

Index Inundation

Society has become obsessed with indexes. I cannot say I'm innocent here, I'm as guilty as everyone else, perhaps more so as I track a plethora of indices and metrics every day. An index allows us to track a particular market basket of anything, but generally stocks or shares of a particular flavor or geography. People are most aware of stock market indexes such as the Dow Jones Industrial Average, the Dow Transports, the S&P 500, etc. There are indexes for a lot of things today. Let's look at some of the major indexes today and see what they represent:

Indices can be constructed in various ways. Many indices are capitalization weighted, which means the bigger companies make up more of the index. Others are equal weight, which means a small firm has the same impact on the index as does a monster firm.

Dow Jones Transports = 20 large transportation stocks based in the U.S.

S&P 500 = The largest 500 leading companies in America claimed to be reflective of the overall U.S. stock market.

NASDAQ = Home of over 5000 actively traded global stocks. This tends to be the home of many high tech stocks such as Apple, Intel, Dell, etc.

TSX = Home of all of the stocks listed and trading on the Toronto exchange.

Bolsa = Home of the leadings stocks listed and trading on the Mexican stock exchange.

Euro Stoxx 50 – 50 largest stocks on the Euro Currency. We'll see how this index changes composition in the coming months as Europe plays out!

Dax Index = 30 largest and most liquid German firms trading on the Frankfurt Exchange.

FTSE 100 = 100 most highly capitalized companies traded on the London Stock Exchange.

Nikkei 225 = 225 top rated Japanese companies listed in the first free float capitalization weighted index of companies from the stock exchange of Hong Kong.

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Deleveraging

What we're all living through now is a process known as deleveraging. This is happening throughout most of the already developed world. The process of shedding excessive debt is a painful one. The debt has been building for decades and now it's at the point of breaking the back of global economy. Greece has been the most acute example of what excessive debt does to a nation. The consumer came to this same reality in 2008 when cheap credit for people came to a screeching halt. Cheap credit has still been available to governments, which is why they are where they are.

Governments are run by people and people are susceptible to do dumb things. Look at the number of people who are in over their heads financially just in America. We've witnessed that many live beyond their means buying homes, cars, plasma TV's and other toys with borrowed money that they had no chance of paying back. It's caught up to most of them and the game is over, they've filed for bankruptcy or otherwise moved on, the rest will fall soon. The same phenomenon happens in government unfortunately. There is no I.Q. test necessary to run for office nor does any elected official need any type of basic fiscal knowledge. There should be minimum entry points for both issues as the "leaders" we have today could be successfully replaced with the family dog. At least the dog wouldn't do any damage. ☺ Now the tide is turning to government to face its way past due reality of fiscal discipline. It's stunning that a population can allow this to happen. A supposedly smart, educated and involved population voted these clowns into office. I cannot only blame the leaders; it's also the voters who are responsible for the current train wreck.

There are many moving parts to the process of deleveraging. The first is governments will spend less, and that is painful to anyone living or working from the public sector. We've seen this first hand now for the past few years, every town, state and government globally is clamoring for savings, cuts and reductions. Simultaneously the average citizen not working for the government is broke, living on less than (s)he did a few years ago and sick and tired of paying ever increasing taxes for less and less service and more and more bureaucracy with the government. This is painful for everyone in the world. Unions and elected officials use this as a tool to pit people against one another to divide the nation. This isn't the way to resolution, it's a political divide and conquers strategy that is pitiful and used by politicians as well.

We all live on the planet together and we need to find equilibrium, a true balance between give and take for everyone. No one group can have it all without any giving. After all of the squabbling, the rich will pay more in taxes as will the average Joe, much more because governments are in so much trouble.

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Shanghai Shenzhen = 300 A share listed stocks on either the Shenzhen or Shanghai stock exchanges.

KOSPI = capitalization weighted index of all common shares on the Korean stock exchanges

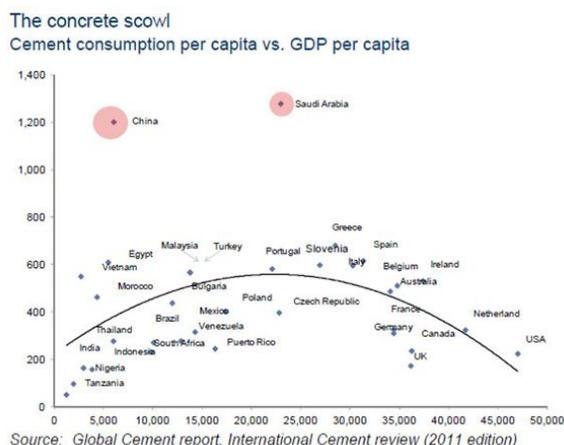
NZX 50 = modified market capitalization weighted index of the top 50 free float largest companies listed on the New Zealand Exchange Limited

ASX 300 = up to 300 of Australia's most liquid and largest publicly traded companies.

