

Top Moment

The top moment in life is typically the best moment, one where you're at the pinnacle of your life and things cannot get any better. Many have experienced that moment in sports, in business, in life with childbirth, marriage, promotion, graduation, awards, etc. We're there now in the financial world; we've come to a top moment where no other moment in time can compare. We've got a few close moments, but none quite the same as we have today.

When we look at various market metrics in the world, a combination of certain metrics can give us indicators as to how the world condition sits right now against prior moments in history. We've dug deep into historical data and found that today in the fall of 2012 we've got a top moment for financial outliers. Thanks to John Hussman for the research and the data. We're now as many standard deviations away from normal as we've ever been historically. By looking at seven various market metrics, we see a correlation to just four other moments in history. The indicators range from market P/E to treasury yields and many other economic data points along the way.

Today's investment environment is stressed in many ways. I, along with most of my colleagues, have never seen such an environment because none has ever existed before. Things are going against what we've been taught and the interventions into the world by governments across the globe are unprecedented. We've got mountains of political uncertainty, debt piles like we've never imagined, entitled mentalities, recessions taking hold in much of the developed world and seemingly impossible near market highs.

These things strangely coexist with outrageous fear and bond buying where people are lending to governments with essentially no returns. We have a strange situation where several bubbles are inflating simultaneously in several classes when they typically only hit one class or category at a time. Not much is normal in today's environment and contradicts many things taught in financial curriculums in the country historically. The political class is

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When to take Social Security

This is a question we get often and we love it. It's an easy answer if you knew your expiration date. None of us know that and it's a good thing, life would be painful if we did. There are many strategies for taking social security benefits and they apply to each of us differently, depending on how our life expectancy will likely play out with family history, along with our personal financial situation.

Before one can collect the cash, you must be under a fully insured status. To gain such status, you must have worked for an employer who paid the social security taxes and earned 40 credits. You can earn 4 credits per year and one credit can be had for only \$1130 in wages. Once you're fully insured, you can elect to receive full benefits, reduced benefits, survivor benefit, etc.

The biggest questions with regards to when to collect is are you currently working and are you healthy? Most people take it as soon as they retire or if they have a health situation that causes them to leave the workforce earlier than planned, or if they're laid off or downsized shortly before they planned to retire. Depending on your birth year, you can collect full social security retirement benefits at various points:

Year born	Full Retirement Age in SS world
1937 or earlier	65
1938-1942	65 + 2 months per yr. after 37 til 43
1943-1954	66
1955-1959	66 + 2 months per yr. after 54 til 60
1960 - on	67

Anyone can collect reduced benefits at age 62, and your benefits are reduced by a percentage based on what your full retirement age is. Here is how that is calculated:

Full Retirement Age	Reduction %
65	20%
66	25%
67	30%

74% of all retirees are collecting reduced benefits. When you collect social security, the benefits you receive may be taxable up to 85% of your

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rewriting the playbook in an attempt to get out of a pickle they've gotten themselves into. Unfortunately, they're not as smart as they think they are and this likely doesn't play out as they're planning. Their ability to delay the inevitable is quite impressive. Talking heads can do a great job of placating and pushing off reality, but at the end of the day, the economics will prevail as always.

The four points in history that are close, but nowhere near equal to today's conditions are November 1972, August 1987, late 1999 and 2007. Now let's do a little research and see what happened in the months following each of those unique time frames when circumstances were similar to what we have today. We'll use the S&P 500 index as a gauge to see how markets behaved in time frames immediately following other such unique times.

January 1973 market top of 120 in the S&P fell to 62 in Oct 1974, a loss of just about 50% in the general market indexes. Distance from stress point to market top was 2 months.

August 1987 is more memorable for many as it all occurred in just a few days. Market top of 336 falls to 227 in no time flat, losing 33% in the S&P 500. Distance from stress point to market top was less than 20 days.

Spring of 2000 the market tops at 1529, by October of 2002 the market finally turns at 779, losing 49% in the process. Distance from stress point to market top was several months.

All too clear in everyone's mind is the 2008 great recession, topping out at 1563 in the fall of 2007 to end at 683 in early spring of 2008. This drawdown consumed 56% of the market average. Distance from stress point to market top was six months.

