MIKE CHADWICK'S

MONEY MATTERS

ADVISING, EDUCATING & INSPIRING YOU TO A BETTER LIFE

Volume 7, Issue 8 Advising, educating and inspiring you to a better life August 2009

Peer to Peer Lending

The banks aren't lending money! This was the supposed big issue over the past year or so and the biggest fallacy on the planet. Banks are always lending money, it's their business, their bread and butter, and if they're not lending money they're out of business, period. People get a little too wound up when this year's numbers or this quarter's numbers are below the comparable period of last year or quarter. When the recession hit the bankers that were sloppy quickly straightened out their act and stopped lending foolishly. Underwriting standards were improved overnight and those who were living beyond their means will no more. Appraisals suddenly become conservative as they always should have been, people with questionable credit had lines of credit reduced or closed and what I consider good fiscal stewardship reins again. This is how it always should have been, but things strayed. The banks that were the most egregious are now gone! Remember Washington Mutual & Indy Mac? They were banks who were downright stupid and most of their loans were to people who had no chance at paying them back on assets that were outrageously inflated. Most banks didn't act that way and are going to be fine. A few hundred have closed and a few hundred more likely will too. This fiasco creates a whole new industry for borrowers and investors alike, it's called peer to peer lending.

Peer to peer lending is a relatively new tool, enabled by the magic of the internet. How did we do anything without the internet and email just a few years ago? I almost cannot remember a day without these tools! Now that we have these ultra modern

Continued on page 2, Peer 2 Peer

Inside This Issue

Health Care Hoopla!

The great debate in 2009 is indeed America's future for health care. In traditional fashion, the dim bulbs in Washington are acting in a reactionary fashion looking through the rearview mirror while driving down the road with the windshield covered in duct tape. They're not addressing the root issues and simply trying to do something to address the symptoms, not the causes. This will not fix the problem, it'll likely exacerbate it moving forward.

It's comical but very sad to me that government always addresses things this way instead of doing the right thing, but the right thing is politically incorrect. TOO BAD, at some point we need to do the right thing here and not worry about placating all the whiners out there. There is no question the current system is far from perfect, but it's still the best in the world. That fact is proven to me daily as I see people who live here in America for part of the year and in another, often their home country, for the other part of the year. I've witnessed this first hand on hundreds of occasions and whenever serious care is needed, they seek it out in America, not in Italy, Greece, Poland, Portugal, Brazil, Germany, Australia, Canada, England, Switzerland, or wherever they're from. Nothing against those countries, which are all fine places, but people just trust our heath care system above all others.

There are two main causes for our current health care problems. The first and main issue is lawsuit medicine. Our physicians and medical providers cannot just treat the problem they see in an efficient fashion because our society has become one of absolutely no responsibility. Everyone is looking for a free ride on someone else and our medical providers are target # 1. This is an absolute tragedy. The physicians must perform every known test, treatment or procedure known to man just to prevent being sued somewhere down the line if absolutely anything goes wrong with their patient! This is the main issue and it needs to end, whatever happened to personal responsibility? The law and lawsuits have a place and when someone is negligent or did something awful there needs to be consequences, but the system is so far beyond that it's now

Continued on page 3, Health Care Hoopla

conveniences, they're no longer wants and we now view them as needs! ☺

Sites pull together people to lend money to others, coordinate the whole affair, and charge a fee for the service. Sites are very different just like any other business so it pays to shop around. This tool allows people to borrow and lend and the operation is very much like a bank, but the lenders can be one person lending one other person $50, all the way to 1000 people each putting up $50 to lend someone $50,000. This isn't traditional banking as there are no brick and mortar buildings to go and visit, no sponsorships at Yankee Stadium, none of the fluff traditional banking is known for. This whole operation is all virtual. In retail, it's the Amazon.com version of Wal-Mart, but competing with the banking industry. Currently it is primarily being used by generation X & Y, as they're the ones who are living and breathing online but a substantial surge in baby boomers is beginning.

When many people combine to lend money to someone else, it reduces the risk to any one party as their investment is small. The technology uses traditional tools to determine a borrower's risk profile, such as credit scores, debt to income ratios, payment history, job security, etc. Based on the risk, the interest rates that are charged range from 5% - 26%, the safer of a bet you are as a borrower, the lower your rate will be! Not all sites use traditional underwriting tools, especially for smaller loans so rates will be all over the place.

