

Feedback & Credit

Feedback is how we all learn how to behave in the world. If we perform a certain action and we get positive feedback for that action from our surroundings, we continue to perform that action. Praise and gratitude for a particular action go a long way. Helping someone when they're down is a great thing and it's appropriate to give that action very positive feedback, likely causing more of that action and creating a positive feedback cycle. Contrarily, if we do something we think is great or positive but then we get negative feedback from that action by our surroundings, then we know we've done something wrong and we immediately stop that action as it causes a negative feedback loop. If we do something that hurts someone's feelings and everyone in the room tells us how bad it was and how hurtful it was, we may not have recognized it ourselves. Once it's brought to our attention, we apologize and stop that action moving forward as the negative feedback is not a pleasant experience. We've all had this happen to us countless times in life, its how we all learn and grow. At least most of us well-adjusted healthy people stop the negative actions; some are just gluttons for punishment and continue the insanity. For these incorrigible people, they end up in trouble at home, in school, work and eventually with the law. These are universal laws of nature and apply to humans as well as every other creature on the planet.

In our credit (bond) markets we have the same type of feedback and it is reflected in our credit score. If we live below our means, pay all of our obligations on time and save money, we're given access to credit when we need and want it and then we can do what we want in the world, within reason. For some of us who were never taught proper financial management, we sometimes we get over our head, spend more than we make, end up with a mountain of debt and then it catches up to us and our credit is removed. We're no longer able to access any credit and we now get daily telephone calls from our creditors hounding us to pay them back. If it's really bad, we file for bankruptcy, hoping to ease the pain of paying for those mistakes and sometimes making some or all of the debts go away thanks to the law.

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Cold Winter Starts

It was 0 (zero) at my home this morning in cold January when I left for work. That is cold, even for a guy like me who is in shorts and sandals as much as humanly possible. Forget the wind chill factor; this was the temperature in the garage as read by the car. It was likely colder outside as the garage gets some radiant heat from the house. If I were to factor in the wind chill I may not have left the house! ☺ The winter is a joy for me as I love snow, it's just beautiful and you can enjoy outdoor activities in the beautiful fluffy white powder. I think the world is at its prettiest when everything is covered in fresh white powder, everything is white, if you can enjoy and take it all in before the plows turn the world brown. I also love when everything is covered in ice and it gleams and glistens everywhere you look. When there is ample accumulation there is nothing more fun than snowmobiles or quads and dragging laughing children behind the vehicle. It's an amusement park right at home when the weather cooperates.

As we go through winter in New England, many have a tough time with it and end up moving down south for the winters. That is understandable and I often wonder if we'll follow that path as Cup & I age. Right now, I cannot fathom living anywhere but in Harwinton, but we'll see how it plays out as we age if we're blessed enough to do so. Once we've warmed up our bodies, the cold doesn't seem so bad and as long as we prepare and dress appropriately, it's just not that bad. Today's technology makes outdoor in the cold easy, warm clothing like never before, warmers in gloves and boots. Good prep and proper equipment makes it downright comfortable.

In sports, we must warm up our bodies before we do any physical exertion (is that still what they call it when old guys attempt to play ball?) Young kids are exempt from the warm up routine, they just don't understand that parts hurt and it takes time to get the blood flowing properly through the body so you can actually move and use your full range of motion, even if it is at 70% of the speed of youth. I see few young kids actually warming up unless it's mandated by a coach or a parent, or they've had an injury or someone close to them has had an injury. I find that without Yoga these days there is zero chance I'm doing anything even close to sports, the body is just too stiff without some form of stretching to keep up with the young guns. Think about how our bodies would respond if we were to just wake up and attempt to exert ourselves to the maximum of our ability. That cold body would have all kinds of troubles and it is likely we would stretch, pull, injure or

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Foreign Hours

Feedback & Credit (continued from page 1)

Once this happens, people need to work hard to learn the laws of the land and get their fiscal houses in order to get access to the credit system again. Once your credit is shot, through bankruptcy or not, it's a tough slog to get back on track and it is a few years of awfully high interest rates on any loans you can get, if any, until you've rebuilt your credibility. This negative feedback for being financially sloppy hurts and it hurts badly. This is supposed to hurt because if it didn't then people would just continue to spend and there would be no consequence for this.

