a structure that is broken. Prudent spending needs to be the hallmark of government, leading from the top down and setting the example, not saying one thing about what should be done and doing the opposite with the next action. The next change that needs to occur is to set term limits and make government a service job, not a ticket to wealth, riches and endless taxpayer funded perks. Government work cannot pay better than private work; the system cannot be healthy on a long-term basis when the government is providing the best jobs with the best benefits. If for profit corporations cannot do it, government certainly cannot either. The law needs to be simplified; it's onerous to say the least. Government is full of great people who cannot live up to their potential because they're forced to live within the bureaucracy that government has become, due to decades of writing new and ever more complex laws and never purging or updating the old ones.

Politicians need to write the laws themselves as they were charged to do. There shouldn't be teams of lawyers writing laws the rest of us don't understand. Is there any reason the stimulus package just passed needed to be 800 pages with 8,000 earmarks? Another joke! Most people are so fed up with the process they'd like to spit.

Employee mandates, contracts and other forms of municipal and government employment minutia need to come back onto the table as negotiable items on an on-going basis. Most towns cannot even pass a budget because the bulk of the costs are "contractual" and handcuff a whole town and its citizens and volunteers, searching for ways to save nickels and dimes on the minority of the costs when the real costs cannot be addressed due to asinine laws. This not only wastes tons of money on the process of dragging everyone through the mud, but the valuable time and talent of the people running the towns, leaving them less time and energy for fruitful pursuits. Instead they just keep fighting the broken machine.

This business locomotive of negotiating jobs, duties, raises, benefits, perks and pensions for years and decades into the future based on an uncertain economic environment to come drove Detroit into the toilet. The locomotive will do the same to our governments if not derailed soon. Unions were great back in the day to get fair labor practices in line with reality and prevent abuses, but today they're out of control organizations demanding the impossible and they're now the abusers of taxpayers and businesses nationwide.

Everyone needs to be in the middle on this reality, it's unhealthy at either end of the spectrum and executive pay is out of control on the other end of the spectrum. Not a soul on this planet is worth \$20 or \$30 million a year, period. Executives, actors, athletes, not a single one are worth anywhere near it. We've created a mentality of everyone is just going to get what they can, at everyone else's expense. Hello, that's at our expense at some point so let's think it through from the beginning and get back to reality.

If an executive fail the company or government should be able to claw back and take back bonuses, stock options, or whatever form of compensation granted. It cannot be a win/win for an executive when it's a win/lose for the rest of the population. If politicians wrote the laws themselves instead of an army of lawyers, AIG bonuses would have been known about and dealt with accordingly. The whole system is mired in corruption and conflicts of interest. Until it is cleaned up structurally we'll continue to deal with the greed of humankind. Man can be bought at all levels, sad but true.

We could all use some more sacrifice in our lives. We've become a spoiled people. What we can talk ourselves into thinking we "need" is a joke compared to what prior generations did without. We live in a world of wants, very little of what we do is need-based. College doesn't need to cost \$50,000 a year, you can get a perfectly good, if not socially awed, education at a local community college and state college. No matter how much money we throw at education or crime, it won't get better until we all begin to sacrifice a little more, work together as a community and help one another out of the goodness of our hearts and not for profit or gain. We all need each other, so everyone living on an independent island isn't helping anyone. People are social creatures and this fallacy of independence is hurting, not helping us.

If you like to read, I suggest reading "The Greatest Generation" by Tom Brokaw. It looks at the people today who are in their 80's and shows the sacrifices they made. I've never heard such stories and many times reading that book the hair on the back of my neck stood up to think about what these people endured. Let's look at a few of the things they lived through:

Not having enough food to eat and maybe being considered malnourished or slim on the military entrance physical. A newly minted soldier's astonishment at training camp seeing all the different kinds of cereals – absolutely no end to the food. This is hard for most of us to believe, especially since our world is reaching a population at record obesity, in the 40's and 50's just getting enough food was a challenge for many Americans and they worked physically hard back then, all of them. Today I'd bet that entry physicals are more about obesity and issues of too much weight, not for a lack thereof.

Never having had new shoes or boots in their whole lives. Many who enlisted to fight for our great nation never had a new pair of boots prior to enlisting in the military. Today people pay \$100 for a pair of sneakers with some basketball player's name on them. This social driven behavior is why athletes can earn \$50 million a year. In 2009 America we wouldn't consider used shoes; it would ruin our feet or our children's feet. It seems that prior generations did just fine with much less sophisticated footwear. ?????

