

Land Mines

It is sad to think people actually plant and camouflage these evil devices in the ground for some poor soul to later come and step on. People are so cruel, more so than any animal ever could be unless trained by people to be so. I cannot fathom how one could hurt another on purpose. I understand war and defending yourself from harm and that is last resort, but in 2013 can't we work this out before it gets to this level? This landmine field is what the current investment environment is like today from my perspective, it's like walking through the desert in an area known to contain land mines and you must proceed to the other side of the desert on foot without protection. It's just a matter of time before you step on one and that is it, end of story, Kaboom.

While many see bliss on the surface of our economy and elevated levels of the markets, I see extreme danger. I see danger in not just one area, but in many. It is often very easy to spot areas of market insanity, bubbles, and stay away from them in the world, but today we're seeing market insanity on most levels, not in just one or two. In fact I see very few safe hiding places where you will not get clobbered right now, except in short positions or in volatility based instruments. In both of these tools you are in the safest positions in today's world. I've never seen an environment like this; it is unique to six other data points in history. These points have proven poor company.

In 1999, it was easy to stay away from internet stocks as the values were insane and P/E ratios were in the hundreds. In 2005 and 2006, it was easy to stay away from real estate if you were not caught up in the hype. Bubbles suck you in and spit you out like a slimy piece of gum. We're currently in a government debt super-cycle that is running artificially high on central bank stimulus; do not get sucked into this seductive trap. When the TV show is telling you to flip a house as it was in the heyday of the housing boom, in fact when TV is telling you anything, do the exact opposite thing and run in the other direction.

Think about the big picture here and how decoupled the reality is from the

Continued on page 2, Landmines

INSIDE THIS ISSUE

2. Wal-Mart Impact; 1 in 7 Historical Points
3. Noteworthy News; Foreign Markets; Minimum Wage
4. \$ Quiz; Central Banker; House or Career First
5. Inspirational Quotes; Kids Korner

Where is the Volume?

I'm not talking about the loud music I typically have playing at my desk, in the living room at home or in my car. How blessed am I not to be deaf with what I've exposed my ears to as a kid! The volume I'm talking about here is people buying and selling shares in the stock market.

A very good and healthy sign is when prices go up on increasing volume with time. This is how markets have gone from inception of the markets, when prices increase due to heavy buying, which is a long lasting and durable advance. The opposite is also true. When prices advance on low trading volume, the increase in price is suspect and not to be trusted. Historically low volume price advances show institutional buyers are not behind the move, since they have the largest asset bases, they are the ones who truly can move markets, not individuals. When prices slide or decline on high volume, the decline is typically a long term one for the same reason, large institutions are selling shares. When prices decline on very low volume, those declines tend to be very temporary in nature as smaller players are typically the ones selling, showing the large institutions still hold their shares. With the advance we've seen recently, the up days are on weak volume and the down days are on high volume, not a good sign of a healthy advance.

I've been watching volume carefully for a long time and we're seeing the lowest volume levels in decades today. Look at the following example, we'll use 1/1/2007 as the base line for volume on a few markets in question. 1 is the baseline volume in 2007, today's number is the appropriate fraction of the volume six years ago:

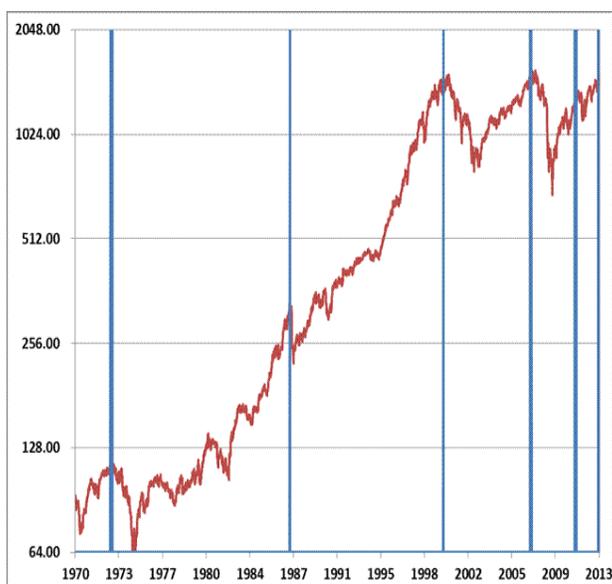
Market in ?	7/1/2007 Baseline	02/22/2013
	Volume	Volume
Dow Jones Ind Avg	1.00	36.73%
Russell small Cap	1.00	13.36%
NASDAQ 100	1.00	21.99%
German DAX	1.00	15.02%

