

## Inventory Roll

Inventory is a very important factor in business. Obviously a business needs inventory to have on hand to sell when a customer comes looking to buy. There are a plethora of inventory models out here that businesses use and many industries have custom models for their particular business. All businesses will use the inventory method that works best for them to make their customers happy and help to maximize profits. The typical inventory model is to have product on hand in the store or in the warehouse so business can fulfill customer orders. This is how the vast majority of businesses operate today. Think about shopping for anything you buy on a day to day basis from groceries to household products, car parts to gasoline, the stuff has to be there for you to purchase it and take it on your merry way with you.

Another inventory method is the drop ship approach; this is commonly used with internet companies and the old catalog retailers. With this method the seller doesn't keep product in a warehouse or storage facility that the seller has to build, fill and maintain. The selling firm does the soliciting and generates the product orders, but the actual product is shipped to the consumer directly from the manufacturer. This is a much more efficient method of product delivery because the seller saves the entire inventory process, the product is handled and shipped for less and margins are far superior. Many businesses cannot operate this way, but I'm sure all would like to if possible to increase their margins. There are other inventory methods out there and many logistics companies have sub-businesses in helping firms manage the logistics of inventory and transportation of goods.

A business can turn over or sell its inventory at various rates. The business that turns over the inventory the quickest is the best run business with the highest return on equity.

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## Which Lens?

We all live in the world together, but each person's individual perception is reality in this world for each of us. Whatever we perceive to be true is how we'll think, reach and behave, regardless of how true our perception actually is. Think about how many different topics are out there and how many differing opinions there are on each topic. That is truly a mind bending issue when you really consider the possibilities. We can look at any topic from health care, education, politics, the economy, energy, transportation, etc. and have an unlimited number of ideas and outcomes on any one of them. The possibilities are endless. The bottom line is we're all living in the same world but viewing it through a different lens. Each of our lenses is a combination of our actual experiences, thoughts, beliefs and desires. You can control how you view the world but you cannot control what is happening right now. If something so motivates you, anything is possible. The problems we have today will be solved by someone someday who is so wound up about something that it motivates them to find a solution. This is how we've come to where we are today.

It's important we have a realistic perception of the situation and our view of the world is an accurate one or it'll alter our ability to make sound decisions. There is no shortage of issues in the world, and we cannot control those things, but we can control how we decide to react to them. People are worrying about the end of the world in 2012 and preparing for it. I can assure you if it happens no matter what you do you will not be prepared. People are going so far on this they're spending hundreds of thousands of dollars on "bunkers" that will sustain them for a year or so underground if the world does indeed come to an end. I've had conversations with people who wouldn't travel as they were concerned about bed bugs infesting their life. This is 100% serious, painfully sad, but perfectly serious.

How did people's views of things become so distorted and extreme? The quack who is building the bunker lives in the same world we all live in and the rest of us, 99.999% of us, aren't dropping half a million on the bunker. If I were a dictator in a Middle East country I'd build the bunker. As an average American citizen the bunker is nothing more than any other extreme cult like behavior. For most of us it may make some sense to have a generator and some food stored in the basement in the event of a power outage for a few days but after that it's quack zone.

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## Inventory Roll (continued from page 1)

We're on a constant search for great businesses with a high return on equity. The higher the return on equity a business can generate the better for the business and its shareholders. Think about going to a store where everything is neat and clean and product rolls off the shelves every day and is replenished every day. This is far more profitable and appealing than going to a store where product sits on the shelf forever with dust all over them. That company isn't generating a very good return on its equity.

Regardless of which inventory method a business uses, the actual inventory of products in the world has meaning. In the world of forecasting today, everyone is trying to get a leg up on everyone else and the inventory number is becoming very popular in how it is tabulated and what it means moving forward. With today's bifurcated economic climate, the reading deep into the inventory number is becoming a very popular activity. For those who become the most adept at reading the inventory tea leaves, they'll have the advantage moving forward.

"Days inventory outstanding" is a popular measure of inventory in businesses and is commonly referred to as DIO. It reminds me of DOA (dead on arrival☺) but has a totally different meaning. This measure is how long it would take a business to sell the entire inventory it has on hand down to zero, absolutely no inventory left. The lower this number, the more efficient a business runs. Many firms today have a DIO that is rising substantially. This means inventory levels are high.