We do not know if the timing of the future moves will be as close to these historical ones, but we do know they're coming. When these times come, they wipe out 50 - 80% of the prior bull runs gains, so it is fully possible we may go a bit higher before reality sets in for the world and we get a normal outcome based on the inputs.

This is great data, and we can make important plans around this information. People get too wound up over these types of situations. We are all too small to control this, however, if we react appropriately to it, we'll find there are massive opportunities that present themselves as this situation plays out.

We've changed our outlook from 5 years to just a few weeks to be able to deal with the current environment. As we see opportunities, we're taking advantage of them, but they're short term in nature. We're getting stopped out of many positions but we're more concerned with protecting the capital at this point than knocking the cover off of the ball. Now is not the time to be taking on big risks on the long side. Call anytime to discuss this and understand our current positioning.

There is a prevailing mentality that each of us needs to accumulate as much stuff as humanly possible. I do not agree with this mentality our society tries to push upon us. Keeping up with the Joneses is not for me, I'm a maverick and I do my own thing, sorry. I'm pretty much incapable of beating around the bush or being politically correct. Having to deal with a lot of "stuff" is mostly time and energy consuming. I'd rather have the time to hang out with my little princesses and Cup and just do simple things that are really the best life has to offer. A hike in the woods, a drive in the car, a bike ride, a board game or a spontaneous sports event in the backyard is a priceless opportunity.

If you own a lot of stuff, think about all of the things you must do. You must own it, clean it, fix it, dust it, pack it, store it, sweep it, paint it, repair it, insure it, pay taxes on it, polish it, display it, fold it, iron it, clean it, dry it, protect it....the list goes on and on. No matter how we cut it up, the more stuff you own, the more of your time and energy is required to deal with and maintain it.

People stress about all of their stuff and wonder how they can simplify. It's really easy. Clean out your stuff and stay organized or soon you'll end up like those poor souls on TV who only have a small aisle in their home, they've suddenly become hoarders! The human mind is amazing, but if left without checks and balances it can quickly get completely out of control, leaving you the target of reality television.

How do you get rid of your stuff? The first thing is not to own a place to put it. People have too much space in their homes, barns, garages, attics and closets. If you have a smaller space, you cannot have as much junk, and who needs as much space as we have today? I'd give away my stuff to loved ones. If you prefer to be entrepreneurial, you can unload virtually anything on eBay and Craigslist today. It blows my mind to see some of the garbage that people sell, and sometimes for a surprising amount of cash. Tag sales still work too, and if you don't want to have one yourself, almost every church has one where they'll take and organize or sell your stuff for you. Don't forget recycling, especially the metals, they're worth a lot today and you could end up not only getting a few bucks, but clearing out your space and helping the planet simultaneously.

I typically give my stuff we no longer use to friends, family, charity and if none of them want it I'd put it on the end of the driveway. Someone will take anything you've got with a free sign on it in about 15 minutes, even on an old country road in the middle of nowhere. People that have gone through the exercise of cleaning up and de-cluttering have almost universally felt so much better once it's done they regret not doing it a lot earlier. You can hire someone to take care of your stuff, give it away, sell it, or allow it to give you Agita. Depression era experience and mentality is a true obstacle for the elderly. For everyone else, it's important to understand you don't really own all of your stuff, your stuff owns you. ☺

Noteworthy News!!!

- Congratulations to Ian Sherwood on the purchase of his new business, Tents Unlimited!
- Our condolences to the Shedd and Rivera families on the passing of Patricia, a wonderful woman, spouse, mother, grandmother, great grandmother, aunt, sister, friend and person.
- Our condolences to the Cassidy family on the passing of Stephen, a wonderful man, son, friend, uncle and person.
- Our condolences to the Tedeschi family on the passing of Mark, a wonderful man, son, husband, friend, brother, uncle and person.
- Our condolences to the Fleming and Gaffney families on the passing of John Fleming, a wonderful man, son, father, husband, brother, uncle and person.
- Congratulations to Alexa Barchini on her vocal and songwriting success with the new Filaments CD by Julian Shore. ☺

Question & Answer

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

Q: What are Fibonacci numbers?