Financially, the feedback is when you're not top tier in credit; you pay a higher rate to get the money, period. I can get a mortgage for 3.25% because my credit is mint, the person who hurt their credit may not be able to get a mortgage at all or if they can it's at 11% because of prior poor fiscal behavior. This is how it has always been and always will be.

In one area of finance today, we have a dislocation in the system when it comes to feedback and government credit. The government isn't being forced to pay a higher rate for their bad behaviors in all circumstances. Sometimes they are and we're seeing that in many cities going bankrupt, which is where they belong. That is on a local level, but on a macro level many countries and even states are thus far not being required to pay more for years if not decades of poor stewardship. Last year when the Eurozone was starting to crack apart, bond rates were jumping to five, six and seven percent on government bonds loans to the government. That is where they belong, if not higher but central bank intervention has bought them some time. Here in America our government can borrow at rates below 2% for 10 years. Are these governments' good stewards of money, deserving of such low rates? Have they been living below their means, paying their bills on time and saving money for a rainy day? California issues IOU's on debts, doesn't pay tax refunds on time and certainly isn't a pillar of financial health. The obvious answer is not a chance; you'd think every government had the financial savvy of Warren Buffet with rates being where they are. Even Buffet, commonly referred to as the Oracle of Omaha, cannot get money so cheaply, he'll pay 5% on loans to Berkshire or any of his companies and we'll give the governments money at 2%. If this sounds insane it is, and it will not last.

This is a case where the feedback loop isn't working properly. Politicians are not good at finance or particularly thrifty as it's not their money being spent, it's ours. Since the feedback loop is saying to them its okay you're spending beyond your means and getting to the point where these debts are not likely to get repaid, we'll continue to lend you money cheaply. This talk of the \$1 Trillion dollar coin showcases how foolish they've become. The talking heads in DC are really throwing around the idea that they can just mint a coin, deposit it with the treasury and start writing checks against it. They're delusional and should all be fired, but in any case this is all happening because the feedback loop is currently not sending the proper signals back to headquarters. They think that since the markets appear happy, they can continue self-destructing. This isn't possible so look for the feedback loop to wake up soon and send the signals.

There are a lot of stock markets out there across the globe and they all operate a little bit differently. Let's take a quick look at how some of the larger foreign markets operate and how they're hours of operation compare to our hours and what times of day they are active compared to east coast time. We'll use our markets as the standard and we're open from 9:30 - 4:00 EST daily providing there are no holidays.

Country	Local Hours	Easter Time Equivalent
Australia	10:00am - 4:00pm	6:00pm - 1:00am
Austria	8:55am - 5:30pm	2:55am - 11:30am
Belgium	9:00am - 5:30 pm	3:00am - 11:30am
Canada	same as ours	
France	9:00am - 5:30pm	3:00am - 11:30am
Germany	9:00am - 5:30pm	3:00am - 11:30am
Denmark	9:00am - 4:55pm	3:00am - 10:55am
Finland	10:00am - 6:25pm	3:00am - 11:25am
Greece	10:30am - 5:00pm	3:30am - 10:00am
Hong Kong	9:00am - 4:00pm	8:00pm - 3:00am
Ireland	8:00am - 4:28pm	3:00am - 11:28am
Italy	9:00am - 5:25pm	3:00am - 11:25am
Japan	9:00am - 3:00pm	7:00pm - 1:00am
Mexico	8:30am - 3:00pm	9:30am - 4:00pm
Netherlands	9:00am - 5:30pm	3:00am - 11:30am
New Zealand	10:00am - 4:45pm	4:00pm - 10:45pm
Norway	9:00am - 4:20pm	3:00am - 10:20am
Poland	9:00am - 5:20pm	3:00am - 11:20am
Portugal	8:00am - 4:30pm	3:00am - 11:30am
Singapore	9:00am - 5:00pm	8:00pm - 4:00am
S. Africa	9:00am - 4:50pm	2:00am - 9:50am
Spain	9:00am - 5:30pm	3:00am - 11:30am
Sweden	9:00am - 5:25pm	3:00am - 11:25am
Switzerland	9:00am - 5:30pm	3:00am - 11:30am
United Kingdom	8:00am - 4:3 pm	3:00am - 11:30am