Basic training camp was easier than working at home on my father's farm. Basic training camp for many of these soldiers was a relief and a vacation to ordinary day to day life. Today many of them don't enroll or are disqualified because they're afraid of basic training camp. Many drop out because they don't pass basic training camp. We don't work physically much anymore and playing video games in front of the plasma television on the Nintendo Wii fit doesn't count as exercise like I'm talking about, it's a whole different league! ☺

Noteworthy News! ! !

- Congratulations to Bill Siewertsen on his recent retirement! The beginning of the golden years! ☺
- Congratulations to Diane Field on her new job at the Department of Health & Human Services! ☺
- Congratulations to Nicholas A. Jolly, Ph.D. and Rebecca Hoffman on their marriage! The beginning of a beautiful life together! ☺
- Our condolences to the Peters family on the passing of John Peters III & Laurel Peters, sadly within 10 days of one another. The loss of two beautiful lives, loving parents, grandparents, great grandparents, aunts, uncles and friends.

Paperwork Conundrum

There is no way to eliminate the paperwork in our world today, but there are many ways to simplify it. You do have a few tools at your disposal to change the form of the paperwork, from physical paper delivered by the postal service to electronic media that comes via email. For your investments, your proxy statements and prospectus can be delivered electronically if you enroll in the service. Here is how you do it:

The next time you get an investment book or proxy statement from your custodian that has all of your information pre-printed on it, go online to www.investordelivery.com and register yourself on the service. Once you register you'll have the opportunity to save the planet and select that you'd prefer to receive such communications in an electronic format and not destroy any more forests.

For your banking, you can elect to bank online, not receive paper statements but instead get everything electronically. Not only does this save the environment, but now you have an electronic record instead of a paper one. You can always print the PDF file, and it's easier than scanning and shredding the paper version.

Most of your bills can also be delivered electronically by the merchants if you're dealing with large organizations. Many small firms don't have the resources to employ such technology. Some service providers today, such as cell phone companies will charge a fee for paper bills. Expect this trend to continue too so get ahead of the curve and have your information delivered to you electronically to save the rainforests and make organizing your life a little easier. ☺

Social Capital Continued from page 1

public speaker or part of the "in" party, or who promises the most tends to get elected, regardless of platform, ability, issues or ethics. People in our world today milk the system too much. We all know people milking the system and everyone just minds their own business. Many people legitimately need help, but too many are just getting the milk. Good old American work ethic I fear is becoming a thing of the past for a portion of the American population.

As Dr. Adrian Rogers once said, "You cannot legislate the poor into freedom by legislating the wealthy out of freedom. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is about the end of any nation. You cannot multiply wealth by dividing it."

Nothing is simple today, the world is so large with so many people on it with so many different beliefs complexity rules the land. If it were easy, all of these problems would have been solved long ago. They'll be with us for a long time to come, but they give us something to do and constantly challenge our creative juices. Adversity brings about inspiration, innovation and change. Eventually, when things get so off the deep end, people will correct the wrongs. Unfortunately people are not good at correcting anything until the brink of disaster is at their doorsteps. Who in their right mind didn't know Detroit was going to die? They've been making bad decisions for decades and building inferior cars for just as long. They've done so much damage to their reputations that now they have competitive products that people don't even consider because for years they were written off. It's very sad but true.

We could use a change in how the whole lawsuit racket works too. Not only on the level of what the consumer sees when a robber breaking into a house sues the homeowner and wins, but on the state and national levels as well. The states' attorneys general regularly hire private plaintiff's lawyers on a contingency fee basis to prosecute cases. Trial bars often reciprocate with generous donations for those in office already. Do you think we have a conflict of interest here? Of course we do and eventually the cat will come out of the bag and the cabaash will be put on the practice! Should there be contingency fee cases at all? No, there should be fixed rates based on hourly fees or per case retainers, period. How a law firm representing a class of plaintiffs is worth 20%-35% of what the whole class gets is beyond me. No person on earth is worth tens or hundreds of millions of dollars a year.



Money Quiz

Last month's quiz went unanswered again. Come on folks, you're not playing with kids here! ☺ The S&P 500 is just as likely to return +24% as it is to have a negative year from 1934 – 2008! ☺

This month's challenge is to tell me what the personal savings rate was in April 2009 as a % of income. In March of 2008 it was 0.2%. Are we saving more or less in a little over a year? The winner will enjoy lunch/dinner on us at Chili's. 060809:5☺

~

Trading Players

Sports franchises aren't the only organizations to trade players. Stock indexes have done a lot of trading as of late and the latest trades mark decades of play. The Dow Jones Industrial Average, commonly referred to as the DOW, or DJIA, has recently dumped two stocks to pick up supposedly better players.