High inventory levels can mean several things. One possible outcome is that the company expects higher sales in the near future so they're stocking up on product to fulfill expected consumer orders. Another option is that companies expect the cost of raw materials to rise substantially so they buy a lot of inventory today to lock in lower prices and generate a lot of inventory that way. This is true mostly for smaller firms as larger firms hedge the costs of raw materials with financial instruments to protect against rising prices. Inventory levels can be very high because the products are not selling as fast as they expected. The big car companies today are showing a relatively small inventory, but when we look to auto dealers, they're sitting on the largest auto inventory ever in history on their lots. This looks great for the manufacturer because the units are "sold," but if the dealers cannot move the products future orders will slow substantially. We'll see where this goes moving forward and only time will tell which end game the current inventory numbers are really telling us. ☺

## Liquidity & Solvency

These two very different financial terms are being confused lately. Liquidity is just having liquid cash available for whatever purposes you so choose. You can use this liquid cash to save, invest, and pay bills, whatever. If it's truly surplus cash you'll never use it or you'll use it a long time from now or perhaps you'll splurge and treat yourself to something special.

Solvency is having the capacity to pay your bills where current income is greater than current expenses. Most people are solvent unless something goes terribly wrong. Many times people become insolvent due to a death, disability, divorce or sometimes just due to bad decisions. If you don't have enough cash to pay your bills as they come due you fall behind and eventually file bankruptcy. This is how the average Joe deals with life financially.

What has been going on in the global financial machine lately is governments and central banks are injecting trillions of dollars or euros of cash to provide liquidity to the worldwide financial system. This liquidity is providing some temporary relief to short term funding needs of close to insolvent countries. (Greece, Italy, Spain, Portugal, Ireland for now) There is a longer term problem of insolvency that isn't going away. These problems persist and are getting worse, not better. It doesn't "fix" the insolvency; it simply kicks the can down the road a bit and creates more debt, which means more leverage in the global financial system. Leverage isn't a good thing and isn't what we need more of. Responsible people don't behave this way, responsible governments shouldn't either. There is a day of reckoning coming soon that'll force the dim bulb politicians to deal with reality and stop kicking the can down the road.

From the financial perspective of a country this same concept of a personal bankruptcy is a much more complicated case. It's the same math but it becomes a process of political positioning, finger pointing, bailouts, packages, aid, restructurings, meetings, summits, etc. At the end of the day it's the same thing under the disguise of a different name or names with a whole lot of jockeying and gyrations. Some countries in the Eurozone are insolvent, period. These insolvencies will cause bankruptcies of one form or another; we'll see what the politicians end up calling them and what politicians end up losing their jobs.

There is a very simple solution to the system we've come to live in. We need to end the inflexibility of union's. Unions are too powerful today, politicians are too dumb to deal with them and this is the root cause of government financial chaos. Next we need to tie political pensions to the fiscal health of their governing body for the next 50 years. If any government body has a fiscal deficit, the pension of the current political leaders should end instantly. Let's take the state of CT as an example. This current clown is taxing us like mad, spending like a lunatic and still has deficits. His pension is gone forever under logical rules. Watch how quickly these people would become great stewards of our tax dollars when we tie incentives together with them. If we make these simple changes to the systems we'll never again live through the current insanity of the world.

## Noteworthy News!!!

- Congratulations to Ben & Kasey Shoemaker of Middletown on the birth of baby Desmond Thomas! The first little prince of the family. Congratulations to the proud grandmother, Carol Shoemaker of Atlanta! ☺
- Congratulations to Mark & Christina Moher of Thomaston on the birth of Olivia Marie, the first little princess of the family! Congratulations to the proud grandmother, Isabel Rodrigues! Further congratulations to the proud aunt & uncle, John & Barbara Freire! ☺

## Question & Answer

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

*Q: Does a stock split make investor money?*

No! When a stock splits there is no money made at all, it's just a change in the number of shares outstanding and the price per share. It's a psychological accounting issue that causes people to be more interested in a stock. Here is the math on a stock split. Let's say Joe Bar & Grill is a local restaurant worth \$500,000. If Joe's place has 1000 shares each worth \$50.00; the restaurant is worth \$500,000. If Joe splits his stock two for one, (2:1) he now has 2000 shares each worth \$25.00, but the company is still worth \$500,000.

Sometimes when a stock splits a lot over time value is created by adding a large number of shares for the investor, even though the share price may not seem like it's going anywhere. Let's take Cisco as an example; its split 9 times in the 90's and the mat of how many shares the investor ended up with is amazing. Let's look at the way it changes an account share balance over time.

We're starting with an Initial investment of 100 shares. ☺

Action	2:1 = two for one split	Share Balance
5/18/1991	2:1	200
5/23/1992	2:1	400
5/22/1993	2:1	800
03/21/1994	2:1	1600
02/20/1996	2:1	3200
12/17/1997	3:2	4800
09/16/1998	3:2	7200
06/22/1999	2:1	14400
03/23/2000	2:1	28800

What we have here is a series of splits increasing the share count from 100 shares to 28,800 shares. The share price decreased (halved in a 2:1) each time a split happened, but the share count is so much higher after all of the splits this was a big winner. Shares don't typically split this often; the go 90's was the exception, not the norm on this. Bottom line is splits are quite interesting. ☺

## The Lens

*(Cont'd. from page 1)*

There are a plethora of reasons people behave in extreme fashions, the key is balance and not to get sucked into any extreme position.

