

Education Disconnect

This is one of the most common conversations we have with people lately, the decisions for educating their children, whether to go to college and if so which college to go to. Many times it starts much younger and people are deciding if public schools are the best place for their kids or private is the way to go. It is a heart and gut wrenching process for people to go through and the economics of the entire system are in question today. Let's look at the basic premise most of us operate from and see if it still has merit. Most people I speak to say their kids are going to college, no question they will get at least a bachelor's degree and maybe a masters at minimum. They can aspire to be a custodian but they're still going to college. Even the professional athletes go after college degrees as their working years are usually very limited by how long they can continue to perform at those levels.

There are so many educational options out there it'll make your head spin. I've had thousands of conversations with people about this and there isn't a one size fits all answer. It starts when the kids are infants and most people move to a town where they feel good about the educational opportunities for their kids. We did just that, when looking for a home we isolated towns with school districts we respected. Parents are thinking this through from infancy, private or public or home school?

Many kids need special attention that only a private, home or specialized setting can provide while they're young, especially if they're facing challenges. I know families that are blessed with the resources to provide this for their kids and drive over a hundred miles a day to make sure their children get every advantage available to them. Good for them and those are lucky kids to have parents like that. I also see many families who have real challenges with kids who are disabled and the only option for these families is public schools, where everyone struggles because the public forum isn't designed or equipped for this. The public schools just don't have the resources or manpower for this. I know a few special education teachers and they are magical people on every level, but they are also pushed beyond what many could handle because the system isn't designed for what they're providing to us. These people are angels and we're blessed to have them to help us.

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Resuscitating the Patient

Europe is the news of the day again as they relive the economic black hole of their future. With the global economy being what it is, we're in the direct line of fire for whatever happens to them and vice versa. Most people are sick and tired of this nonsense year after year but it really is quite fascinating how we got to this point and to see where we can go from here. We're getting close to the end; they cannot delay the inevitable much longer. Many people are now asking us, can America become Greece, Spain or Italy in the future? We cannot become Greece or any of the other PIIGs countries because we have more resources, both natural resources and human capital resources. It is getting scary as we're governed by a bunch of spendthrifts for the past decade. The governments of the world are doing an especially poor job at fiscal stewardship and now it's finally catching up to them. In America we will likely see conditions we've never seen before as this all plays out, but we will not be the PIIGs.

We're blessed with a lot of things here from the beauty of our land to our resources to our freedoms. We've been the global engine for a generation. I don't think it'll change in the future, we're still the best place to be but we have adjustments to make that will be painful. In a surprising turn of events our economic underperformance of late is impacting demographics in the country. Here are a few very interesting statistics about the USA lately. Our birthrate is declining, apparently people are concerned with their economic future and perhaps adding a child or more children to the mix isn't good for their economic situation or stress levels right now. People immigrating to the USA are dropping off, we're even seeing emigration in some areas, perhaps emigration of illegals, but it's a visible and measurable trend nonetheless. Without the opportunity, it's logical that people will not be sneaking in at the rate they have been in the past. Many argue our opportunities continue to be better than any other place in the world. I agree that point has merit, but is likely quite debatable today as some countries are catching up quickly.

People have historically come here for economic opportunity and freedom and the viewpoint is that lately both are vanishing. This is partially the case with current policies, but those will not remain as they're failing miserably. They won't change voluntarily; it'll take some economic bang to cause the necessary changes to put us on a more long term sustainable course. Our current generation of youth does not feel as though they'll live as well as their parents do. I don't agree with this view as if you're adequately motivated you can still do anything in America.

You'll do it with more red tape and it may take more effort and time but you'll still get it done. I'm overly driven so the general public perception is everything and we need to work on making sure our youth and our small businesses are not squashed by nonsensical bureaucracy. The young people today feel as though they cannot do as well as their parents did because our employment levels since the 2007 peak are off by 6.0 million jobs.

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The law has decided to mainstream everyone so this is just how it's going to go if you cannot afford or find alternatives.

