MIKE CHADWICK'S

MONEY MATTERS

ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

Volume 5, Issue 2 Advising, educating and inspiring you to a better life February 2007

Savers Score

The world is all about scores. We have scores in sports, scores in life, and scores in school. Today's politically correct world eliminates scores for some of our youth – it may be *offensive*. What a joke, once those kids grow up will society stop scoring? Not a chance. I'll submit nothing happens in life without a score. As young children we're put through a battery of physical tests, exams that test our blood and urine - all producing scores. If we're "normal" and all of our scores are acceptable we go unnoticed. If one of our scores is out of the ordinary we may need help or treatment – a valid use of scores. As we grow we're assigned scores in class and on all of our tests. All 100's would be ideal but that rarely happens. In order to advance in life, we need scores good enough to pass onto the next grade, driving scores high enough to get a license to play bumper cars with our friends in real life, SAT scores to get into the dream college, and finally, hopefully a good enough GPA to get the job we were after from day one, assuming we knew what we wanted to do when we grew up. I didn't. In the world of scores it's typically 0 – 100 and 70 is a minimum to pass. With school curriculums 0 – 4.0 is

Continued on page 2, What's Your Score

INSIDE THIS ISSUE

Your Money Advocates
Live Financial Call in Talk Radio
Tuesday's 6:00 – 7:00 pm WATR 1320

Sweeping It Up

I'm not talking about sweeping the floors; I'm talking about your cash being swept away by criminal brokerage firms, playing the bank profit game. Many firms in the past few years have sent complicated letters saying they were going to begin "sweeping" all excess money in your brokerage account to a new, bank-insured account paying around 1% interest. With rates being as low as they have been the past few years, consumers are used to getting 1% on bank accounts. Although this sounds like a favor to you, it's a slap in your face and quite costly. Right now, in February 2007, the average money market mutual funds pay a yield of 4.5%. In all of our accounts that hold your assets here, the various money market funds are paying between 4.55% & 5.05%. There is a difference between bank deposit accounts, which are FDIC insured up to $100,000 and money market mutual funds. The money market mutual funds are not FDIC insured, but are safe as the internal investments are typically short term loans from corporation to corporation, known as commercial paper. All money market mutual funds held in brokerage accounts are protected by $100,000 of SIPC insurance on cash and $500,000 on securities. There has never been a money market mutual fund that lost money, but they still are not considered guaranteed, just quite safe. The ultimate question is how much is at stake? Industry estimates $200 Billion currently reside in money market accounts within brokerage accounts. Let's just use the averages here, if you can earn 4.5% on the average money market mutual fund and the brokerage "sweeps" your funds to the bank account paying 1%, that equates to a fee of 3.5%. Now 3.5% of 200 Billion dollars isn't chump change, it's $7,000,000,000 (seven billion dollars.)

Continued on page 3, Sweeping

What's Your Score *Continued from page 1*

typically the range. In order to transact business as adults our main scorecard is the almighty dollar and the credit score. The credit score tells lenders how worthy we are of their credit based on our propensity and demonstrated habit of paying our bills. Lenders will decide if you can do what you want to do based almost solely on this score. They don't care what it does to your financial health, they just care if you can pay back the loan. So what if you have to work to age 73 to pay that loan off and never retire – can you pay the loan? Why can't this scoring system be 0 – 100? What does a range of 300 – 850 mean? Where does it come from? Why is 720 + the best number? Sometimes I think organizations make random numbers just to create a reason for their existence, charge fees, etc.

My theory is to introduce a new score into our lives and I'm calling it the Savers Score. This score will tell how well a person is doing at saving towards their future and being a good financial steward of their resources. If you're doing a great job, savings 20% of your income your score is 100 – the best it can be. If you're spending more than you make, have no savings and accrue debt each month, your savers score is 0. 70 is the minimum acceptable passing grade to be considered for advancing to the next round in life – you need to save 14% to get a 70! This scoring system is simple, 0 is the lowest and 100 is the highest. No guessing, gimmicks or anything else that confuses. This credit score should be part of everyone from birth, for those already with us we'll need to assign a score. The savers score should be part of everyone's daily lives and society should reward those with higher scores – incentivising savings. What a dichotomy change this would be!