These are the most popular and liquid markets in the world, and they're all advancing weakly, on pathetic volume. This has been true especially of the past year or so. The complete lack of volume makes me suspect of the move. This along with the fact that underlying fundamentals do not support long term highs in prices as we're seeing makes me ask when the decoupling will finally snap back into reality.

Landmines (continued from page 1)

markets. We're 47 months into a bull market and they last on average 39 months. This bull is old, very old and unless he is Noah, likely to end sooner rather than later. This "recovery", is the worst in the history of America. I know many who don't feel recovered, and most are scared, unless they live in or participate with government stimulus candy land. The official unemployment rate is at 7.9%, if you do not count the 7.0M people who the government claim dropped out of the workforce. If we were to claim them, which we really should as they're not working and want to, but just cannot find a job and stopped looking, the rate would be 11%+. Government debt has doubled in the past 4 years, it is now 103% of GDP, and healthy levels are less than 70% of GDP. Taxes are going up on every level, Federal government, state government and local municipalities are all increasing taxes. This data points to a squeeze in every direction on consumers and business growth. Europe is in a deep recession which is accelerating downward. The current level of decoupling has pushed bonds to trade at a 20-25% premium to par in many instances due to fear and no yields in fixed instruments. As always, a picture is worth a thousand words.

As seen in John Hussman's chart below, we'll share with you the current state of our markets vs. the economic backdrop. The vertical lines are times when we've seen the conditions which we have today. The conditions include Schiller P/E of 18+, markets within 3% of upper Bollinger Band, 2 standard deviations away from 20 period moving average at the daily, weekly and monthly resolutions, 7% above the 52 week moving average, 50% above 4 year lows, advisory bullishness of 52%+ and yields higher on the 10 year treasury vs. six months ago. What is critical to understand here is that right after we've had this condition in the past, the market has plunged by 50% on average. Not included in this chart, but a statistical fit, is 1929. Bottom line, is do not get sucked into this attractive but unsustainable run. I'm aggravated to have missed it, but it's always better off not being in a market you wish you were in rather than being in a market you wish you were out of. I fully expect an unpleasant market very soon, hold tight and do not be enticed. The red line is the S&P 500; note the performance following the onset of the current set of conditions, scary.



The Wal-Mart Index

Dominating a category and killing mom and pop stores across the world, this retailer leaves a monster wake in its trail. Wal-Mart has become so large and powerful it is now an indicator as to how the general consumer is doing as they capture so much of the general retail market. There are many higher end and specialty segments Wal-Mart doesn't touch, but they certainly have their pulse on the average consumer wherever they do business. This business is so big and powerful, it alone has put Bentonville, Arkansas on the map.

A few years ago while reading one of their annual reports, and yes, I do enjoy the annual reports (dork, I know but it's fun for me) it struck me how Wal-Mart has a sense of when certain checks arrive in certain communities because they make a big impact on their customers shopping habits. They can see this clearly based on actual retail sales in a community by community basis when any government assistance checks come in on schedule as they can see when seasonal activities happen such as tax returns, etc. I find this interesting that they track it, but it is no surprise as good records are how winners become winners. Many people want to win, but most do not want to do what it takes to prepare to win, so they end up losing. Pretty amazing that a single company can do this and it is along the same lines of ADP knowing who is hiring and who is laying off as they produce the period employment report that many economists use to forecast.