Sensex 30 = an Indian stock exchange whose members are selected on the basis of liquidity, depth and floating stock in the countries exchange.

I'm always hunting for ideas and opportunities and there are a few indexes I think would be beneficial that do not yet exist. I had a similar viewpoint in 2005-2006 about housing, when it was so painfully obvious that the then current tract house price escalations we're on was totally unsustainable. We've got several things going today that are equally unsustainable and without an index to watch, it's a real process pulling all of the applicable data together to make judgments from. I'm not going to invent them but any of you are welcome to try, here is great food for thought. During the real estate bubble a home price index was created, it's now called the Case Schiller home price index. On second thought maybe I will create an index!

The garbage index should exist and track how much we're throwing away and recycling on a regional basis. This will track in pretty darn close to real time how much "stuff" any part of the world is going through. If trash and recycling slow quickly, we're heading for economic issues, and if they grow robustly. Another index that makes sense is the concrete index. This would show how much concrete is being used in each region. Not only would this show if an economy is shrinking or growing, it would also easily help us spot bubbles in certain regions. Look at the following concrete country consumption comparison. Are China & Saudi sustainable?



What are Hugs?

It's wondrous what a hug can do
A hug can warm you when you're blue
A hug can say "I love you so"
A hug can say "I hate to see you go"
A hug is "welcome back again"
Great to see you where have you been"?
A hug can sooth a child's pain
and bring a rainbow after rain
The hug, there is no doubt about it,
we could scarcely survive without it
A hug delights and warms and charms
It must be why we have arms
Hugs are great for fathers and mothers,
sweet for sisters, even for brothers
and chances are, some favorite aunt,
loves them more than a potted plant
Kittens crave them, puppies love them,
heads of states are not above them
A hug can break the language barrier
Make the dullest day seem merrier
No need to fret about the store of 'em
The more you give, the more there are of 'em
So stretch those arms without delay and give someone a hug today!

After reading this quote it reminds me of an author I read when I was in high school. Leo Buscaglia was a professor at USC, great author and lecturer known as Dr. Love. He traveled the world preaching how we should all take care of one another emotionally and its okay for guys to hug. Back then the guy handshake/hug didn't exist, nor did the knuckle punch that are widely accepted today. If you're interested in reading some of his works, he's the author of: Seven Stories of Christmas Love, Born for Love, Papa, My Father, A Memory for Tino, Bus 9 to Paradise, Loving Each Other.

Here are a few of his great quotes:

- A single rose can be my garden, a single friend my world.
- Change is the end result of all true learning
- Don't brood, get on with living and loving, you don't have forever.
- Don't smother each other, no one can grow in the shade
- If I don't have wisdom, I can teach you only ignorance
- It is paradoxical that many educators and parents still differentiate between a time for learning and a time for play without seeing the vital connection between them.

Noteworthy News!!!

- Congratulations to Richard & Leona Jacques on the birth of baby Evelyn Rose Louise Jacques. Further congratulations to Rich & Bonnie Jacques, the proud grandparents! ☺
- Congratulations to Rich & Elaine Leight on the purchase of their new home!
- Our condolences to the Bayek family on the passing of Mim (Miriam), a wonderful woman, wife, mother, grandmother, great grandmother, great great grandmother, aunt and friend.
- Congratulations to Ellen Chizinski on her recent retirement. ☺
- Congratulations to Dale Ives on her recent retirement! ☺
- Our condolences to the Woods family on the passing of John, a wonderful man, husband, father, grandfather, uncle and friend.
- Congratulations to Chris Piantek on her recent retirement. ☺
- Congratulations to the Prewo family on the birth of baby Hudson, she joins big sister Avery! ☺

Question & Answer

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

Q: What happened with the Facebook IPO?

We're not exactly sure yet, information is still getting leaked out very slowly. There was a big error of some sort. The biggest hyped IPO in history was supposed to kick off the ground at 11:00 on Friday morning May 18th. It didn't and we all hung around watching and waiting for 30 minutes and then it finally started trading. The NASDAQ systems, as well as many trading systems globally were not working properly, most likely due to volume and interest in this particular issue. Our Fidelity systems were useless that day; the system was clearly bogged down and under tremendous pressure. The underwriters (Morgan Stanley, JPMorgan, etc.) all did the public a disservice by pricing this company so high. We'll also soon see if the NASDAQ knew more than they let on and should have delayed this to make it work properly.

I've told everyone many times, the IPO's are very dangerous right out of the gate, and you must wait and see how the security behaves for a bit before establishing a position. Everyone is convinced this is the next Google or Microsoft so the energy on this is outrageous. This hype makes me think we're experiencing 1999 all over again, values don't matter and this new technology will make all fundamental rules go out the door.