These are a sequence of numbers developed by a brilliant Italian man known as Leonardo of Pisa in the 1100's. This is an awful long time ago, but the beauty of math is that the language never changes and many don't understand that math explains how the world works. It's sad that as a society we don't push and demand more math skills from our people. Nobody ever said they had a loss of something because of a mastery of math. Many have complained because of their losses due to a lack of understanding in math.

The Fibonacci sequence is the following:

0,1,1,2,3,5,8,13,21,34,55,89,144..... The way it is derived is to take the first two numbers in the sequence, 0 & 1 and add them together and then to subsequently add each of the last two numbers together. I'll save you the pain of the formula, this one is simple.

The Fibonacci sequence is found in a lot of places. Certainly in investments when it comes to determining where retracement levels will be as well as other price metrics. In nature you'll find that the Fibonacci numbers help explain many computer algorithms, data structures, branching points in trees, arrangement of leaves on a stem, the fruit sprouts of a pineapple, flowering of an artichoke, uncurling of a fern, pine cone arrangement, etc.

Math is a wonderful, logical thing and the more you learn about it the better life will be. Not everyone is capable of doing tons of math, but most are. Those who have opposite skills such as the artists have got talent beyond me all day long, I'm a stick figure guy with zero artistic ability, and thankfully I can do the math. Never let your kids whine about why they must learn this stuff, they'll never use it in life! ☺

When to Collect

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social security income. They may be tax free as well, but it's an important calculation to know. Here is the tax calculation: Figure out your provisional income, which is 50% of your SS benefits plus all of your interest, dividends, pensions, earnings, etc. If this amount is beyond a fixed #, you're taxed. Here is the math:

Filing status	Provisional income	Tax Impact
Married Joint	32k	not taxed
Single	25k	not taxed
Mar Joint	32k -44k	50% taxable
Single	25k-34k	50% taxable
Mar Joint	44K+	85% taxable
Single	34K+	85% taxable

Worst case scenario is your social security income is taxed at 85%, so 15% of it is tax free. Many people get their social security with no income taxes because they've planned their income to fall below the specified thresholds.

Another wrinkle is we have to be careful to try and avoid an earning penalty system where if you work and you're collecting benefits, those benefits may be reduced by earning over a specified threshold. Here is the math on that deal:

Under full retirement age	Earnings Limit
\$1 penalty per \$2 in earnings	\$14,640/yr.
\$1 penalty per \$3 in earnings	\$38,880/yr.

If you apply for benefits and later change your mind, there is a one-time opportunity to withdrawal your application and pay back the benefits and start again later. This is a one-time deal and you must give back whatever benefit's they paid to you to make it happen. If you delay taking benefits at your full retirement age, you get a big increase each year you wait. Your benefits will increase between 7 - 8% annually for each year you wait to collect your benefits after you've passed full retirement age.

You may also file for benefits, but not collect them. You may file and suspend your benefits. You may also file for benefits, not collect them and have your spouse collect some or all of the benefits (s)he is entitled to from your earnings history. Sometimes it makes more sense to collect on a spouse and not take it yourself, waiting for the big increases in later years. You may collect on your spouse's earnings record even if you're divorced (and not remarried) or a widow(er). The social security complex is large and complicated, but with the right information, many things are possible. If you or a loved one has a situation at hand, call us to discuss this and the many possibilities of how to collect and maximize benefits for those you love.



Money Quiz

This month's challenge is on health care consumption. How much of the population consumes healthcare expenses in our country? We want to see if you can tell us what percentage of health care expenses that the healthy 50% of the population consumes. They consume less than half, so how much, 40%, 30%, you tell us. Last month's quiz surprisingly wasn't won; for every dollar the government spends, 65 cents of it is from tax "revenue" and 35 cents is put on the government credit card. I think uncle same should get some credit counseling! Winner goes to Ruby Tuesday on us! 08/20/12: 6

The Dividend Play

With the government keeping rates artificially low, many are flocking to (sometimes forcibly by government intervention) dividend paying stocks as a way to get some yield and do better than the banks or some bonds. The government's game of playing chicken with economic reality is indeed a scary one, and one that will not end without severe consequences. In a normal time this is typically a good strategy, however, now is anything but normal. We've got to remember prices, if we're paying a reasonable price for the underlying security that is a fine strategy, but if we're not paying reasonable prices that could be a losing strategy. Let's look at what the prices are valuation wise of the high dividend stocks today. The chart below illustrates where prices are in the big cap dividend paying stocks today against historical averages. Today we're 35% higher in terms of price in market multiples against the past 50 years. The dark line is the price of the dividend stocks and the gray lines are recessions. Notice how prices of these stocks always peak just before the onset of a recession. It doesn't matter what type of company, industrial, health care, food, they're all in the boat together. Never follow the crowd; it's a sure way to get slaughtered. It goes without saying; a picture is worth a thousand words:

High dividend stocks: High relative valuations
Relative trailing P/E ratios of large-cap stocks with highest quintile of dividend payout ratios to the market



Source: Corporation reports, NBER, Empirical Research Partners Analysis.

New Democratic Idea!

I'm going to throw a business idea at you that is a game changer. Whoever is most motivated is welcome to steal my idea and make the world a better place. We're in a society that is labeled a democracy, but many argue that each of us as individuals no longer have true representation. Representation is now biased along the lines of the most powerful lobbies and the largest groups with big influence. Whoever has the most money has the greatest influence in legislator's ears. Many people don't vote, and some who vote arguably shouldn't be, but I've come up with a cool way to vote and track legislators actions.

I think a new business or platform combination that integrates a social site ability like Facebook (we call them face plant in the investment world) as well as open source software coding tracking ability can change the political game only for the better. Let's talk a bit about open source software. This is how the world of Linux came to life; a lot of programmers from across the globe come together and create constructive software to rival the big boys - Microsoft & Apple. The cool part of open source software is that it allows anyone to make changes, and it tracks via a special tracking number who made any changes, what the changes were and how they impact the bigger organism.

My vision is that any vote can be held online, each eligible voter is given a special code to get it and vote to keep out ineligible suspects. Once in, the Facebook portion of this technology gives the people an explanation of the candidates, their views and platforms, one can then vote. The vote has an ID associated with it, just like the tracking number for your UPS delivery, and we'll no longer have issues counting ballots. We'll also have much better participation in voting as it's done online and will take just a few minutes and you can read all about the options just as you go to vote.

This will also give the people an immediate say in how they want things done, not how the big organizations want things done. In an instant, the bulk of the population can put in their vote and then things will begin to happen that are right for society, not just the political class. This would be great for society because it would employ them. This would be terrifying for the political class because they'd lose their grip on power. This is the right direction for the country and perhaps the world, why stop at our borders?

This would also give instant, immediate and irrefutable accountability for the politicians. Anytime they voted on an issue, the tracking number is there, showing what their vote was and the system compiles this for the entire world to see instantly. You could also see who missed votes, or decided to pass while they were present. The system can compare all people in positions of power across all categories of government. It would help to de-scale this idea of a broader system, such as starting locally at the town level where people can pick the issues. Maybe one town needs a new park or a paved road or whatever the case may be. The public should be determining what is addressed and when. The public should be determining pay and benefits for congress, no more self-dealing.

Inspirational Quotes

- You are a byproduct of the books you read and the people you associate with, author unknown
- If there is on earth a house with many mansions, it is the house of words, E.M. Forster
- The strongest of all warriors are these two - Time and Patience, Leo Tolstoy
- Liberty means responsibility, that's why most men dread it, Antonio de Mendoza
- Love is our true destiny, we do not find the meaning of life by ourselves alone - we find it with another, Thomas Merton
- There are seven sins in the world: Wealth without work, pleasure without conscience, knowledge without character, commerce without morality, science without humanity, worship without sacrifice and politics without principle. Mahatma Gandhi



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



Childlike Wisdom

The adults always want to do the teaching, but I feel strongly we can learn a ton from our kids if we just watch and listen. Here are a few priceless pieces from kids where a teacher gave kids the first half of some well-known proverbs and the kids finished the rest! ☺

A penny saved is...not much
Two's company, three's...the musketeers
Strike while the...bug is close
Better to be safe than...punch a 5th grader
You can't teach and old dog new...math
An idle mind is...the best way to relax
Children should be seen and not...spanked or grounded
If you lie down with the dogs...you'll stink in the morning
Where there's smoke, there's....pollution
Don't bite the hand that...looks dirty
It's always darkest before...daylight savings time
Happy the bride who...gets all the presents

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