When Wal-Mart released earnings this February, it was also eye opening to see they are seeing a big impact not the consumer from two points, increased taxes when the payroll tax reduction expired on 1/1/13 and the higher fuel prices. They are experiencing the worst start to a year since 2007 with the consumer squeezed in all directions. Prices are going up on the items we buy, taxes are going up on every level, federal, state and local, and incomes are not rising to offset so people are logically cautious. The company hopes the cautious tone by the consumer is a temporary one, but I find it hard to imagine a scenario where it is not a lasting one.

People will need to see job security, growing income and lower prices before they'll feel comfortable spending again. I don't think they should ever return to the poor spending habits that we've seen in the past few years. This consumer slowdown is all very healthy; we need a new outlook on finances in America, a prudent one where people only spend what they have, not what is borrowed or hoped for or they feel is "deserved." At this point the average consumer can teach a thing or two to the government. We've seen consumer debt shrink in the past few years, exclusive of car and student loans, but they're doing much better with credit cards and revolving debt in general than they were. Student loans are going to be an issue moving forward, the number of delinquent loans has just hit a new peak and there is no end in sight. Perhaps online education can find a way to make things more economical moving forward. There will be a great solution to all big problems. ☺

Noteworthy News!!!

- Congratulations to the Ricca family on the birth of Griffin, grandbaby number two joining big brother Connor! 😊
- Congratulations to Liz Gould on her new job!

Work Ethic

You cannot make this stuff up, via “The Globe & Mail”. French labor unions are currently in a bitter fight with global tire company Titan. The CEO of the company has said to the French unions that he is not interested in any deal with them to move a factory to France after they asked Titan to take over a closing tire plant. He said that workers there actually work three hours a day and that he’d have to have gone “postal” to have invested in a plant in France. He further went on to say the only thing the union has as an advantage as the political clout and backing of the government. When this was told to union workers, they said it is the “French way.”

I’m sure this is somewhat exaggerated from the point of the big wheel and he is embellishing, but the point is valid. We have a problem globally with contractual everything and no flexibility. I see it locally and crystal clear in all of our towns and states. Everything is set in stone with a long term union contracts. Janitors in schools cannot change light bulbs; the town must hire a contractor and pay \$125.00 an hour to get simple work done, just because it’s contractual. The health benefits need to continue to be Anthem Blue Cross Century Preferred with a \$5.00 deductible, even though the costs are prohibitive, just because the contract says so. Pensions cannot be moved to 401(k)’s to make the individual responsible for their fate and ease state budget strains. Flexibility and performance based pay are out, tenure is in forever, or until they go broke.

Unions today have absolute and total control over government operations. The contracts they operate under, which were inked a hundred years ago, were meant to protect the workers. Today, we have ample workplace laws to protect workers but as unions flex their power, companies go bankrupt. We’re now at the point of states and countries going bankrupt as the unions have priced themselves out of the jobs they’re supposed to do. Flexibility would benefit all parties here. Hostess is a perfect example. Union bosses would rather have no jobs for their workers than take a pay cut and keep the company in business. We can start here by having an incentive based and common sense system within unions and all of government, not the prevailing wage nonsense currently in action.

It is not the employees here at fault; it is the structure of union bosses in bed with corrupt politicians. I have a lot of good friends who work in all sorts of unions from contractors, crane operators, city, state, government, police, firefighters, teachers, administrators, etc. and they’re all great people. They’re equally frustrated with the current system of protecting and enabling sloth and would prefer an incentive based system. They also mostly would prefer not to have the union. I suspect that unless the unions get competitive and start seeing the light the species is close to extinction, or they’ll just continue to bankrupt more entities until we find sanity. 😊

Question & Answer

Q: Is this idea of the minimum wage increase really good for the economy?

