MIKE CHADWICK'S

MONEY MATTERS

ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

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Short vs. Long Term

Investing isn't a short-term thing, it's a long-term thing. Think about taking a drive from Connecticut to California – a fun thing to do but I'm going to ask you to measure your progress. To do this you would likely press the tripometer when you leave Connecticut and then read it when you arrive in L.A. That is a perfectly logical and well thought out way to provide an accurate measurement. But if I were to give you a ruler to measure your distance traveled you'd think I was insane! (many do think I am insane, and few disagree ☺).

In our investment world we've had an amazing shift in the past decade. The 1990's were amazing, then came dot bomb, the internet crash that provided the largest stock market losses in history. Many 401(k)'s turned into 201(k)'s and people's retirement plans were altered, by decades in some cases. The financial industry has created more products in the past decade than in the prior century, and all are designed to manipulate individual investors, and even institutions, into **chasing performance**. Consumers are bombarded with 'urgent' messages about buying into the hottest stock, sector, fund, index, ETF, etc., so people today are looking for quarter by quarter gratification from their finances. Think about this, you'll have your investments for the rest of your life. If we happen to have bad quarters and bad

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Inside This Issue

Product Proliferation

Wall Street, economics, finance and investments are complicated. If they were simple everyone on the planet would be worth over a billion dollars, but they're not because nothing is as simple as it looks. It's not that the basics are tough, it's the ubiquitous conflicting messages, usually with an emotional component, the general public receives that drives people to do the wrong thing at the wrong time. Cup accuses me of only liking this business because things never stay the same, and she's right. I would be bored out of my tiny mind if it was always the same. But the constant change is a challenge and keeps me entertained.

Investing has been around for as long as modern times – the NYSE started in the 1800's and the average investor could only buy stocks. It was that way for decades. Bonds became available, followed by options, commodities and futures. Oil wells and partnerships entered the arena for the wealthy. This was all there was for decades. Fast forward to the 1920's and the first open-end mutual fund was created by Massachusetts Financial Services.

There were only a handful of mutual funds until just a few decades ago. Indexes were just a benchmark, not an investment until the 1970's. In the past two decades more products have been "invented" than ever before. We now have almost 15,000 mutual funds, hundreds of indexes, market neutral funds, ETF's (supposedly unmanaged and cheap, but Barclays just applied to create managed ETF's – if the unmanaged were better why are they now creating managed ones?!!). The product list goes on and on – derivatives, CMO's, CDO's, RA's, SIV's, hedge funds, warrants, futures, commodities etc. The average investor has more choices now than ever before. The media now operates 24/7 across all types of communication

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Long Short *Continued from page 1,*

years in the process, so be it. It's like in your drive to California you accidently take the wrong exit or merge onto the wrong freeway. You may go two or three miles in the wrong direction, but you quickly recognize this and take corrective action. It doesn't change your eventual outcome – you still end up in California but maybe 5 minutes later than if you hadn't missed the exit.

We will not chase performance, period. In today's market we're seeing some things are smoking hot for no good reason and some are asking us why all of our portfolios are not doing as well as x, y or z. We have a thoughtful, disciplined approach to making investment decisions based on our research and what's going on in the world. Cup accuses me of moving like a glacier on personal matters – and she's right I need to think things through until I've exhausted all possible outcomes before I can make a decision. But that approach protects you from the craziness in the financial markets. I shouldn't think that way outside of business matters, but I've become hard wired to think this way – a blessing and a curse! ☺

We've made decisions to get away from the craziness in real estate in 2005. We arguably left the arena a little too soon as 2006 turned out to be great, but we're very happy to be out of that mess as it unfolds today. We've added tiny amounts of commercial real estate to some portfolios recently-value can still be found. But what we're seeing in real estate now on a global level is just the beginning. Expect a few years of mayhem before things start to turn around. It will get a whole lot worse before it gets any better.

Industry research has proven that the bulk of new money flowing into investments pours into the 'best-performing' vehicle at an inopportune time, resulting in lower than average returns for investors over the long-run. Many times when there is a period of underperformance for a year, or two or three, that is the best time to get into that investment, not to sell it. But most people buy into what performed well over the past year, two or three (chasing performance!!). Nobody wanted utilities in 1999--they invested in internet stocks, which subsequently dissolved. Since 2002, the energy sector has driven the bulk of the profits of the S&P 500, a sector that lagged painfully during the 1990's. Everyone wants to get in now, but the run is likely over. Investing is a process, not an event, that requires you to act counter-intuitively and intellectually, not emotionally. Expect a few years of volatility – it'll pay off for us in the end and the ride will be exciting! ☺☺☺

Windfall!