The money that is borrowed can be used for anything from books for college, college itself, cars, paying off credit cards, business purposes, etc. Some sites also allow better rates on loans by arranging loans for someone only among family and friends with the thought that default is much less likely.

This is a very creative tool that is now available for everyone around the globe to use. I've seen similar but less sophisticated tools used in the past, such as the mafia's loan sharks! ☺ Those loans are much less consumer friendly and potentially very dangerous if not paid in a timely fashion, but a loan nonetheless if the bank turns you down! ☺ I've also seen various nationalities run similar loan operations by pooling money and lending or gifting for family, friends, and community members through the grapevine, not using the technology of the internet.

Unlike traditional shopping, where I do virtually all of it online, this is an area where I plan to stick to traditional brick and mortar institutions where things are safe and regulated and the consumer protected. We've had inquiries as to how "safe" of an investment this is for investors and I recommend staying away from it. The default rate on investments in peer to peer lending through Oct 2008 was 16.5%. That's a mind bending number and if any bank had ratios like for NPA's (non performing assets) that they'd be out of business.

The New Normal

How do we define normal? That's a very interesting question and I think to a degree we're all somewhat crazy and not normal at all! ☺ Perhaps being a little nutty in certain areas is what makes us normal? We're all unique and that's what makes the world go around and it continues to be interesting. With respect to the financial markets normal is a much less volatile world than we've seen in the past year. Normal is when business just happens and people go about their daily lives and prices are somewhat steady and predictable. Variances in prices always occur so for things with a high demand prices rise and for things with a low demand prices fall. Normal is a world where business continues as it always has, without any major changes. Normal is innovation that changes our lives. You likely didn't have a cell phone 10 years ago now they're considered a "need." Not really but I have one too and I'm not getting rid of it. ☺Normal is we know we'll have food and shelter and clothing and affordable energy every day without any real long term disruptions.

The events of the past twelve months have made people rethink what normal is and if we'll ever see it again. We absolutely will. If you really think about it, things aren't that different today than they were a year ago if you lived within your means. The only real change is our level of fear in the world, it's heightened. If you've been laid off or outsourced things are different for you in a very real way. If you're still well and employed you're likely living a bit more conservatively just because we all feel less wealthy and more dependent.

Price movements don't tend to be too big over short periods of time for many things but the last twelve months now has people second guessing everything. Today we are in a place where prices of businesses and many securities are artificially low, priced sometimes as if companies are almost out of business. Some firms will fail, but most will survive and many will flourish, taking the slack up from the failures.

For those of us who can spot this investment opportunity, this is likely a once in a lifetime opportunity to take advantage of a true dislocation between price and value. I'm so excited about the prospect of prices just getting back to reasonable that I sometimes cannot sleep. We don't need explosive growth to do well from here, we simply need to get past the idea that the world is going to stop spinning and we'll no longer have a currency or a financial system.

The past few decades have been bubble builders and bubble busters. That pattern isn't good for anyone or anything. We may now be moving into an era of much less drastic price movement and a much more conservative way of doing business. This is a good thing for everyone. It'll help ease people's tensions, lower their blood pressure and allow everyone to live a happier healthier less stressful life. Who doesn't want that? ☺ ☺ ☺

Noteworthy News! ! !

- Congratulations to Matt Johnson on the purchase of his new home! ☺
- Our condolences to the Chambers family on the passing of Kevin's grandmother, a wonderful woman, sister, mother, grandmother, great grandmother and friend.
- Our condolences to the Garafolo family on the passing of D. Richard, a wonderful man, sibling, uncle and friend.
- Our condolences to the Bauman family on the passing of Carol, a wonderful woman, wife, mother, grandmother, aunt and person.

The Genius of Government

This is the epitome of an oxymoron. This is not something we don't see much of, but I'm happy to say Uncle Sam made an absolute killing on some of the financial rescue bill implemented last year. When everyone in the world believed the global financial system would be no more, the governments across the world did what they needed to do – placate people. They offered loans, guaranteed companies, forced companies to take capital, etc.

Goldman Sachs was one of the TARP (Troubled Asset Relief Program) recipients, Uncle Sam injected $10 billion into Goldman to help shore up its balance sheet and weather the storm. The money was for preferred shares of stock and warrants to buy common stock at a specified price. At the time, everyone was crying the government was rescuing big firms while we were telling people the government will likely make some big money on these deals.