Once we get beyond that stage now we need to choose a high school. Here it is still wide open, do you choose the local school in your town, a technical school, a vocational school or a magnet school? The only guarantee is your town, the rest are mostly lottery based systems but often viewed as superior options to the default. Is that true? In working with a lot of teachers as we do from all over the regions I would say maybe, for some kids.

I think the concept of every kid needs a college degree is flawed. Some kids are gifted at the trades, at art, at a special skill where college isn't for them. Some kids struggle with traditional learning and have gifts in special areas. For these kids, college may actually hurt them and turn the clock back on where they could have been had they not experimented with that route. It's important to have an open mind here, the assumptions we all have about this may not be sound to begin with. You may find that by forcing a kid to go a certain way, you just cause fractures and waste a lot of money. If you've got a little Einstein that wants to be a physician, lawyer, engineer, CPA, actuary, teacher, etc. they clearly need a college degree, perhaps more than one.

For those definitely going to college, now the numbers get truly insane. We also deal with a lot of professors so we see the intricacies of the educational world from the inside where economics rule. We're also able to view things from the outside as most of the public does so we have a unique angle on this. A big part of the college sale is the name, the pedigree, the brand of education. This is just like shopping for clothes; do you wear clothes from the Gap or from Macy's or from TJ Max? I am not a big brand buyer as a consumer, always looking for the deal. As an investor, I'm always after the best, strongest player in each industry group. Many will argue college is an investment and the brand names are better. Sometimes this is true, but the economics today present a twist to this equation. There are big imbalances in the educational world today. Ivy League and other high end schools are now approaching \$70,000 annually. This is monster money for anyone period and costs cannot continue to rise by 7-8% annually. College loans outstanding are at about 1.0 Trillion now and will be a bubble that will pop in the coming years or decades. Financially, the best bang for your buck is two years of community college and two years of a state school as a commuter. My younger two are already talking all the fancy names, so much of this is a social experiment and a status game. The colleges have done a great job at branding; they've already snagged the imaginations of my 10 & 11 year olds. I feel that UCONN did me justice long before it was a sports powerhouse and you could get in as long as you could fog the mirror. This is a great conversation to have and make sure you don't sacrifice your retirement for your child's college. Call to discuss this anytime! ☺

I agree with the concept of paying your fair share when it comes to economics and taxation. The rich should indeed pay taxes at levels much higher than what all of us average schlep's pay, no question about it. The thing is with politics there is always a play, a twist, an angle or a back door way at stating things. Current tax brackets are the following for a married couple filing jointly in 2012:

Income Range	Tax Rate
0-17,400	10%
17,401 – 70,700	15%
70,700 – 142,700	25%
142,701-217,450-	28%
217,451-388,350	33%
388,351+	35%

This is just federal income tax. To this add your states take, usually 6-12% (and growing rapidly if you live in a "progressive" state) and Medicare and social security and you can safely add 13-20% to these numbers to get a fair tax rate. That assumes you don't count the obvious property taxes or look around the world and see all of the hidden taxes you pay at every turn, everything from fee's on your phone bills to license fees for your profession to alcohol or tobacco (ouch) to gasoline or your dog license, a tax for the privilege of owning a dog. Any time you pay a town, state or federal agency, no matter what it is called, it's a tax in one form or another.

We deal with people all across the economic spectrum and the people making big money pay big taxes, period. There are two exceptions for those special groups who have encouraged congress to carve out exceptions for them such as hedge fund managers who pay only 15% on the billions they earn and oil companies who get deductions for 100% of the drilling. That is a joke and should be changed immediately, but let's define rich as those making a million or more a year, not the local doctor. For those making 5, 10 or 100 million a year crank the tax rates up to 90% and that will incentivize these people to reinvest that cash back into their businesses and hire people. Only business owners or executives of big business can earn that type of money. Corporate welfare should also end, GE pays zero income taxes because they're smart and they've gamed the system. Oil companies have similarly gamed the system.

Taxes are really important and need to be fair but they're only a small part of the bigger equation. If we taxed everyone in this country earning \$250,000 or more annually at a 100% tax rate on their income **and** simultaneously confiscated all of their assets that wouldn't balance our budget for the year. Reread that sentence, it's that important. As ludicrous as that sounds, this doesn't even approach solving the budget problems of government today. We need to swallow the bitter pill that the politicians lied to us and many of them should go to jail although I doubt many ever will. This is where spending and the size of government needs to get in line with reality of what we can afford, not what we want or were promised. Let's focus the attention of the leaders on this and deal with it now!