Who doesn't want a financial windfall? Maybe you sell your business, exercise some stock options, sell some appreciated assets, or hit lotto (you've got a better chance at drowning in a teaspoon full of water so don't play that game – it's also a voluntary income tax – don't you pay enough mandatory income tax?!). If you planned well and now have a $300,000 income in retirement that might be viewed as a windfall too. If you happen to be the beneficiary of any of these windfalls that's great! But expect the Social Security Administration to punish you for it. There is a provision within Social Security that reduces your Social Security benefits by raising your Medicare Part B premiums if you have too much income according to a Social Security table. Your Medicare Part B premiums will be based on your prior year income tax return:

Individual income	Joint income	Premium
Less than $82,001	Less than $164,001	$96.40
$82,001-$102,000	$164,001-$204,000	$122.20
$102,001-$153,000	$204,001-$306,000	$160.90
$153,001-$205,000	$306,001-$410,000	$199.70
More than $205,000	More than $410,000	$238.40

As painful as this is, this is actually a good problem. I hope you planned well and have a retirement income of over $410,000/year – then paying the $3,000 for Medicare Part B is a bargain. Most of the population will pay less than $100 each month for this benefit. Drastically increasing the premium amounts for those with large incomes may be a way the government could change Social Security without raising the retirement age or increasing taxes. This calculation, if ever implemented, would need to adjust the definition of 'large' income with some sort of cost of living adjustment.

The threshold for the alternative minimum tax (AMT) does not adjust, and that's why many average American's are paying it. The AMT was devised decades ago to prevent wealthy people from getting too many deductions and not paying any income taxes at all. Now it's hurting average families because what is an average income today was a monster income decades ago. If they had put an inflation provision in the code when it was originally written we wouldn't have any of the problems with it that we have today! Go figure! ☺☺☺

Noteworthy News! ! !

- Congratulations to the Manson family on the birth of Dominic Oscar! He joins baby Zachary to make it rugrat # 2 for the Mansons! ☺
- Congratulations to Jason Pace & Jennifer Cassella on the purchase of their new home! ☺

Oil Economics

Energy is insane right now – all of it. My electric bill has more than doubled in recent years. Changing all of my bulbs in my house to fluorescent has saved us roughly 20% on our energy bill. Filling my oil tank recently cost $700. ☹ Economically, these prices aren't sustainable. Let's look at the reality of what's going on with black gold. There are over 4 billion barrels above ground around the world. The U.S. supplies get headlines but that's an inventory management issue, not a lack of supply. 1.4 Trillion barrels is the world's proven underground reserves. 1.7 Trillion is the estimated number of barrels in Venezuela's tar sands: Canada has more. There are 45% more rigs in service today than there were 3 years ago. The high prices of the last few years are beginning to ease global demand. The global economy is cooling off and that will also ease demand. The system is as simple as supply and demand. People worry about the nut cases who run the countries where oil is and speculators have driven prices to record highs. Let's use Iran as an example – if their leader cut production today, the world has enough oil stored above ground already to account for 3 years of Iran's oil production. Not to mention that the country depends on oil for 50% of its GDP & 90% of its hard currency earnings – talk about financial suicide. They've got lots of oil and lots of sand and perhaps a civil war brewing. High prices are forcing governments to cut oil subsidies. Iran is rationing gasoline and China mandated a 10% price increase – further slowing demand. Natural gas is now cheap compared to oil, but this will moderate. Speculation is artificially boosting oil prices and we'll see things settle at some point. Oil rich nations are making lots of money now. They better be saving it as current prices and pollution have driven inventors in capitalist systems to discover new energy sources. ☺

Too Many Products *Continued from page 1*

channels – radio, television, newspaper, magazines, cell phones, and internet. The investor is clearly overwhelmed with options, [mis]information and conflicting opinions.

Let's look at product proliferation in recent years. Rewind the clock to 1998 – at the end of 1998 there were 51 technology mutual funds. In 2000 there were 176 technology mutual funds. At the end of 1998 tech funds had total assets of $28 billion. One year later, total assets were $98 billion – a 248% increase in 12 months. In the five months from November 1999 to March 2000 more than $46 billion went into tech funds, by March of 2000 tech fund assets were at $150 billion dollars. Over the next two years some of those funds lost up to 90% of their market value. Was Wall Street investing for the public or marketing to the public because of strong performance and the opportunity to make a quick buck in a particular sector? Did consumers make any money in tech funds or stocks from 1999 – 2002? No, not a chance. Did consumers make money in tech funds or stocks from 1999 – today? A few have made a little, but for most there were no gains almost a decade later. If you were going to buy into tech, 2003 was the time to do it, not 1999 when all the hype was inflating the bubble.

Look at what's happening today – energy is getting expensive and the money is following it, everyone assumes profits are there to be had but is that really the case? Profits were down at many energy giants in the last quarter despite record energy prices. Will energy collapse as the internet did in 1999? Only the hindsight of history can give us the verdict. I'm more interested in what is currently undervalued, not what is hyped up and over-valued. In 2003 there were 95 energy funds and ETF's with $19.1 Billion dollars in assets in them. Today there are 139 energy funds and ETF's with $90.6 Billion in them. They can't all be winners in the end. Energy indexes, energy ETF's, energy Vipers, energy Spiders, energy funds, the list goes on and on… Are you seeing a pattern here?