General Motors & Citibank are no longer members of the DOW. This blue chip barometer is making lots of changes lately as some companies appear to be down on the economy and in business in general. Replacing GM & Citi is Travelers and Cisco Systems. Removing a banking giant and an automotive giant, replacing them with an insurance giant and the company responsible for plumbing the internet seems to make sense. Making sense and making money are two different things.

The **index effect** occurs when a company is added to an index: its stock tends to perform well in the short-term. This is true, but the other reality is that those who leave the index typically perform better than their replacements over the long-term.

Professor Jeremy Siegel, from the Wharton School of Business did an extensive study on this concept of additions to and deletions from the indexes and he found that on average, deletions performed better than additions. This is another example of how you almost must be a renegade, a maverick in your thinking to do well with investing. You're often better off buying what most people don't like that'll make you a lot of money in the long run. What the crowd is doing you need to be doing the opposite. This is extremely hard to do in our connected, instant society.

I'm happy to zig when others zag, in fact, I'd prefer to do that. I'm not a big fan of following the crowd, the sheep that are in line for the slaughter don't know it, but they stay in the line! ☺ ☺ ☺

Let's Get Physical!

Olivia Newton John wanted to get physical in her 1982 hit song and most fitness experts would urge us to do the same today with an obese world. Today we have regulators in the financial world want you to be less physical. The physical stock certificates many of you own and store in your safe or safety deposit box may become ancient history in the not too distant future.

The accounting and safekeeping of physical investment certificates is under pressure and many custodians are in the midst of destroying physical certificates currently in inventory, and charge hefty premiums for anyone to be sent physical certificates in the future. The writing is on the wall, get your investments into a brokerage account now voluntarily, or possibly wait to be forced to down the road.

A brokerage account works best to tackle this issue, but direct purchase plans or a dividend reinvestment plans also provide electronic systems which don't require you to hold physical certificates. I don't urge direct investment plan or dividend reinvestment plans because they're not up to speed anymore nor do they save any real expense, in fact they often cost more. They used to be the low cost provider but they are not anymore and their service is horrific at best. We've recently had several awful experiences with direct purchase plans and dividend reinvestment plans. The first plan charged \$19.95 to purchase the first 1000 shares of stock, and 3 cents per share after that. For a 5000 share lot purchase, that trade cost \$139.95 – that's rape. Secondly the purchases don't happen live in this instance, they happen quarterly so if you want to get a great price today as things are on sale, you're out of luck, they'll buy next quarter and hold your money for three months, give you no interest and buy the stock at a higher price.

Horror story number two is a local shareholder with two dividend reinvestment accounts couldn't find share certificates, statements, or anything else on what he owned so we called Wells Fargo, the custodian. They wouldn't give us any information on the phone and requested we send them a letter of instruction, signature guaranteed, with a valid corporate resolution dated within six months just to give the client the number of shares owned and which were book-entry and which were certificate form. To sell, forget it, they wanted more paper and almost \$500 to sell 3800 shares. This is 2009, hello!

Last horror story is a client who owned bonds in a direct purchase plan. The bonds had matured in February of this year but the client received no notice that they matured. The custodian would have been happy to just hang onto his money into perpetuity without notifying him he's no longer making any interest. This was surprising coming from the Bank of New York Mellon, the largest and usually a great custodian.

If you'd like help consolidating into an electronic world we're happy to help. We also do this a lot for estates and trusts to make the transfer process go smoothly and quickly. ☺

Inspirational Quotes

- *Courage is being scared to death but saddling up anyway*, John Wayne
- *Some cause happiness wherever they go; others whenever they go*, Oscar Wilde ☺
- *Well done is better than well said*, Benjamin Franklin
- *The human race has one really effective weapon, and that is laughter*, Mark Twain
- *We know what we are, but know not what we may be*, William Shakespeare



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

Kids Korner

Put the kids in business. Whether they want to run a lemonade stand, car wash or lawn mowing service, help them along and don't squash the ideas. It's great for everyone involved and it'll teach the rugrats how to make money on their own – from there they'll make different decisions with earned money. It seems newspaper delivery is no longer for kids, but don't let that stop you. My rugrats come up with all kinds of schemes for a business and I help them with every one of them. One day, even though these ideas may not become their future careers there is benefit to the exercise. The lessons they learn in these endeavors will last a lifetime and there is no better way to get them to learn than by doing it on their own. If it's their idea and something they're passionate about, it's also the best motivator on the planet. ☺ ☺ ☺

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