The cost to Goldman on the preferred stock was $318 million dollars in preferred dividends and $1.1 Billion for repurchase of the outstanding warrants from Uncle Sam. Combine this with the return of the $10 billion in capital and we sum up the math. Goldman Sachs paid good old Uncle Sam $1.42 Billion dollars on a $10 Billion dollar advance, all in less than a year. This translates into a 23% return on investment for the US Treasury. That's impressive!

Goldman Sachs isn't alone here, many banks and financial firms received TARP money and 10 have paid it back. Most firms will ultimately pay it back, with the preferred dividends and premiums on the warrants. This is good business for Uncle Sam, regardless of how bad some thought of if it in the beginning.

Health Care Hoopla Continued from page 1

total abuse to the people. Since the dim bulbs in Washington are mostly lawyers, don't expect this to change anytime soon, but push hard for it since this is one of the core problems.

The second cause of our health care fiasco is the acceptance of poor eating and exercise habits we've all come to accept, making us an obese population. We all need to take better care of ourselves, work a little harder, get off the couch, get a little more exercise and eat a lot better. I could use to lose a few pounds too so I'm just as guilty as the next guy. Obesity has caused a 50% rise in health care expenses for our country in the past decade alone. In the past 20 years, medical care has gone from 9% of GDP to 19%. These are scary numbers and not sustainable numbers so rather than live through another bubble, let's get to the root causes and tackle them to turn the tide. Obesity leads to diabetes, which just keeps on complicating matters from there.

Most health care costs are a direct result of behavior. We spend most of our money fighting preventable issues if people behaved differently. We must give people incentive to be healthy and hit those in the pocketbook for having bad habits that can be changed. This is the only thing that will change those bad habits. Providing extra, free, government sponsored care for those who have bad habits will only foster a mentality of those addicted to welfare. This is not what America needs, we need incentive to do well, work hard, be well and earn our way ahead.

Safeway has a wonderful program to do just this and should be a model for America to follow. They believe in rewarding healthy behavior. They're self insured and they redesigned their plan in 2005 to contain costs. They took the theory from auto insurers, if someone has a good record and stays out of trouble, charge them lower premiums, if someone plays bumper cars too often, charge them higher premiums. The way their plan works is with big differences in premiums based on behaviors. This voluntary program covers 74% of the workforce and if employees enroll, they're tested in 4 areas of fitness. If the employee scores well their premiums are reduced by $780 per year for an individual and $1560 per year for a family. If they fail any tests they can retest in 12 months to then qualify for the reduced rates. The company has built a culture of health and fitness, as we need to do as a country. Their obesity and smoking rates are 70% of that of the US population in general, and their health care costs haven't risen a nickel in four years. I suspect America's health care bill has gone up 50% in the past 4 years without such incentives. The law limits what Safeway wants to do to further increase the plans effectiveness. They reward nonsmokers with a $312 annual premium savings, but the cost of insuring a smoker is $1400, the difference cannot be refunded to the employee because of the law. This is the type of plan America needs, and it shouldn't be government administered but government mandated! ☺

Money Quiz

This month's challenge is to tell me what the national vacancy rate is for apartments, it's at a level not seen since 1987. The winner will enjoy lunch/dinner on us at Chili's. 071309:11☺

~ ~ ~

Short Squeeze

There are officially new rules on short selling. Short selling is selling a security at the current price and hoping it goes down, then buying it back at the lower price and reaping profits should prices decline. Short selling is typically executed by "borrowing" shares of the security you are shorting from someone else's account within your firm, but firms have been sloppy about the borrowing piece and many have gotten away with what is called "naked short selling." This is not good and it is likely a main cause of last year's meltdown. The dim bulbs in Washington have done another very smart thing lately and issued new rules to prevent the naked short selling, permanently. This is an absolute first, I've commended politicians twice in this issue of the newsletter, and I hope this is the beginning of a new era! ☺ Last year temporary bans were placed on many financial stocks so they couldn't be shorted in an effort to stop the hemorrhaging, but shorting is a necessary tool we need in the financial markets so prohibiting it isn't the right thing to do. There always should have been enforcement of the naked shorts and disclosures of who is doing what. There is new disclosure requirements for everyone, hedge funds included. They now need to disclose short positions each month so that regulators can see if people are pushing prices down just to make money, often referred to as a "Bear Raid." FINRA (Financial Industry Regulatory Authority – come on we needed another acronym) will also begin publishing daily aggregate short volume as well as failed shorts. A failed short is one that didn't complete, often due to manipulation. The rules didn't include the reinstatement of the uptick rule, which only allows a short sale after the increase in price movements. It's not perfect, but it's a step in the right direction. ☺