Noteworthy News!!!

- Our condolences to the Pinet/Monaghan families on the passing of Chuck, a wonderful man, husband, father, uncle and friend.

Question & Answer

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

Q: Does it make sense to refinance today? What if I owe more on my house than it is worth?

It probably does with interest rates being where they are at historic lows. We're now seeing 15 year fixed rate mortgages in the 2.XX% zone. 30 year notes in 3.5% range. This is absolute insanity and something I never thought we'd see. Of course I never thought the world could get into such a financial mess either. Mortgage rates are a function of the 10 year Treasury bond and they are at their lowest levels in 200 years. Treasury yields are being pushed down because investors are nervous about the global financial situation so there are benefactors to this situation. Lots of bond buying pushes up the value of the bonds and the yields down, resulting in the low yield situation we find ourselves in today.

Anyone who has good credit and a solid financial position can now take advantage of the low rates. Many people feel stuck because the value of their home has lost 30 – 40% in the past few years and they are currently in a position where they owe more than their house is worth. Even with that situation, there may be alternatives for you to refinance and take advantage of the rates today. There is a plethora of government programs designed to help people in various stages of life with various situations.

Many programs are going to revolve around who owns your loan. If you've got a loan owned by Fannie Mae or Freddie Mac you have a lot more options than one owned by a lender or servicer directly. FHA loans are also now eligible for programs so even if it didn't work before it may now. You can call us to have a conversation on this or go online to the following site to see if Fannie or Freddie owns your loan. Here is the site:

<http://www.makinghomeaffordable.gov/get-assistance/loan-look-up/Pages/default.aspx>

This site is deep and powerful and goes through a plethora of options that are currently available to possibly help you take advantage of the super low rates that exist today. If you go to the site, start with the "getting started" tab on the top row about in the middle of the page. This will bring you to a new page with a light blue shaded box offering "I need help finding programs that..." Go into that and it is an interactive tool that will help you streamline (yeah right, this is governmental) the process of looking at various programs and qualification levels that may apply to you. There are a lot of programs here and it makes sense to sniff them out to see if you can benefit from any of them so a little work here may reap big returns. ☺

Jobs are down in every demographic group except those over 55. This shows older people are not retiring or older people are coming back to the workforce, putting pressure on the upward mobility of the other groups as this group has the most seniority and clout in the market. Jobs are tough, and this will likely cause our young people to innovate and create their own jobs, companies and industries into the future.

The younger, hungrier crowd is the one who really drive the economy. These are the new young America companies that change the world time and time again. The old companies that have "maintainer management" don't change the world; they just keep it going as it always has. There is nothing wrong with that at all and we need them too, but the young innovators, the game changers are really the ones who make America America.

Although our leaders try to avoid reality at all costs, the solution to our problems is to fundamentally change long term entitlements, mainly Medicare, Social Security and Medicaid and Pensions and benefits of municipal workers. We need to shrink government and introduce efficiency to it. That is no joke, whoever finds a way to make government efficient will change the world. It's not a question of if; it's just when, these programs are not even close to sustainable and will change substantially. There is no benefit to delaying the inevitable, just do it and move on. The next step is to set up a consumption based tax so everyone pays tax based on what they consume. We simultaneously need to provide incentive to work and make anyone who is capable be self-sustainable and not living on handouts from broke Uncle Sam. Tax loopholes need to be closed and taxes grossly simplified and rates need to go up for the very wealthy. These changes will certainly cause everyone to experience some short term pain, but they do change the game moving forward and put us on a course towards decades of prosperity.