These extreme positions are rarely good for your outcomes and the chances of these things actually happening are about as good as you winning the lotto and getting attacked by a shark on the same day at the mall. The internet is a magical thing, but it can severely warp one's sense of reality as it has anything available to you if you immerge yourself in it.

So we're all looking at the same events happening in the same world but through different lenses. Each of us may perceive things identically, very similarly, or from a polar opposite perspective. Since each of us will likely have a somewhat different perspective, we will each see different issues, angles and opportunities. Some will become paralyzed by fear and aggravation over a particular situation; others will be motivated and inspired by boundless opportunity; others may be so aggravated by the very same thing it spurs innovation to reduce the frustration. I always, without exception, take the optimistic and opportunistic view of things, sometimes to a fault. We can be too trusting and can get hurt from that, but it's a better way to live than to live in fear. I refuse to believe everyone is bad and society is evil. This is something the media and government responses to life have conditioned us to believe. We deal with thousands of people and I cannot say any of them are bad. Some of course are more pleasurable to work for than others, but we've never run into pure evil in business. I've seen pure evil in other areas of life such as sports but it's the exception not the rule. There is a good amount of profession exposure here, ask any cop, public defender or prison guard the same thing and you'll get a very different answer.

All of this is a very healthy dynamic that is only available in a free and open society where we can each thrive and reach our full potential without any government repression. I feel deeply for the people in countries where a repressive regime is dictating how life must run, controlling information flow and squashing a very young, vibrant and educated population. This is why America is typically in the lead with most business ideas and innovations. Other countries are great at taking our ideas, reverse engineering them and making them more efficient or reliable. We continue to be the idea factory for the world and hopefully if the dim bulbs in Washington and the state capitals clean up their acts we'll have less to worry about moving forward.

I see youth playing a huge role in the perception wars. Older people have much less tolerance for change or anything they view to be bad. They're also much less likely to find solutions to problems. They tend to get scared, move away, retrench and complain. The solution isn't to run and hide, it's to hit problems square in the face and find new ways to do things. It's how we grow and reach our potential! ☺



## Money Quiz

This month's challenge is to tell me 1 in how many (1 in 100, 1 in 50, etc.) households have a net worth of at least \$1,000,000 in America today not counting the value of the primary residence. Last month's winner was Phil Simpson, there are 108 publicly traded companies in CT with a new market capitalization of 10 million plus. Winner goes to Ruby Tuesday on us! 04/02/12:14

## Rollover Accounting

When you roll over your retirement plans they should be tax free rollovers in most instances. We see it every day as people leave jobs, change jobs, retire and other life events happen to cause such things to happen. When rolling over, make sure you go from like taxed accounts to avoid any potential tax ramifications. Your 401k, Pension, SIMPLE, SEP, Single K, etc. should all be rolled over to your IRA to make it a tax free event. If you're rolling over the after tax portion of your plan or your Roth IRA, they should both be rolled over to your Roth IRA to keep the exchange tax free and tax advantaged.

The rollover is the first step and it needs to be done correctly. The next step is the tax reporting. When you file your income tax return for the year, which is always in the following year, you need to report the rollover on the tax return correctly. This is often missed or questioned in the next tax season because form 1099's show up and people wonder what on earth this is. When you go to do your taxes, please tell your tax pro what happened. If you do it yourself you report the entire rollover amount on the tax return, but you also report the taxable portion on the taxable line, if there is any.

Many people forget this step altogether. If you do it takes the IRS about 2 years to get caught up to you. When they do they'll assume you took all of the money and spent it, so they'll send you a tax bill for the transaction. It's not the end of the world, we just need to reply to them with what actually happened and prove the rollover with copies of the appropriate forms. You can avoid all of this by reporting correctly. Here is what it should look like on the middle of your 1040 tax return for tax year 2011 if you rolled your 401k to your IRA.