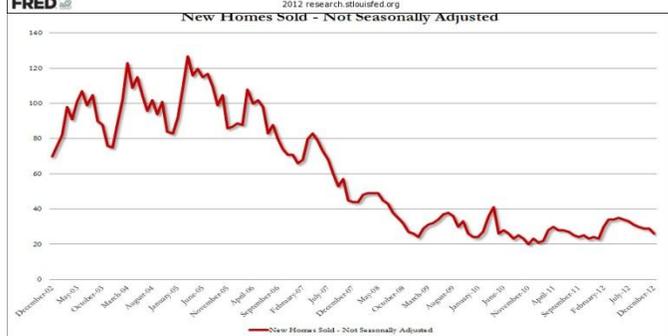
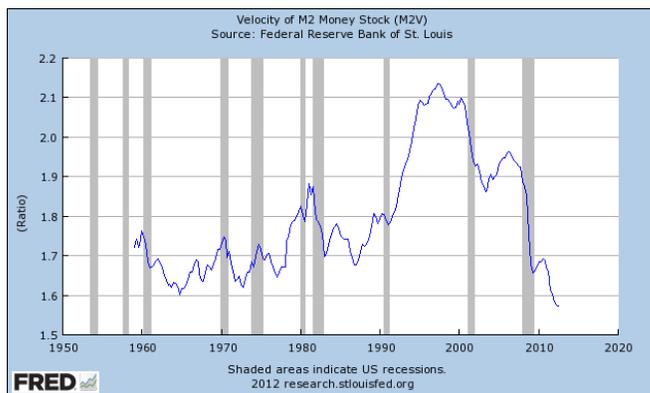
For those looking to trade 24/7 it is possible if you bounce from market to market in various countries in overlapping time zones. I don't suggest this but it can be done. You can see volume change in open markets as others close, there is a measurable shift. ☺

Noteworthy News!!!

- Our condolences to the Golembeski family on the passing of June, a wonderful wife, mother, aunt, sister, grandmother, great grandmother and friend.
- Congratulations to the Johnson family on the birth of baby Lily Abigail! ☺

Economic Update

Last month in discussing the velocity of money within our economy I put a graph out that was incorrect. I wanted to illustrate the velocity of money and put out a chart showing the GDP/Adjusted Monetary Basis. Below please find the actual velocity of money chart showing money is flowing through the economy at the slowest rate on record. Below that is a chart of the % of the population in the workforce, at 30 year lows. Published unemployment #'s are a fallacy. Lastly, look at the chart of the "housing recovery" which is another fallacy of statistical fondling of the numbers. You'd think the financial world is just fine if you listen to the media, we need to dig a little deeper for the truth! ☺



Cold Winter Starts

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otherwise break one of our many important parts.

When the weather is like this, super frigid cold, and we go outside and start our car and immediately drive away, this is the type of strain we're putting on our engines. The oil that is normally very fluid turns into a molasses like consistency in the cold unless you have 0 weight oil that flows well in the arctic temperatures. Not many cars have that type of oil, and it's important to let your car warm up before putting a load on it in the very cold. I let the cars warm up so that the engine is running at normal idle speed, typically around 700 rpm's, before putting any type of a load on it. Most people just start the engine and immediately run off, when the oil isn't flowing well as it's still a thick consistency. This behavior causes 90% of the wear to your engine. It would be a better habit to allow your car to warm up before you go and in the long run would save you a lot of wear and tear and unnecessary expense.

Question & Answer

Q: Do we often trade internationally in foreign currencies and in foreign markets?