That's never the case and it won't be the case this time either. I agree that there is tremendous traffic on the site and they will monetize it in many ways. The bigger question is in terms of valuations, when a company goes public and you're paying 200 times earnings for it, the growth of that company needs to be huge to justify that valuation. If earnings growth is a hefty 80-90% annually that may make some sense and the company may finally grow into that valuation. Facebook's growth has actually slowed in the past two quarters and is now below the same period last year. None of this is conducive to the prevailing valuations. Greed is the driver here, short term nonsense. None of us work or live in the short term so be careful! ☺

Deleveraging

(Cont'd. from page 1)

Unions may go away, they've been so greedy and unreasonable now the public hates them, and even between unions we see similar hatred. Government unions are the strongest ever today, where almost all other unions have been more reasonable as businesses are going away. Detroit car companies are a perfect example of true negotiations by unions. This is unfair and wrong for our public workers. The workers are taking the heat for union stupidity. Workers should demand unions be more reasonable and this would alter the course we're on. Public pay and benefits have gotten out of control compared to what the private sector can provide. In the coming years, expect it to come back in line and expect pensions to go away in favor of defined contribution plans such as 401(k), 403(b), 457 plans etc.

The Wisconsin recall election next month will dictate how quickly the process of union busting unfolds. It's going to happen; it's just a question of how quickly will it happen. This is one very hot political potato.

The municipal employee's promised benefits are a big part of the leverage problem in the world. When pensions and health care benefits were cheap, it was not an issue. With pay escalations that have materialized to be quintuple original actuarial estimates and health care costs gone wild, now these benefits are unaffordable for a modern economy. Employees feel cheated, taxpayers feel raped, and there is nothing good to come from any of this on any level except a more balanced and long term sustainable system moving forward. This and the promises made on social benefits are no longer sustainable. The solution will be to raise taxes and lower benefits, but those simple bullets are going to be hard for people to swallow. Look at Europe, it's come down to absolute lunacy and people are blowing things up and burning government buildings over these realities setting in.

This process of too much debt can play out in a few ways. Austerity is the approach in Europe where government spends less and everyone feels the pain. This is fine and creates more short term pain as recessions deepen, causing deflation and ultimately some balance. Restructuring debt like Greece did on some of its bonds is an option too, it allows government to breathe but someone took a bath on that debt and now that person/entity has less to spend and consume so it hurts on many levels. Government is also not trustworthy now so any future borrowing will be more expensive, much more expensive. In the Greek example, those who agreed to the "haircut" have so far lost about 90% of their money while those who didn't agree to it got paid in full. It's funny how no media attention went to that reality. Next governments can lower rates and print money, which there is a lot of going on. This is inflationary and monetizes the debt and to a degree can work. The bigger question is with the amount of debt now being carried by developed governments how long can it be kicked down the road?

I suspect the ultimate solution will be a combination of these three methods in sync to deal with the ugly reality of today's excessive government debt addiction. Expect a few hold your breath moments along the way and the process will take years to fully unfold. The debt built up over 50 years or so and it won't go away overnight. ☺



Money Quiz

This month's challenge is to tell me in what year and what state the Limited Liability Company (LLC) was first established. Last month's winner was Max O'Dell, there are 1 out of 13 households in America with a net worth of at least a million bucks excluding the primary residence. Winner goes to Ruby Tuesday on us! 05/21/12:13

Real Estate Transfers

People are typically unaware there are gift tax rules that need to be followed when gifting assets to anyone. The rule states that you can give up to \$13,000 to anyone that can fog the mirror without any ramifications. This means Cup & I could give the 3 princesses \$26,000 each and we wouldn't need to file a single piece of paper this calendar year. Once you exceed that threshold there are rules to be followed and paperwork filed. Just because you're filing paperwork, it doesn't mean you'll owe taxes, it's the accounting of the lifetime credit that is important. This has been an area that has been very sloppy and not well enforced unless a complaint was had. Think about how hard it would be to track every financial transaction between every person in the country. That's impossible. It's like the ridiculous 1099 rule the clowns in Washington passed where any business would need to send a 1099 to anyone they paid more than \$600.00 to but then revoked due to its insanity.

The IRS has come up with a hot point on real estate transfers as they feel they're owed some taxes and people are gaming the system. What do you get when you put the & IRS together? Theirs! Some view this as true, but I have found them to be a very reasonable group. They know the tax rules are outlandish and even they don't know them all. Most IRS agents have specialties that are very detailed since the rules are so complex today.

Here is what's happening on the real estate front. For the past 2 years, in a very stealth maneuver, the IRS has been searching for unreported real estate gifts that exceed the \$13,000 threshold. The IRS is attempting to make a California tax body to turn over to it all property transfers in California between 2005 – 2010 to the IRS. They will in turn cross reference all transfers with all tax returns to see if any omissions in gift tax returns exist. That'll of course be the foundation for a series of letters to taxpayers asking about the transfers.