Economic data looking at 32 cases of long term over indebtedness of governments found 75% of the cases required austerity, inflation only solved the problem in very small emerging economies. If and when inflation takes off, wages don't keep up, ultimately hurting the middle class. The current interest expense of our national budget is 10%. This needs to happen while keeping the marginal tax rates reasonable or the job creators will hide under a rock if they're taxed at 90%. The fair share concept is true to a point, but if we took every dollar the "rich" earn, 100% of their income, we'd still have a massive budget deficit so this is a political talking point. The real issue is government cannot keep spending at these levels. Increasing efficiency is a solution as well. We joke about efficiently and government as being impossible, but it'll be mandatory in the very near future as current trends are unsustainable. This will take political will to install it. Now in Europe they're chronically ill, worse demographics than USA and deeper in the hole.

Japan had a credit bubble 28 years ago, and their market is down 85% from where it was back then. Their debt to gdp is 500% now and over 50% of their budget goes to interest payments, where ours is 10%. Its serious business, but we're in the mode of kicking the can down the road.

One of the first signs of a run on a government's debt is currency devaluation. We're seeing that in Japan now, the Yen is getting hammered. We're experiencing an increase in value, not because of all the things we're doing right, but because we're the least bankrupt of all the major economies in the world and have stability in government and population.



Money Quiz

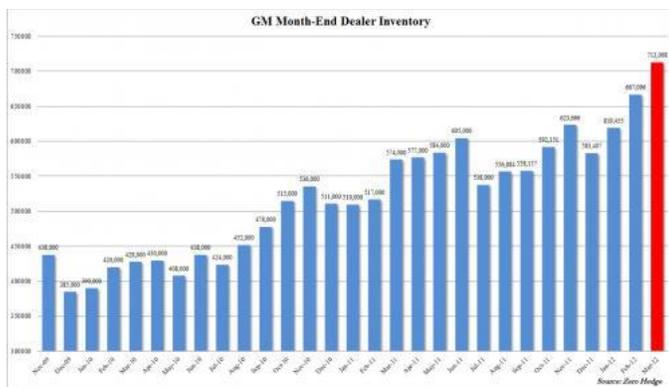
This month's challenge is to tell me what percentage of the Greek economy is government tax revenue. America collects 15.8% of the economy in tax revenue; the average Eurozone country collects 11.0%. Last month's winner was Scott Fellows; the first LLC was awarded to an oil company in Wyoming in 1977. Winner goes to Ruby Tuesday on us! 06/04/12:12

Turkey Stuffing

Sales seem pretty cut and dry for recordkeeping purposes. When a service or product is sold, that sale is recorded as sold and that is that, end of story. Not so easy is real life when business gets big and the distribution networks are extensive. For most of us dealing in the world of small business sales are a piece of cake to deal with. Let's say you own a local restaurant, each meal, item or unit you sell is recorded and the sale is a done deal. If at the end of the day you served 125 meals that is that and we know the sales total for the day.

As businesses grow and distribution networks get larger, tracking sales is not so easy because sales go through numerous stages and numerous distribution channels before the final product or service is actually in the consumers' hand. Let's look at how Apple sells the ipad and how complicated tracking of the actual sales can be. You can buy the ipad directly from apple. You can also buy it online at Amazon, Macmall, Newegg or a million other sites. You can get it at the physical store from Sears, Target, Best Buy or another million other stores. You can get it from the AT&T store, Verizon, Leap wireless and another host of cell phone outlets. Now this is just in America, we now have similar channels all across the globe in each different country and category of distribution. The level of complication rises exponentially as the company and distribution channels become larger and more outreaching.

What is of great interest today is where the auto company's dealer inventory numbers are. Look at this chart and even though GM has these vehicles marked as sold, they're still sitting on dealers' lots. Hopefully the dealers can move them, but these are massive volumes.



Techno-Fundamental

This isn't a new type of crazy music that the kids use to give you a headache but an investment approach that has been used by many in the past. There are two very different schools of investment theory in the world, Fundamental analysis and Technical analysis. I've always been a very fundamental investor and student of the subject. I've read everything I could ever get my hands on about the subject. The godfathers of this school of thought are Benjamin Graham, Warren Buffett, Seth Klarman, David Dodd, et al. Fundamental analysis is the use of the basic building blocks of investing, making sure the price is cheap, buy only when there is a margin of safety, make sure the company doesn't have too much debt, insiders own a lot of stock, check metrics such as P/E, buy when others are selling, buy when there is a bad taste in people's mouths, etc. Over the years I've followed this approach to a T and done exactly as instructed in the execution of this discipline.