No, not every day. We do trade international securities very often but we do not often trade in international securities in foreign markets or in foreign currencies all that often. Most of our trades in foreign securities happen in American Depository Receipts (ADR's) in our markets in our currency. We have the capability to do it, but we do not do it too often. Lately we've been getting more of a call for this as people are justifiably concerned about the freak show going on with the leaders of the country.

Worries about inflation, fiat currency devaluation and other issues do have merit with what icts going on in the world today. If you have a desire to own something specific in a foreign currency or a foreign market we can likely get it for you but realize there are some issues that go along with doing this. Liquidity in these markets is nothing like what we have here, there are often taxes and conversion fee's to do such trading so if you're not a big player and geared up for this with international offices it is sometimes a self-defeating option. This industry attempts to sadly sell the consuming public anything and everything but not all of it is cracked up to be what the sales pitches offer. If you're dealing in odd lots on the bond side of the equation it's very difficult to move amounts under \$100,000 in a single trade. I can often get sizing down to \$25,000 per trade but as time unfolds that is becoming more difficult and spreads are widening on the smaller trades.

There are often legitimate reasons to make such a buy, but active trading often in these markets is not advised for the retail investor. The transaction taxes and currency swap fees that are applied to trades in foreign markets can really impact your bottom line. The qualities of many issued securities that trade on many markets are suspect at best. Germany is a weird and surprising market, for such an analytical and conservative country the things they list on their books are often absolute garbage. You would think the polar opposite; they are run so conservatively that they would require very high standards for listed securities in their markets. I would consider all of the German markets to be the equivalent of our pink sheets. Not every issue there of course, but their lax standards should be known. It is where the garbage resides that cannot find a home in a legitimate market that is respectable and has high standards.

Money Quiz



This month's challenge is also income-tax related. This will be a topic for many in the coming months as you see what the impact of national healthcare and the fiscal cliff debate gave us. What percentage of taxpayers itemize their deductions on their federal income tax return? Last month's quiz was not won, income tax rates would have to go up 96% for everyone to balance the federal budget just for the year, not addressing the national debt at all. Do you think we have a spending problem or is it just taxes as the talking heads want you to think? Winner goes to Ruby Tuesday on us! 12/10/12: 5

Central Banker Quotes

We all give people, especially those in positions of power, the utmost of respect and credit, but we are all far from infallible. I am not a big fan of any of the centrally planned nonsense the elites are pushing today, and we all know this game doesn't end well. Here is a collection of quotes from our Federal Reserve Chairman, Mr. Ben Bernanke to put in perspective his prediction powers, or complete lack thereof.

11/21/02 "The US Government has a technology, called a printing press that allows it to produce as many US dollars as it wishes at no cost"

1/10/08 "The Federal Reserve is not currently forecasting a recession"

03/28/07 "At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency"

07/05 "We've never had a decline in house prices on a nationwide basis. So what I think what is more likely is that house prices will slow, maybe stabilize, might slow consumption spending a bit. I don't think it's going to drive the economy too far from its full employment path, though"

06/10/08 "The risk that the economy has entered a substantial downturn appear to have diminished over the past month or so"

10/31/07 "it is not the responsibility of the Federal Reserve – nor would it be appropriate – to protect lenders and investors from the consequences of their financial decision"

11/15/05 "With respect to their safety, derivatives, for the most part, are traded among very sophisticated financial institutions and individuals who have considerable incentive to understand them and to use them properly"

Anatomy of a Short Sale

This is a tough concept for many people. A traditional investment makes money when the prices of whatever you bought goes up and a loss occurs when the prices of the same goes down. In a short sale, it is the polar opposite where the investment makes money when the price of whatever you sold goes down so you can later buy it back at a lower price, and you will lose if the price of whatever you shorted goes up because you're buying it back at a premium to what you sold it for.