Now our society rewards buying, consumerism and stuff – so much stuff you need to rent a storage container to store the junk you'll never use again. The savers score should be used in conjunction with the credit score to see if someone is really capable of responsibly handling the credit they've applied for without crashing and burning later in life. The credit should not be allowed if it will cause the person to jeopardize their future retirement, college or other financial obligations. The savers score should be part of high school curriculums - without a passing grade you cannot move on. This will mandate people are taught how the economics of our world work and change how people view and deal with money.

Winners keep score. What's your score?! ☺

Bad Bosses?

I hope our staff doesn't think I'm one of these here. ☺ In big business, even in small businesses like ours, it's all about leadership making the right decision and how well strategies are executed. Many of the people we see each day have small businesses and some have pretty large businesses. Think about the businesses in your town – let's pick on auto mechanics – there are a lot of them but you'll only bring your car to one. Why? You trust him/her, they treat you right, they're fair and they do the right thing. The others are unknown and may not treat you as well, exposing you to a loss. Nobody wants a loss. It's funny, we see so many business owners. Any business can be successful and any business can be run down the drain – all driven by leadership. Most commonly when a person starts a business and is successful (I hope you're all successful), that continues into old age.

The real question is what happens when leadership changes – do the new bosses understand where things started and what made the business successful? Do they know the customers and are they making a competitive product or delivering a competitive service? This happens in local business as well as when you invest in stocks – the leadership can make or break a business. Toyota's leadership has given the firm a "mission" and everyone from the President to the guy sweeping the floor knows they are on a mission to provide the customer with a car that will not break down.

Ford's leadership on the other hand has managed to lose shareholders billions of dollars and the company lacks vision. When William Clay Ford Jr. took office in 2001, he managed to lose money for shareholders every year for five years. When he stepped down in September 2006, he had lost shareholders an average of $7,320,000 each day he was in office. I'm sure that when founding father Henry Ford was in office there was a different corporate culture in place – a "mission" like Toyota's today. Leadership incompetence is what caused this problem. Pfizer's & Home Depot's leaders had bad records too - not too bad but bad enough to not justify paying them $200 million each in severance packages. What type of boss do you have or are you? ☺☺☺

Noteworthy News! ! !

Congratulations to James & Maria Oliveira on the birth of their new baby boy, Alexandre James on January 27th. Almost a 10lb bundle of joy! (Ouch) ☺

Disclosing "Perks"

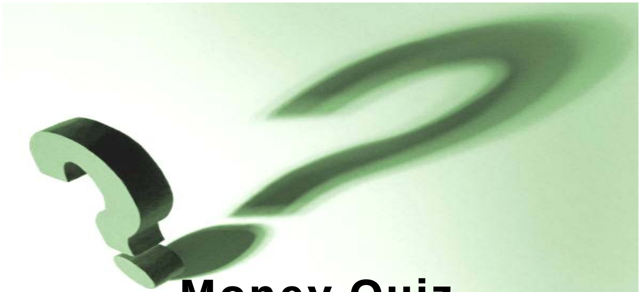
A new SEC (Securities and Exchange Commission) ruling is requiring public companies to now disclose executive "perks" if they exceed $10,000 annually, down from the previous $50,000. There is nothing wrong with the benefits, but they must be disclosed. Some major companies are now eliminating executive and director perks. Here are a few of the casualties of the new rule changes: paying for executives country club dues (apparently they cannot afford them on their own); use of corporate aircraft for personal use; paying income taxes on executive pay and severance packages; company cars; financial advice. In lieu of the "cuts" many firms are now simply increasing the pay of executives so they can pay their own bills (again, they just couldn't afford the basics on thirty million annually.) Whatever the package agreed upon by the company and the employee/director/executive is fine, but proper disclosure needs to be given to the shareholders, you and me, in an easily understandable format. This concept of an easily understandable format has a wide variety of definitions. I consider this newsletter easy to read. I have yet to encounter a financial statement, proxy or annual report anybody considers easy to read! This new rule will do just that and companies are now worried about being embarrassed by "perks" that were previously not well-documented. With the recent backlash by shareholders on executive compensation, many companies are stepping up and changing things now so they are not giving critics ammunition to attack and sue later. The blockbuster deals from Pfizer and Home Depot where they both paid exiting CEO's $200,000,000+ (two hundred million) each for poor management performance is pushing the issue. What type of perks are you getting? ☺ ☺ ☺

