

The Velocity of Money

For geeks like me, this is a mind bogglingly cool concept. For the bulk of the population, this is painfully boring. I'll try to make this fun and interesting for you too as we try to do with everything financial.

The velocity of money is an economic concept that measures how quickly money is changing hands in the general economy. It is defined as the frequency at which a unit of money is spent on new goods and services. In a healthy economy, money changes hands very frequently and the velocity is trending higher. Here is how money is flowing in a segment of my world. I earn money from the business and then Cup & I spend it on various things we do in our lives. Our earnings go from our bank out to pay for all of the various things we do. We pay for medical appointments, medical supplies, groceries, books, kids' activities, basic utilities, gifting, charities, etc. We live a super simple life so there isn't too much to spend money on and we'd rather save it rather than spend it but we're odd ducks and I know this. ☺

Let's track some money that we paid for medical services and see how it flows. We transferred some money from our accounts to the local physician for medical visits. We pay her to take care of us and our princesses and that is a transfer of money, from us to her. Now she lives her life and does whatever she does. The money then goes to a lot of the same places mine does such as the grocery store, utilities, etc. Perhaps she also needs some work done on her car and she hires the local mechanic. Now a transfer happens to the mechanic from her and he now goes about his life doing whatever it is he does. Let's say he goes out for dinner and spends it at the local eatery. Now the owner of the eatery receives the transfer and pays his landscaping service company. The next transfer goes from the landscaping business owner to an interior decorator to help him make his house look like he's not a bachelor, because it's so painfully obvious when a guy lives alone, none of us can really decorate well. Now the interior decorator pays a salon to get a nice pampering. The salon owner pays the contractor to fix a leaky roof. The contractor pays the electrician to add in wiring for a new generator in his house.

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Sandy Hook

Mind boggling is all we can say. This is just 30 minutes from my home and offices and we deal with a fair number of residents who are from this cute little town. It's so much harder to deal with this type of thing when it hits close to home. A good college buddy of mine lives on the same street as one of the victims. Columbine was not as close to home as it was 2000 miles away, this is unbelievably, painfully and hard hitting real. Our schools closed all afterschool activities, changed drop off and pickup procedures, and now our local resident trooper is at our school complex constantly.

Love and hug your kids often, love your family, tell your spouse and kids just how much you love them and tell it to them every time you get a chance to. It's a nice surprise just getting a stupid I love you note from your spouse, parent or relative. Cup recently went on a girls trip to Mexico and the girls and I "planted" a plethora of cute little I love you sticky notes all over her stuff so she'd discover them at various points in her trip when she did certain things. Love your neighbors, love your enemies, and help anyone you can. If you have any quarrels, beefs or arguments with people that are simmering or have been brewing for years, call them up and work it out, say you're sorry, fix whatever is wrong, move beyond this. This event makes us realize just how trivial most of our problems are. My princesses are in bed each night in the safety of our home in their kooky colored bedrooms reading all night long when we tell them to go to bed. There are two dozen families right now right down the road from us who now have empty bedrooms where their loved ones were just days ago, this is a real problem. Why this happens to good folks, kids especially, we'll likely never know. The only thing that makes any sense to me is that heaven is a great place. Those who get there first are the blessed ones, the rest of us get to stay here longer.

We're all in the world together and we need to make sure we're doing our part at making the world a better place. It can be a lot better for us, our children and all future generations. It is our responsibility, not someone else's when this type of thing goes down. We have a reactive society today and it isn't in reacting to evil events such as this that helps solve the problems, it's about thinking ahead and doing what is necessary to minimize this type of absolute insanity moving forward.

Talking heads are now going to discuss gun control, more police, police in schools, policy and procedure, anything that will reduce or minimize the chances of a lawsuit for the school.

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You get the idea. The same money is forever flying around the economy and changing hands, the more often it changes hands the better and that is the sign of a healthy and robust economy. The opposite is true as well, when velocity is going down, people are fearful and less apt to spend their money, instead choosing to save it and put it away for a rainy day, hide it or take it out of the financial system, etc.

Today is a strange situation where we see a world with a lot of money flowing in it as the governments across the world have been running the printing presses at full tilt for 4 years, yet the actual velocity at which consumers are transferring it throughout the system are at all-time lows. The government can claim inflation isn't here in the statistics it publishes, but all of us living in reality know much better that the cost of food, college, taxes energy, utilities and many other things are a lot higher today than they were last year and a few years ago. In the past, the government has modified the formula for what inflation is and removed key elements to make the published inflation number appear lower than it really is. Unfortunately, we cannot remove purchasing things from our daily lives just because they've become a bit more expensive and make the government look bad. The consumer who spends any time buying things knows better than statistics say.