The first question is how does this happens, how do you sell something you do not own? This is a very logical question. This is the beauty of financial markets and it is a mechanism to keep markets honest when it is allowed to work properly. The way it works is you borrow the shares of stock, ETF or whatever you want to short from the brokerage firm, in our case Fidelity, from someone else's account that owns them to sell them short. This process is completely invisible, not even the person from whom you're borrowing the security sees it. When you borrow a stock, if a dividend is paid to the owner, you pay that dividend as you're on the hook for it since you've borrowed the stock.

Short sellers working on shorting the markets or specific securities within those markets, commonly referred to as shorts; help keep the markets honest as they help to balance extreme euphoria, which we are experiencing today, with reality. Government has from time to time banned shorts and short selling in periods of fear and panic, such as here in 2009 and in Europe lately. The bans are controversial, why stop the market from finding a natural balance but at the same time we don't want to allow shorts to be able to handicap or take a firm down.

Let's say you decided that you wanted to short Apple back in September of last year when it passed \$700.00 per share and seemed invincible at the time. You would sell the shares for \$700.00 each and wait to see the shares fall. If they fell, as they have, you could then buy the stock back at a lower price and make the difference. If you were to buy them back today, Jan 11th 2013 at 520.00 per share you'd have locked in handsome profit. Here is the math, assuming you shorted 100 shares.

Sell short 100 Apple at \$700.00 = a credit of \$70,000 to your account

Buy to cover 100 Apple at \$520.00 = a debit \$52,000 to your account.

You profited \$18,000 on the transaction on the surface and that is a very tidy sum to be had on that transaction.

There was a dividend paid on Apple shares of \$2.65 per share on November 7th so you'd be responsible for that and it would be a deduction to your account of \$265.00 After accounting for the dividend you still made \$17,735.00 on the transaction. If Apple continued to go higher from the 700 level you could have lost money so just like anything else, you need to be careful what you do and protect yourself with tight stop loss orders.

Inspirational Quotes

- Love is composed of a single soul inhabiting two bodies, Aristotle
- Affection is responsible for nine-tenths of whatever solid and durable happiness there is in our lives, C.S. Lewis
- I invent nothing, I rediscover, Auguste Rodin
- To love beauty is to see light, Victor Hugo
- Love all, trust a few, do wrong to none, William Shakespeare
- The trust of the innocent is the liar's most useful tool, Stephen King
- If you think you can do a thing or think you can't do a thing, you're right, Henry Ford
- Opportunity is missed by most people because it is dressed in overalls and looks like work, Thomas Edison
- Being powerful is like being a lady. If you have to tell people you are, you aren't, Margaret Thatcher



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



Kids Korner

We're all hoping for smart and successful kids, but what can we do to impact that? Is it all a genetic DNA lotto or are there things we can do to stack the deck in our favor of positive outcomes for our children? I think we can do some good things to help positively impact the youth so they'll have a better chance of knocking the cover off of the ball in the future. Studies show that there is a strong correlation between a few factors and successful kids. A strong factor is how many books you own. Comically it's not about if you read the books, it's simply about ownership of them. This may be of the same school of thought as you're a product of your environment. Researchers looked at 70,000 kids over 20 years and found that those kids who grow up in a house with 500+ books spent 3 more years in college than those who had none. If you had 25 books in your home you went to college 2 more years than if you had no books. The Freakonomics authors concluded that there are several factors in determining a child's success in life. They included a child having educated parents, parents living in a high socioeconomic status, parents involved in the PTA in the kids school. More factors found by the Freakonomics authors were a mother who was age 30 by the time her first child was born, parents who speak English at home. All of these great are factors, but they don't mention love and affection. I think that has just as much of an impact, if not more, than some of the other factors. One of our favorite pastimes at home is what we call "nuggling", which most people refer to as snuggling.

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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Visit us online = www.fiscalwisdom.com

Mike Chadwick's Money Matters

15 New Britain Avenue. Unionville, CT 06085

860.673.1942

Torrington, CT . Manlius, NY

Chadwick Financial Advisors

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Connecticut Offices (860) 673-1942

CT Toll Free (800) 843-4513

New York Office (315) 682-0348

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