Taxing Plans

Taxation of investments is a painful thing, especially when you're not using the money. The way the IRS taxes investments and corporations is not as advantageous as in many other countries, even though our income tax rates are lower than many other countries. (That may not last if the dim bulbs keep burning money at the rate they currently are) The IRS position on the mutual fund industry is giving foreign firms a huge leg up as tax policy in Europe is far different than it is here. The United States is typically the most competitive market in the world, but in this area law is making us uncompetitive due to tax costs. Mutual fund dividends and capital gains that are reinvested in a taxable account are taxed each year here in America. In Europe, they're not taxed as long as they're reinvested into the account and saved for the future. Europe allows investors to defer income taxes until they sell fund shares to use the money.

You all know how painful it is when you get your 1099's and you see lots of dividends and capital gains, but the painful side of that equation is the tax bill that is forthcoming. Paying taxes is a good problem to have, if you're paying taxes you're making money. We'd all prefer to pay as little taxes as possible but I often tell people I'd rather you have an income tax problem over the problem of you cannot pay your bills. ☺

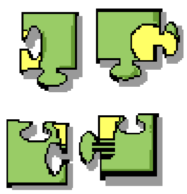
There is a current proposal being floated to change the way the United States taxes mutual funds to defer the gains in accounts that are used for accumulation purposes. This would allow US firms to market themselves to foreign investors, which many believe all the future growth of the world will be. It is a logical conclusion as the US only holds 5% of the world population and a disproportionate amount of the planets wealth. As China, India and other highly populated nations begin to acquire wealth and a life similar to ours, that equation should change drastically and there should ultimately be much more wealth outside of the United States.

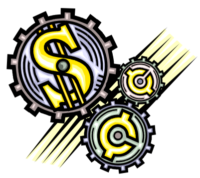
This wealth transfer and global emergence of populated countries isn't a bad thing, many believe the US must be dominant all over the world. We don't have to be and we will not be so get used to the idea or it'll be a tough few decades to see the reality hit home!

Many people believe this taxation issue on mutual funds is unfair for the average man as hedge funds get a better tax deal. The argument is made that only the wealthy can afford hedge funds and the average Joe is paying more in tax simply because he's average and not a wealthy person. It's a valid point, but on the other hand the average Joe isn't paying much in taxes overall and the below average Joe is getting free money via tax credits, etc. ☺

Inspirational Quotes

- *Ninety percent of politicians give the other ten percent a bad reputation, Henry A. Kissinger*
- Giving money and power to government is like giving whiskey and car keys to teenage boys, P.J. O'Rourke
- The only true wisdom is knowing you know nothing, Socrates
- A government that robs Peter to pay Paul can always depend on the support of Paul, George Bernard Shaw





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

Kids Korner

Helping to hurt them or even disable them. This is what we sometimes to do our children by making things too easy for them. Life isn't Candy Land, kids need challenges, losses, victories and grief to grow as people and develop an identity. Especially financially, I see people insulate their children from the economic reality of today's world. This is a big mistake. Children need to realize the importance of finances and how each decision they make affects them today as well as down the line. If the kids knew the reality of the economics they'd make much different decisions. Insulating them is only hurting them so allow them to make their own decisions – they'll do well and they'll fail – let them do it, don't bail them out! They'll never amount to anything if you keep bailing them out of trouble. It's not only true financially but socially as well, let them learn to adapt and work within the world as we all do. ☺☺☺

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
Telephone = (860) 673 1942, (860) 489 8880, (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 ____________

Visit us online = www.fiscalwisdom.com

CHADWICK Financial Advisors

Call us anytime at (800) 843 - 4513

CHADWICK Financial Advisors

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
- Retirement Income Plans
- 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 & risk analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or variable
- Income Replacement Techniques
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long-term Care Issues & Strategies
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

Mike Chadwick's Money Matters

15 New Britain Avenue
Unionville, CT 06085
(860) 673 1942

199 Main Street
Torrington, CT 06790
(860) 489 8880

CFP® | CERTIFIED FINANCIAL PLANNER™ | CFP®