Income	7	Wages, salaries, tips, etc. Attach Form(s) W-2	7	
	8a	Taxable interest. Attach Schedule B if required	8a	
	b	Tax-exempt interest. Do not include on line 8a	8b	
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.	9a	Ordinary dividends. Attach Schedule B if required	9a	
	b	Qualified dividends	9b	
	10	Taxable refunds, credits, or offsets of state and local income taxes	10	
	11	Alimony received	11	
	12	Business income or (loss). Attach Schedule C or C-EZ	12	
	13	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	13	
	14	Other gains or (losses). Attach Form 4797	14	
If you did not get a W-2, see page 20.	15a	IRA distributions	15a	782,383.91
	b	Taxable amount	15b	0(Rollover)
	16a	Pensions and annuities	16a	
	b	Taxable amount	16b	
Enclose, but do not attach, any payment. Also, please use Form 1040-V.	17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	17	
	18	Farm income or (loss). Attach Schedule F	18	
	19	Unemployment compensation	19	
	20a	Social security benefits	20a	
	b	Taxable amount	20b	
	21	Other income. List type and amount	21	
	22	Combine the amounts in the far right column for lines 7 through 21. This is your total income	22	

## Cost Basis

With accounting season in full swing, everyone is now searching for cost basis. Cost basis is what you have invested into an investment, plus any additional investments that you made over time. This is a process you need to go through for any investment you make because good old Uncle Sam wants to tax any gains you've made.

Let's look at buying an investment property and see how it plays out. You buy a house to flip for \$100,000.00. You then do renovations, repairs, additions, etc. and put another \$45,000.00 into the property. Along the way you paid for homeowners insurance and property taxes totaling \$5,000.00 while you owned it. Now you sell the property six months later for \$175,000. To calculate how much tax you owe, it's how much you sold it for minus how much you put into it (cost basis). In our example here you would do the following math:

Sales Price	\$175,000.00
<u>Basis</u>	<u>- \$150,000.00</u>
Gain	= \$ 25,000.00

You'd pay taxes on the 25k gain in this example. If you held the property for six months that 25k gain would be taxed as ordinary income tax rates, not the more favorable capital gains rates. We've simplified this in not accounting for realtor fee's conveyance fee's or any depreciation you may have had on the real estate.

Now let's look at an example of how it works with stocks, bonds, ETF's or funds. You bought \$10,000 worth of GE stock in 1995. You then added \$5,000 to your investment buying more shares in 2000. On the surface it would appear your cost basis is \$15,000.00. This is part of your cost basis but another very important part of your cost basis with investments are reinvested dividends. GE has paid dividends for decades and most people just reinvest their dividends in more shares of stock. Each time a dividend is paid, you acquire more shares of the stock. Here is how it plays out.

\$10,000 invested in GE on 1/1/95 buys you 1190 shares of stock. Now a few months later on March 1<sup>st</sup>, 6.833 cents per share dividend is paid out. Because you own 1190 shares of stock, your total dividend is the product of the number of shares you own multiplied by the dividend per share. Here we have a total dividend of \$81.31. Reinvesting the dividend buys you 9.219 shares. Now your share balance is 1199.219 shares. Next quarter the same thing happens. It adds up over time to be a big deal.

Each year you receive your dividends you pay income tax on them even though you're reinvesting them in more shares of stock and not spending the money. You also pay tax on any interest in your bank accounts even though you may not use the cash. Since you're paying tax on this reinvested dividend, it's considered part of your cost basis so when you sell, it's not taxed twice. Calculating this is time consuming and tedious. We're good at it since we've done it countless times. Many people don't have the records going back far enough. We can help if you know the date of purchase and # of shares purchased; we can rebuild your basis for you in a clean excel spreadsheet.

## Inspirational Quotes

- What difference does it make how much you have? What you do not have amounts to so much more, Seneca
- The best things in life aren't things, Art Buchwald
- Put off for one day and ten days will pass by, Korean proverb
- Whenever I get energy to exercise, I sit down until it passes, anonymous
- A coward gets scared and quits, a hero gets scared, but still goes on, anonymous
- To date is to lose one's footing momentarily. To not date is to lose oneself, Soen Kierkegaard
- Firefighters, policemen, military, they all risk their lives every day. Won't you risk something once in a while? anonymous
- A man of courage is also full of faith, Cicero



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

## Entitled or Earned?

Are we raising a generation of entitled kids? I'd hate to think it's true but some evidence is pretty scary on that front. My ladies will never have the entitlement fever that seems to be impacting many of our youth today. I fully expect them to comply with authority and outwork the competition. When our kids face challenges outside the home how we deal with them and the challenge will have a huge impact on how they think. We deal with a lot of teachers and school administrators and the stories we hear are scary and wrong. When the kid is out of line the school system and its leaders should have every right to discipline the kid within reason and keep him/her in line. It's not a teacher's job to be teacher and parent. Parents shouldn't fight the system for the kids when the kid is wrong. Parents protecting the kid from authority in school when the kid is wrong just make the problems worse. It creates a person who cannot cope in life when the coddling of childhood ends. Behavior in school shouldn't be work, it should be expected and if the kid cannot keep it together in school (s)he shouldn't be there. We've become a wimpy society focusing on nonsense and missing the bigger picture.

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