No, it is not good at all. When wages are artificially increased through means other than performance or mutual agreement the outcomes are net negative. Having a minimum wage is great in theory, but some jobs just don’t require that much skill or talent, and pay commensurately. When the price of anything rises, the consumption of the item will decrease accordingly. If minimum wages were increased, the outcome would be more layoffs and fewer jobs as employers can only afford to pay so much for any given job, unless it is the government. Each job has a value in the open market; to artificially boost it causes misallocation of capital and poor results. Industries need people to perform certain tasks, and those tasks pay according to how much talent and preparation it takes to get there. If you require restaurants to pay dishwashers 10.00 per hour and they currently earn 7.00, what will end up happening is there will be fewer dishwashers in the industry washing the same number of dishes overall. This is the type of rear view mirror legislation that feels good but hurts outcomes and is prolific today.

If the minimum wage is such a good idea, why don’t we make it \$25.00 per hour for everyone at every job? Your coffee would cost you \$18.00 per cup and your meals would be \$50.00 per plate at any restaurant! Business would grind to a screeching halt if we did that, or an alternative would be found such as a universal salary or other method of compensation. Just like everything else in the world, you are not stuck in any job that pays minimum wage. You have a choice, if you’d like to earn more you either work more hours or gain the training and skills necessary to get a job that pays more. I worked for minimum wage as a 15 year old at a pool company. Didn’t we all do this to start out?

To pay more for a job by legislation would do nothing but lower the incentive to work hard and get ahead. As if we don’t have enough of an entitlement mentality today, we don’t need people thinking they can get their pay legislated up, they need to perform better to earn more, end of story, period. It is sad how the laws are watering down our educational system and now they want to mandate how much you pay the workers, byproducts of this system. I think a more reasonable course of action would be incentivizing personal responsibility and punishing sloth and irresponsibility. We still need to help those incapable of helping themselves, but we’re way way beyond that today.

Germany has actually removed the minimum wage law, and despite all of Europe’s problems, they have a strong workforce and the lowest unemployment rate on the continent because the government has allowed people to compete, earn and get ahead. This is exactly what made America great, but so many of our incentives are backwards today.

Do your own research; don’t just accept for fact what the talking heads are saying. Much of it is hurting our country as we sit idly by.

Money Quiz



This month's challenge is to tell us what percentage of Americans receives a monthly check from the Social Security Administration. Last month's quiz was won by Sal Churchill, 33% of taxpayers itemize their income tax returns. Most of the taxpayers we work with itemize their returns. Winner goes to Ruby Tuesday on us! 02/18/13:7

Central Banker Actions

Last month I put together a collection of quotes by our central banker boss, Ben Bernanke and some may have misinterpreted the intent. The quoted statements that later proved to be very inaccurate do not mean he's always wrong, far from it. I'm just as wrong as he is a lot of the time, but the point is not to blindly follow government. He's done what he thinks is right at every point and I agreed with the actions he took in 2008 to prevent a complete financial meltdown. Since then he's done a lot of things to loosen monetary rules, goose the markets and help to get around the political and impasse between the White House and the Congress, enabling further inaction. What I'm trying to point out is that he's a man just like any of us, as are all of our elected and appointed leaders.

At this point the dysfunction in politics cannot be repaired with monetary policy and further actions are simply enabling more of the same lunacy in government. The bond purchases the Fed has been pursuing over the years with all of these operation twists and quantitative easing 1, 2, 3, and now QE infinity have now consumed up to 75% of our bond markets in some instances. With the government this far into supposedly "free" markets, how do they exit the markets now when they feel the time is right? They don't is the answer because now the government is buying up to 75% of the bonds the government is selling. Yes, that is what is happening, you didn't read that incorrectly. Let me repeat this, the government is buying the bonds the government is selling. This is a conundrum on every level and if any private company attempted such an action they'd all be in jail. You cannot fight the government so we must see how all of this plays out, but I feel it will not end well.

I cannot justify any of this, and the level of risk and leverage currently in the market today is unprecedented. The Fed's constant intervention and gaming of the system over the past few years have left the available investment options looking like a mine field in Iraq. The fundamentals of our economy and the global banking system are currently running on the edge and may indeed collapse. There is no easy exit to our current predicament. I think the political class will not act responsibly unless we have a crisis and they're more interested in their agenda and careers than the greater good of our society. Hold on, it's going to be a volatile run.