The results of this inquiry have resulted in about 500 examinations of taxpayers with the expectations of another 250 coming down the pike. It's comical they started with California, perhaps because they've got properties with high values and the people are fleeing the state? I don't see a property tax survey happening in Alabama or Mississippi.

Bottom line is be careful, now the rules and follow them.

Squeeze the Orange

The world we live in works on supply and demand, period! The more a thing is demanded and the more limited its supply, the price rises. Conversely, if there is a surplus of an item, and or less demand, the price falls. Lately price swings have been drastic in everything on the planet and not always for logical reasons of supply and demand but for artificial reasons such as fear, greed, government interference, etc. Energy prices are outrageous on a lot of levels for the average consumer, but on the industrial complex coal and natural gas prices are plummeting. Natural gas has gone from \$15.00 per million British thermal units a few years ago to just under \$2.00 recently. They've since popped back up to \$2.50 ish, but these prices make natural gas look very attractive to fuel everything it can. Many utilities are actively making the switch, but the coal contracts they have must be honored first and many times the contracts go months and years.

I believe there will be a fundamental shift in our energy infrastructure as a result of this activity. The natural gas is a domestic product and we've discovered enough of it to have a few hundred years supply. The new fracking process has exposed mind boggling amounts of the energy source for generations to come. Thanks to Chesapeake Energy for pioneering that technology. If properly adopted, this new energy source will allow us to become independent from the oil countries and simultaneously become a net exporter of the abundant, clean energy. This is a sizable downside to living in the country, we don't have access to natural gas and we're married to the alternatives - wood, propane, oil, geothermal, etc.

We're seeing similar outsized movements in the wonderful breakfast beverage we all take for granted each morning. OJ futures have gone from about 2.25lb. in the beginning of the year to just around 1.00 in mid-May. This is awful for those in the OJ business, but great for the consumer. I don't think prices of OJ have come down by half in the stores, have they? This is typical in business where prices move up quickly and down slowly. You should begin to see sizable differences in price at the local grocer soon. In the interim, the middlemen are going to earn what they can while the spreads are large.

What's causing the big OJ move? Leading up to January's high prices there were some supply chain fears that drove prices up. People were concerned with a ban of Brazilian imports due to pesticides we don't approve of. With this downside slide, there are several components to it, first is that demand is down about 11% from last year. Consumers are opting for other beverages in a crowded beverage space. Specialty juices such as acai and pomegranate are becoming increasingly popular and come with health claims OJ cannot offer. How real are said health claims we won't know for sure for a few decades. People still drink a ton of soda (why I'll never know) and now the energy drink complex is a big deal as people look for alternative gas rather than eating well. Another big factor is the fact that the pesticide scare earlier in the year didn't pan out to be a big deal and the government didn't ban Brazilian imports. Florida's got a record citrus crop for the year and the global economy is clearly slowing down. Expectations for OJ demand in Europe and China is markedly lower than it was just a few months ago as they struggle through economic woes.

Inspirational Quotes

- Have a heart that never hardens, a temper that never tires and a touch that never hurts, Charles Dickens
- The best luck of all is the luck you make for yourself, Douglas MacArthur
- We must not say every mistake is a foolish one, Cicero
- Hear one side and you will be in the dark, hear both and all will be clear, Thomas C. Haliburton
- As we are liberated from our own fear, our presence automatically liberates others, Nelson Mandela
- If your ship doesn't come in, swim out to it, Jonathan Winters
- Hell is the knowledge of opportunity lost; the place where the man I am comes face to face with the man I might have been, anonymous
- Trouble is only opportunity in work clothes, Henry J. Kaiser



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



Teflon Teens

Teflon is great at making things not stick to a surface. This was the rage over the past few decades as almost all pans are now coated with some form of slippery slime. I don't think eating the flecks that get peeled off improve our health outcomes any, but it does make the pan easier to clean. We're cast iron only on the cookware, fearing the Teflon damage to our organs.

Teens seem to shed responsibility just as effectively as Teflon sheds eggs. It is our responsibility to make sure our little people assume responsibility for their own actions, themselves and those around them. Expectations and responsibilities are good for kids. The kids are much more capable than most adults believe, but if you treat them like infants they'll act that way. Most kids will not just gravitate towards this outcome; they'll need to be incentivized. My Hannah is genetically predisposed to be as she puts it "a full grown mini adult" a concept which I cannot argue with too much. For the normal people out there we'll need to set up a sequence of teaching, coaching and consequences to get the kids to embrace what they're truly capable of. Most kids gravitate towards, fun, stimulating and adrenaline pumping activities. Only with proper training and coaching, will they find responsibility stimulating. Let us know what you've done that has worked here! ☺

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