This is new ground for us and likely will have ill intended consequences as it unwinds, but it is a fascinating subject for study.

As we look at the velocity of money in the past hundred years, you can see it's simply falling and not improving. The graph below shows the actual velocity of money in the past century and it's surprising to see the current state is lower than it was in the 20's or 40's. During the period right after the great depression our country expanded into the 80's with rising wages and reasonable debt levels. From the 80's to today we've had expansions that were financed with ever increasing levels of public debt. We're at a point now where we need a cleansing of the debt so we can begin a new healthy expansion moving forward. We'll get that cleansing soon, and although it may be painful to live through, it'll be a blessing in disguise for all of us immediately thereafter. ☺



CD's at the bank are now paying less than 1% unless you want to lock up your money for decades, which makes no sense. Artificially low rates from the Fed have forced people to chase a better yield (dividend) so they can live. This is punishing our savers and our retiree's because they live on the interest their bank accounts earn each year. If you had \$500,000.00 in the bank and it earned 5% a few years ago that was \$25,000.000 in interest to live on for the year. Today that pays less than \$5000.00 in the same place. Financial suicide is what it is. People think the banks are making a killing on this and they are making money since your loan rates are better than 1% they're paying, but it's not as jolly as it may seem. Since rates are so low, banks are not making a Net Interest Margin (NIM) of what they'd like to and what they're used to. They do earn less in this environment than they normally do but it's really the consumer who is getting crushed.

It is smart and logical to seek a better return on your money as 1% or less is simply unacceptable on every level. People are leaving the bank and putting their money in stocks to get the dividends, bonds to get the dividends or other investments such as REITS, funds and ETF's all in search of a better yield or dividend payment to live on. I've been watching a scary trend form over the past few years that can really bite an unsuspecting consumer.

Going after a better yield is just good stewardship, but be very careful where you go chasing this yield. Many blue chip dividend paying stocks have great dividends today and seem quite attractive and are actually increasing those dividends, but beware. A little known trick corporations play on people is to increase dividends or start paying dividends just as stock prices peak. This has gone on forever and nothing has changed so it is up to the consumer to be a little smarter and look over the fences to avoid getting sucked into this very enticing opportunity. Look at Apple, they just started paying a dividend and now they're share price is 25% off in just a few months. The 4-5% dividend you can earn in many stocks is far superior to bank interest today, but realize this may be a trap. Another factor to consider is that the big dividend paying stocks are more expensive relative to the rest of the world than they ever have been before, ever.

If you would still like to try it, keep your stops tight so the downside is small and if things do play out okay, you'll continue to earn your dividend but will avoid a big drop. Bonds are fine in many events, but some are suspect today as well. We can find great dividends in some bonds, but the higher the dividend the lower the quality of the bond and many are chasing big yields. It's not uncommon for some bonds to pay an 8-10% dividend, but these are low quality or "junk" bonds and they are not safe as typical high quality bonds are. These types of bonds can carry the same risk characteristics of stocks. We're in uncharted territory right now, so safe and conservative it's the way to go.

Noteworthy News!!!

- Our condolences to the Russ and Pikula families on the passing of John, a wonderful man, husband, father, friend, uncle and person.
- Congratulations to Kevin Mason on the purchase of his new home!
- Congratulations to the Camerota family on the purchase of their new home!
- Congratulations to Ben Camerota on the purchase of his new business, MVP Visuals! There will be no downtime in the Camerota household anytime soon!

Question & Answer

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

Q: How does equipment leasing work as an investment?

This is big business today. Many firms no longer want to buy and own the appropriate equipment for their business. This could be anything from a copier in my office to a 757 for UPS or the trucks and trailers for JB Hunt. There are a plethora of reasons for this, from tight bank lending standards, tax deductibility of leases vs. ownership and a host of others.

In the investment world they've concocted lease arrangements where they pool investors' money together and use this money to buy equipment, and then lease it to companies. As the investor, you will in theory earn whatever rate of return they can get on the deals. It all sounds fine in theory, but these deals are often illiquid, and offer strict exit strategies so I stay away from them. These can turn out just like REITS and the firms can stop redemptions at any time so buyers beware here.