House or Professional

Is it best to get yourself a house first in life or to instead focus on your business/career? In our experience most people get a job, any job, and then focus on the housing situation. Completely understandable as we've all been programmed to live the American dream and own your own home.

Housing is a great thing and there is nothing like the lifestyle that comes with owning a home. Make no mistake, a house is a gross waste of money, not the "most valuable asset" we've been told to think. I own a home, but I know it's a financial drain and treat it as such, and don't have too much capital sunk into it. There are exceptions to this rule if you can steal something through foreclosure or short sale or hard luck, but most people will end up feeding most of their lifetime earnings into the sinkhole they call their home. We've got a great calculator on this we're happy to share with you if you'd like to see your math if I haven't gone through it with you already.

Houses are great for the economy so the government pushes them as a great thing. Fiscal math can prove that you're better off renting than owning unless you rent out part of your home or own rental property. I know this and still own a home. Many ask me why and it is because we enjoy the lifestyle that owning a home comes with. We want to ride the quads in the woods, paint things kooky colors and make adjustments and changes as we like, all things you cannot do if you rent/lease property.

We need to try and teach our youth that they're better off getting going with a sound career or business, saving their money and getting financially capitalized before they go on the housing hunt. If the kids are handy or the contractor types these two things end up being one in the same as they can make money on houses if, and only if, they get them for the right prices. The environment today offers handy people the opportunity to make some real money on houses, if they steal them from banks and special situations.

The current elation over the real estate market is not durable and will fall prey to one more drawdown before we can really recover. The banks are currently holding back foreclosures at record levels in an attempt to control the housing inventory. It's working so far but as the legal system creeps ahead, many of the homes that have been in process for years will soon begin hitting the markets, blowing prices through the current floor. Rates are also beginning to rise and home indexes have fallen now for two consecutive months.

Think of those in our world who built big businesses or reached great levels of professional success. What did they do first, go buy a nice house or get their careers in order? They always, without exception, got the money machine flowing well, and then splurged a bit on a nice pad. That is the way to do it and when you do it that way; you'll never worry about money again. The hardest part is getting through the necessary decade of discipline to be well capitalized enough to get there.

Inspirational Quotes

- You are confined only by the walls you build yourself, author unknown
- IF you don't know where you're going any road will get you here, author unknown
- Learn from yesterday, live for today, hope for tomorrow, author unknown
- Happiness is when what you think, what you say, and what you do are in harmony, Mahatma, Gandhi
- Build a ship before you burn a bridge, author unknown
- You can't stop the waves, but you can learn to surf, author unknown
- Stars cannot shine without darkness
- Everyone is a moon and has a dark side which they never show to anybody, author unknown
- Hard work beats talent when talent doesn't work hard.



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



Here is a great story from a sisterly perspective. A typical American family has a mom, dad and two sisters just a few years apart. The sisters are in college and one is highly motivated while the other is more interested in social events, hanging out and having fun. The social sister is certainly having more fun in life right now, but may not be planting the seeds for long term success as it takes hard work, discipline and sacrifice to get ahead and do well. In our society we're all about immediate gratification and when we don't have the proper work ethic, the life of Riley ends abruptly once reality sets in and the free ride is over. The older sister who is highly motivated does more work, helps out around the house and with everyone in her circle. She knows she's outworking her sister and feels things are not fair.

I agree, it's not fair, but that is life. We see this type of situation in so many families, even in our own we've got a highly motivated one and a social one. We'll see where this brings them at the end of the day, but in the interim it is critical that the kids realize the differences in how today's habits, good or bad, directly relate to tomorrow's outcomes. Good habits today foster good choices and provide good outcomes, even if the kid has to suffer some today along the way. This is okay, all kids need to go through tough times and learn. I'd rather see them go through them while young and resilient over essentially childish nonissues rather than learn the hard way as an adult with the law or a failed family. Bad habits today will certainly provide for bad outcomes tomorrow. Parents need to parent first, and be the kids' friends second. You can be both, but make sure they're done in the proper order. ☺

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

NY Toll Free (888) 693-8390



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