As Wall Street comes out with more products the flow of money into certain sectors has the ability to temporarily elevate prices to artificially high degrees, only setting up the suckers who fall prey to the hype for a big collapse when the party is over. Do you want to partake in such games? We never will and if you're not comfortable with what you're doing call and we can discuss it. Enjoy the ride! ☺☺ ☺

Money Quiz

Last month's quiz wasn't won! ☹ It takes an income of $365,000 – a grand a day – to put you in the top 1% of incomes in the USA according to the IRS! ☺

This month's challenge is to tell me what % of workers are saving at least 15% of each paycheck for their retirement? The winner will enjoy dinner on us at Chili's Restaurant. BTN 112607

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Subprime What

What is subprime and what is a write-down? Subprime loans are given to those with poor credit, little or no down payments and/or little or no documented income. These risky loans were rampant over the past few years, helping to cause the current real estate bubble. Lenders have recently become fearful, and hence more responsible, with their underwriting standards. This will be the status quo for the near future. But over time greed will re-emerge as a dominant force and underwriting standards will become lax again, and another loan 'crisis' will occur (as if it were a natural disaster: with no identifiable man-made cause). Financial firms that are well-financed with strong balance sheets and good underwriting habits will suffer very little. Firms that bought into the craziness have and will go out of business. Investors who bought these loans, including the State of Connecticut teacher's pension fund, may take a substantial hit. Time will tell.

A write-down is the formal recognition of a change in value of an asset. Let's say ABC Corp. owns a building it believes is worth $1,000,000. A recent appraisal shows the current value as $500,000. The accounting rules say ABC Corp. must "write down" the value of the asset on its balance sheet to more accurately reflect its true current value. It's happening today mostly with home builders because their inventory of homes is worth much less in today's marketplace than initial appraisals affirmed. Mortgage portfolios were punished more than necessary in the recent round of rating changes, and many investment firms will profit handsomely, in the long run, as they buy valuable assets at substantial discounts. But it takes guts to buy into a fishing expedition where only some can really tell what's in the pool. ☺☺☺

Social Security ?'s

This is one big and complicated system (were you expecting a small and simple government system?). Everyone in the country knows someone that is receiving Social Security benefits or is in some way benefiting from the Social Security system. One third of the population is on its payroll. That's over 100,000,000 (one hundred million) people. Wow! You think ADP is good at payroll?! Give good old Uncle Sam some credit – his is the king of all payroll companies. There are so many benefits, rules and options within the system. Please call if you have specific questions.

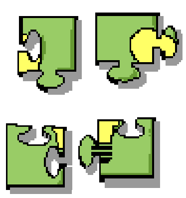
Here we present the top questions received by the Social Security Administration via its website:

- How much can I earn and still receive Social Security benefits? $12,960 in 2007, $13,560 in 2008 if you're not at full retirement age. If you are at full retirement age it's $34,440 in 2007 & $36,120 in 2008.
- How can I calculate my own benefit estimates? Go online to www.ssa.gov and use one of calculators.
- How can I get an estimate of my benefits sent to me? Request it via form – we have them if you'd like one emailed or mailed to you.
- What is the maximum monthly benefit? $2,185 for 2008 retiring at full retirement age, which is 65 years and 10 months in 2008.
- How are my benefits calculated? 35 highest years of earnings are used to calculate the average monthly indexed earnings.
- What are the requirements for a survivor to receive Social Security benefits? Be married to you, have your children, be your ex if you were married for 10 years and not remarried (there are lots of qualifiers)
- If I have 40 credits, will I get the maximum benefit? For disability income, perhaps. For family and retirement income, no. Forty credits qualifies you for the minimum benefit
- Can I apply for Social Security benefits on the internet? For some benefits yes, for supplement security income no.
- If I start my benefits at age 63, is the amount I receive the same as at age 62? No, it will be higher at age 63.
- What type of income counts towards the Social Security earnings test limits? Earned income (i.e. wages)

☺☺☺

Inspirational Quotes

- Sooner or later, those who win are those who think they can, *Paul Tournier*
- You are the only person on earth who can use your ability, *M. Kathleen Casey*
- Don't fight the problem, decide it, *George C. Marshall*
- We have, I fear, confused power with greatness, *Stewart Udall*
- All our dreams can come true – if we have the courage to pursue them, *Walt Disney*
- A man full of courage is also full of faith, Cicero
- Courage is resistance to fear; master of fear – not absence of fear, *Mark Twain*



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

Kids Korner

Tips to teach our youth about money

Do your kids know the value of a dollar – one of mine doesn't! My Samantha recently had a book fair at her school. We gave her $10.00 to buy books and she bought $8.00 worth of books and $2.00 worth of erasers. She only has 187 erasers already and clearly needs a few more. Were they worth $1.00 each? Not a chance. She kept them and supposedly learned a lesson. A few days later we went to another book fair at school and she decide to buy a mini notebook – 2" x 3" for $2.99 and 4 colored pencils for $4.00. NOPE, WRONG, you're returning that now. The next day we went to the dollar store and bought 12 colored pencils for $1.00 and 2 big notebooks for $1.00. She didn't have a clue about the value of a dollar and she's my daughter! Now she does! Another issue – is the school hurting our kids financially? Our school sells kids bottled water for 75 cents – the water fountains are free! Why would the schools do this? We need to change the messages we're sending our children about money values!

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