If you like the idea of equipment leasing there are a lot of ways to participate in that area in the public arena where you can gain access to the space, but are not locked up. The tax code generally allows a firm to write off all of their lease expenses. If a business leases an airplane that entire cost is deductible in the year the money is spent, but if it buys one, the deduction must be amortized over a long number of years so the tax deduction is spread out over a long time even though all of the money is spent today. Bank lending has become very tight in the past few years as well so many firms cannot get rates that are attractive and some cannot get loans at all, so leasing is the only alternative. These are big reasons equipment leasing is so popular today. Don't confuse this with leasing your car through your business, this is often done incorrectly and generally not all of the value of that lease is deductible this year, even though you may have been claiming it all on your return, perhaps for years.

Today, firms will lease virtually any type of equipment. Locally we see rental centers for tools and party equipment, but in the business world you can rent planes, boats, containers, machines, etc. It's endless. ☺

Sandy Hook

(Cont'd. from page 1)

Unfortunately, much of what schools must contend with today is just that, doing whatever is necessary procedurally to avoid a lawsuit; this same nonsense is in Emergency Rooms, Hospitals, Doctors offices and almost all businesses across the country now. This isn't the real issue, this is reactive and nonsensical. We need to look at the bigger picture and see why this is happening in the first place. Obviously this person isn't mentally stable, should he be loose in society? What are the ramifications to the media sensationalizing this type of thing; if someone wants to be a nut to be famous they can do it. Perhaps we need to minimize coverage of this nonsense so they don't become stars for being fools or felons and that will be one less reason for insane behavior. In LA, they have TV shows that are all about the car chases when 20 cop cars are chasing down one lunatic. Who benefits? The lunatic is now famous for ruining property and perhaps life, but the rest of society pays for this activity. Perhaps we need to look into mental health and prescriptions.

Sweeping things under the rug is no solution either. I've seen plenty of examples of a problem with a persona and the family sweeping this problem under the rug, playing it down or hiding it. I see families sticking up for their kids against teachers and administrators in school rather than supporting our teachers and schools. This is an area that when I was a child, my father would have beaten me to a pulp if I disrespected authority. Today, it's a comical pastime to disrespect authority, suck the system dry and placate stupidity. Each time the law is abused for a dishonest purpose, to extort money from someone or some organization, to push a purpose, to do something it was not intended to do, we inch closer and closer towards accepting this behavior as acceptable.

My parents and grandparents would have never accepted help from the government if they could have done anything in their power to avoid it, today people are looking for and seeking out "programs" to help with things that can be self-provided. The government is actually advertising these things; we're on a slippery slope here with the acceptance of lousy standards, poor ethics and accountability and no bad outcomes for bad behaviors. It's now okay for the President of the USA to have an affair. It's not in my book and a lot of behaviors that go on with high level people are not anywhere near acceptable. We're tolerating this nonsense at the highest levels of office in the land and often wonder why a kid loses it like this. The old saying of people listen to your words but follow your actions is what we're seeing here.

There needs to be sports in school and those sports need a score, life has winners and losers and everyone has a special skill they can hone in on to be great at what they're supposed to be great at. We're better off hurting the kids feelings and teaching him how to cope rather than telling them they're perfect and waiting for another exposing like this when something goes against them in life and they have access to weapons.

Money Quiz



This month's challenge is on income tax rates. Individual income tax rates would need to increase by what percentage on all taxpayers to balance the budget for 2013? This assumes we don't change deductions or carve out certain people, what do the rates need to go up by in percentage terms to balance the budget for the year? This doesn't address the debts, just this year's deficit. Last month's quiz was won by Petra Adler, the stock market as measured by the S&P 500 fell by 5.3% the day after the elections this year. The market isn't convinced the current economic strategy is a winning one! Winner goes to Ruby Tuesday on us! 12/17/12: 14

Military Technology

Here is a spot where government is shining brightly. There are many top secret things the military does and now they're trying to help the private sector by speeding the process of getting former top secret technologies into the hands of business so new industries can become reality.

The Department of Defense (DOD) has worked to increase the rate at which it transfers technologies to the private sector, hoping to spur innovation. This is a good move in the right direction; we need more things like this from government on a global scale. Taking credit for some things we take for granted, the military has claimed they created such cool things as GPS, Lithium ion batteries, satellite technologies and the internet.