Sweeping, *Continued from page 1*

That letter you got saying we're going to do you a favor by sweeping your money to a bank insured savings, rather than leaving it in the money market is a slap in the face. I've seen this happening a lot with the following firms who are seeking to bolster profits regardless of what it does to customer relations and satisfaction:

- Merrill Lynch
- Morgan Stanley
- Charles Schwab
- Citigroup
- Bank of America
- Wachovia

If you or anyone you love has accounts at these firms, please check to see if they're sweeping your money under their rug. Where is your money within your brokerage account? If your account is here you can rest assured we'll never play such shenanigans – you're charged what we bill you, period. There is no "hidden" or "back doors" that we profit from without your knowledge. I'm sure you don't have zillions of dollars in the account this may be happening to but even with two hundred thousand dollars, you're losing $7,000.00 annually. That assumes the brokerage firm just moves the money to a money market mutual fund. Some do that, but others actually take the money and invest it – they buy stocks, mutual funds or any other investment they feel appropriate – sometimes making double digit profits – all on your money! The theory these Wall Street firms are using to rape and pillage the consumer is that people don't pay any attention to what their money market accounts are paying, they're only concerned with what investment to buy. That is a very telling fact that they are also not giving investors performance reports. We want your cash making as much as cash can make, so when we send you your quarterly performance report, we've done as well for you as we can do. Isn't that what a fiduciary should be doing? Yes. Now the real question: is the firm where your money sits acting on your behalf as a fiduciary or are they just holding your account? ☺ ☺ ☺



Money Quiz

Last month's quiz was amazingly not answered correctly even with a plethora of attempts. 611,000 US households have more than $1,000,000 in investments where women control the cash! This month's challenge is to tell me how much the cost of a hospital room has increased from 1987-2006 expressed in terms of cumulative return? The winner is going to dinner on us at any one of a few select fine dining establishments. BTN 012207

Anxiety Antidote

Why are Americans so confident at the shopping malls and so grim at the opinion polls? The past looks better than the future – we've dealt with the past while the future is a huge uncertainty. We see people all day long worrying about finances: living too long; being able to care for themselves; maintaining their lifestyle; providing for family; passing something to my heirs; helping with grandchildren's education; give to charity.

All of these concerns are valid but people who are worried or confused typically do one of two things – procrastinate or seek help. We know you have worries and we have customized, caring solutions. We should be worrying about the money, not you. If you address the issues and tackle them head on, your problems will be gone.

If you procrastinate the problems will keep festering, and they'll never get better. Medicine can deal with stage 1 lung cancer but stage 4 is a death sentence.

The same analogy can be made for your finances. We have the life preserver for your financial concerns. ☺ ☺ ☺

Permission Slips

I remember needing one of these to go and use the little boy's room in 5th grade – I couldn't roam the halls without one. They are still in use today under the guise of financial plans. A financial plan is nothing more than a permission slip to follow your dreams. You dream to buy a home, put your rugrat through Dartmouth College, retire at 55, whatever you want. This financial plan will take a snapshot of where you are and map a course to your dreams. If you follow the prescription, you'll arrive on time.