Technical analysis is a different approach where you watch for patterns and look very closely at price and volume of investments along with charts, patterns and trends to help guide the investment process. The godfathers of this school of thought are John Magee, Robert Edwards, John Boik, William O'Neil, Charles Dow, Richard Wyckoff, William Gann, Ralph Elliott, et al. I've always dismissed this school of thought as voodoo-science. Nobody can predict anything with perfect accuracy; the meteorologists can't even get the weather right tomorrow every day. ☺ They're typically pretty darn close, but it's all about their batting average.

With the world being such a mess these days over the past year or so I've been on a mission and went back and re-read all of my investment books to make sure I'm not missing something. This has been a great exercise just to do it over and ensure my thinking is sound. As an additional tool I've also decided to learn the other side of the investment world known as technical analysis. In doing so, I have grown to find that both schools have merit and technical analysis isn't just for nut cases. The technical side of looking at and studying charts for clues do tell a lot about markets price action and should not be discounted. The technical side of studying past market actions cannot be discounted either. I cannot get a comfort level with many aspects of technical analysis, but others have and do quite well at it. I'm especially drawn to the heavy analytical number crunching proof is in the pudding style of technical analysis. In thinking about medicine, do physicians do anything to us medically without looking at charts of some sort first? Whether the chart is an EKG, Xray, CAT scan, etc. they always, without exception look at the picture of the situation before moving forward with proper treatment.

I would call my new approach that of a techno-fundamentalist where I look at all of the data sets from both schools and take aspects from each to find a happy middle ground, pulling from both disciplines. Now armed with more information and alternate angles to see the world, we'll be better equipped to take advantage of whatever comes down the road at us. I have a new set of tools to help us take advantage of opportunities and simultaneously avoid potential danger spots in the world, which there will be many to come. It's going to be an exciting ride from here.

Inspirational Quotes

- Great acts are made up of small deeds, Lao Tzu
- In dreams and in love there are no impossibilities, Najos Arnay
- The more we try to rest ourselves from our Ego's, the deeper we sink into it, Emile M. Cioran
- Never relinquish the initiative, Charles de Gaulle
- Critics themselves, they used to tear me up, Mickey Spillane
- Man is a social animal. Without society, he is nothing but an animal. Yet many consider themselves "self-made." B.J. Gupta
- As scarce as truth is, the supply has always been in excess of the demand, Josh Billings
- When we talk about understanding, surely it takes place only when the mind listens completely – the mind being your heart, your nerves, your ears – when you give your whole attention to it, Krishnamurti



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

Tree's and Kids

Here is a great story to share with your kids or grandkids.

Once upon a time there was a little tree in the forest. He sat in the soil, danced in the sunshine and watched the rain fall. One day, he looked around and saw the other trees. He said, "Wow, they sure are taller than me." The little tree then mumbled, "It has to be the soil that makes these other trees so tall." He lifted his roots and moved over to the part of the forest, which he thought had better soil. He wanted to be as tall as, if not taller than, the other trees.

A few weeks later the little tree looked up again. He shouted, "This isn't working. The other trees are so much taller than me. It isn't the soil. It's the sunshine! Let me move where I can get more sunshine." He lifted his roots and moved over to the part of the forest, which he thought had better sunshine.

Once again, he was frustrated. He stammered, "This isn't working either. It isn't the soil or the sunshine it's the lack of water." He lifted his roots and moved over to the part of the forest, which he thought had better moisture.

After some time, he realized nothing was working. He wasn't growing, and he stayed smaller than all the other trees. The lesson is a tree that keeps uprooting itself doesn't get a chance to grow. It stays confused and scattered. Our kids need to experience a lot of things good and bad, but also stick to their core values and become productive adults who can help society move forward. ☺

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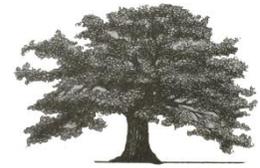
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