The DOD (Department of Defense) has 100 research labs across the globe and they're licensing technologies to private companies that can help the private sector but not harm our security operations. So far only 9 of the labs are participating, but the hope is to have 15 of them up and running by year end. The military has 50,000 scientists doing research and helping keep our technology ahead of rivals. This should pay dividends as time unfolds. The government is not making a lot of money on this venture, so far they've collected 16 million a year in licensing fees and the military research budget is 100 billion annually. The fact that they're doing this is great; at least they're making some money on their assets and not letting them go to waste while private industry works to duplicate the efforts. Sixty-Four technology transfer agreements are in place already and growth is happening.

A similar approach is currently under construction to help universities bring their technologies to the real world. This is another area that makes a lot of sense, all of the research that universities undertake should have a path to commercialization and profits, something that sector could use as well. This could be a real area of growth for our country in the future! ☺

Worry Warts

We all worry too much and about things we cannot control. My theory is if I cannot impact the outcome of something, I'm just not going to worry about it. What is the point? People worry about everything today and with the number of activities and complications in our world there is no shortage of things to worry about. The things we cannot control we need to accept and then learn to react to them appropriately. Since we cannot control the actions as they happen to us, we can and need to control our reactions to those actions. How we react to things makes or breaks us as people. I've seen stress crack people and it's a very ugly thing to witness. Unfortunately, stress can cause terrible pain for people; it can manifest itself in physical problems, disease, etc.

There is no easy way to alleviate stress, we need to think about and learn techniques that will help us deal with things on an ongoing basis so that we do not become trapped in a world of worry. People wonder how I can be responsible for so much and I'm blessed that not much bothers me. I'd say my biggest worry is making sure we're giving the princesses the proper tools to become productive members of society who can help others and move things in the right direction for everyone. Other than that and our health, the rest is gravy to me. We're blessed to have a loving family where everyone gets along, trust is a nonissue and we're all on the same page.

Along these lines, here is a great attitude changer! ☺

People are often unreasonable, illogical and self-centered; forgive them anyway

If you are kind people may accuse you of being selfish and having ulterior motives; be kind anyway

If you are successful you may win some false friend and some true enemies; succeed anyway

If you are honest and frank people may cheat you; be honest and frank anyway

What you spent years building someone could destroy overnight; build anyway

If you find serenity and happiness people may be jealous; be happy anyway

The good you do today people will often forget tomorrow, Do good anyway

Give the world the best you have an even that may never be enough; Give your best anyway

You see in the final analysis it is between you and God, kit is never between you and them anyway!

Inspirational Quotes

- Reflect upon your present blessings, of which every man has many. Not upon your past misfortunes, of which all men have some, Charles Dickens
- I prefer the folly of enthusiasm to the wisdom of indifference, Oscar Wilde
- Don't judge each day by the harvest you reap but by the seeds that you plant, Robert Louis Stevenson
- The measure of mental health is the disposition to find good everywhere, Ralph Waldo Emerson
- In the middle of difficulty lies opportunity, Albert Einstein
- The greatest weapon against stress is the ability to choose one thought over another, William James
- We are what we think. All that we are arises with our thoughts. With our thoughts we make the world, Gautama Buddha
- Optimism is the faith that leads to achievement. Nothing can be done without hope and confidence, Helen Keller



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



Kids Korner

What do your kids believe they can do? Life is all about dreaming, believing and then making it happen based on those dreams. If we do a good job of building up our kids and giving them the self confidence in knowing they can accomplish things, they will. If we don't nurture those natural God given abilities they all have, they'll have a difficult life. Everyone has gifts and they're all different, the key in life is to develop those gifts and experiencing success in sharing them with others. The process of developing them and getting to a successful level will require a whole lot of failure. Failure is good, it is a tool we've all used to learn from and one we should not try to avoid. The more we try things, the more we'll fail, but if we persist and learn from our past failures, we'll get better and better at whatever it is we're doing and find ways to be successful. Nobody can just hop into something and be a winner, it always takes time, patience, failure, sacrifice and grit. From everything any of us has ever done from learning to ride a bike, speak, walk, work, sports, anything we've all lived through that process. Let's make sure our kids keep trying and never give up. Do not let them get outworked, the quicker they learn failure is part of success the better lives they'll have. Nobody has had a self-actualized life who didn't fail many times before they hit it big! 😊

**Don't make excuses; make things happen;
make changes; make history, author
unknown!**

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart.

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Connecticut Offices (860) 673-1942
CT Toll Free (800) 843-4513
New York Office (315) 682-0348
NY Toll Free (888) 693-8390



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Mike Chadwick's Money Matters

15 New Britain Avenue. Unionville, CT 06085
860.673.1942
Torrington, CT . Manlius, NY

Chadwick Financial Advisors Place Financial Advisors