As the years unfold your actual performance will be measured against original forecasts and adjustments will be made to the prescription. Without this plan and the following checkups, how could you ever reach you goals? You can't! You cannot make intelligent financial decisions without a plan and unfortunately most of America doesn't have one. ☹

I use the term 'permission slip' because it is this plan, and this plan alone that will tell us if we're on track, ahead of the game, or way off course. If you're doing a good job and you're exceeding your goals, you now have a permission slip to treat yourself and/or your family to something special. That trip to Hawaii, the new car, the addition, the kitchen, the old car, the jewelry, gift to charity or whatever is important to you.

You can now indulge from time to time and it can feel good! If you indulge without a plan telling you you are ahead of where you need to be, there is a little voice inside of you always worrying about what you're doing. Your gut knows you shouldn't be doing this but you rationalize it – you tell yourself you only live once, you work really hard… whatever rationalization helps you sell it to yourself to justify irresponsible actions.

The permission slip works much better, is more fun and has absolutely no downside over the rationalization method of financial planning. The permission slip will reduce unnecessary anxiety about money and warn us if we fall off course. A well-written, comprehensive plan will allow you to dream the dreams you may not dare to dream now!

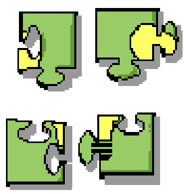
What are your dreams? ☺ ☺ ☺

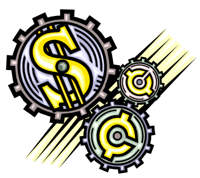
Inspirational Quotes

- The mind has exactly the same power as the hands; not merely to grasp the world, but to change it, Colin Wilson
- Happiness resides not in possessions and not in gold (money); the feeling of happiness dwells in the soul, Democritus
- Fortify yourself with contentment, for this is an impregnable fortress, Epictetus
- I like the dreams of the future better than the history of the past, Patrick Henry
- Hold fast to dreams, for if dreams die, life is a broken winged bird that cannot fly, Lanston Hughes

Radio Trivia

- How much cash does it take to be in the top 1% of wealthiest households in America? A mere $6,000,000.
- What is the median US household income in 2005? $46,326.00
- If California were a country, it's economy would be what rank in the worlds largest economies? 8th.
- What decade has been the worst ever for investors in the stock market? This one – measured from 1/1/2000 – 01/01/2007 has provided a 1% return – the worst ever.☺





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

Company Directory

Mike = mike@fiscalwisdom.com, phone extension 202
Eric = eric@fiscalwisdom.com, phone extension 208
Nancy = nancy@fiscalwisdom.com, phone extension 201
Maureen = maureen@fiscalwisdom.com, phone ext. 206
Betsy = betsy@fiscalwisdom.com, phone extension 203
Robin = robin@fiscalwisdom.com, phone extension 204
Telephone = (860) 673 1942 or (860) 489 8880 or (800) 843 4513
Facsimile = (860) 673 5177 or (860) 482 5300

If anyone you care about would benefit from receiving this 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.

Name____

Address____

City ______________________State___________Zip Code____________

Name____

Address____

City ______________________State___________Zip Code____________

Call us anytime = (800) 843 4513

Visit us online = www.fiscalwisdom.com

Please think of us whenever you or someone you care for needs the following:

- Stock option analysis, diversification
- Pensions - qualified and non qualified
- Family Protection Strategies
- Life Insurance
- Investments & Investment Advice
- Business Protection & Succession
- Retirement Plans
- College Funding
- Tax Savings Strategies
- College Financial Aid Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Employment contract negotiations
- Settlement option analysis
- Financial Advice - hourly or annual retainer
- Fee based investment management
- In depth portfolio analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or variable
- Disability Income Insurance
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long Term Care Insurance & Issues
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

Mike Chadwick's Money Matters

199 Main Street
Torrington, CT
06790
860 489 8880

15 New Britain Avenue
Unionville, CT
06085
860 673 1942

CERTIFIED FINANCIAL PLANNER™ CFP®