

## Living the Successful Life

Here is a wonderful piece I found in a mini book that I must share with you. Success often isn't what we think it is and often we're hunting for the wrong things in the wrong places. This is priceless and hopefully it can get us to focus on what is truly important and add to our lives.

So often, success is thought of in material terms, but possessions are such fragile things...

...lasting for a season, or perhaps for only an hour.

But there are ways of achieving the kind of success that lasts a lifetime...

...it's the kind of success that measures who you are rather than what you own.

Real success is having the ability to give, not for what you will receive in return, but just for the joy of giving...

...it is putting the other person's pride ahead of your own.

Success is knowing the difference between helping too little and helping too much.

Success is not being daunted by a seemingly impossible goal...

...but rather being willing to work toward your goal one step at a time...

one day at a time.

It is knowing that there is no disgrace in failure, because those who have never failed have never risked anything...

...it is discovering how much you can learn by listening, not just hearing, but really listening.

Success is having time for a friend, even when it's inconvenient for you, or when you have problems of your own.

It is realizing that misfortune is not necessarily bad if you learn something from it.

Success is not looking back, but facing forward...

...it is having the courage to do not what is popular, but what is right.

Success is realizing that other people are not responsible for your happiness...

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## New Mortgage Rules

We've all been waiting for this for years since the financial meltdown of 08 and they've finally arrived. First a little history of how mortgage lending became so insane just a few years ago. From the depression until the 1980's most loans for homes were prime mortgages, which are made to fiscally sound borrowers with solid underwriting characteristics. A typical prime loan went to someone with a predictable job, long and consistent job history, solid credit, a large down payment and no record of paying any of his or her bills late or defaulting. Should any one of these requirements not been in place, no loan would have been made, that's just how it was and how it always should be. In 1992 the Department of Housing & Urban Development added in government housing policies which caused Fannie Mae & Freddie Mac to purchase an increasing quota of mortgages made to borrowers at or below median income levels to "make homes more affordable."

Over time finding these prime borrowers became difficult and then the government increased how many there had to be in this category, from 30% to 50%. I think the 30% requirement is too high, maybe we help 5—10% of the people who don't fit traditional molds with a house, but as the number gets larger so does the risk to the entire financial system and society. Once they increased the number to 50%, it starts to look a bit nutty. Do we really want 50% of all loans in the country to be from borrowers who are either low income or maybe not able to pay the loans back as they cannot satisfy prime underwriting guidelines? This is government ideology at work in the real world, ignoring the rules of physics, common sense, economics and mathematics. To satisfy this requirement the government reduced the underwriting standards that lenders had to follow so more borrowers would fit the category and fulfill the legislated requirement. They then reduced the down payment requirement for Fannie & Freddie so these Government Sponsored Entities (GSE's) could buy more loans from the private marketplace and further satisfy the requirements. They then reduced the necessary credit scores for borrowers to do more of the same. This process slowly unfolded over 20 years so it wasn't an obvious change or a quick one. Over time the government drove the quality of loans down to promote low income housing and the American dream of everyone needs to own a home mentality. These rules took the underwriting standards away from the banks and placed them firmly in the hands of politicians.

By 2008 over half of all mortgages in the US were sub-prime; those given to borrowers with less than ideal financial underwriting guidelines, arguably downright awful government mandated underwriting guidelines. Of this half that were sub-prime, three quarters of them were all on the governments bc so

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## Divorce & Money

they can only enhance the seeds of happiness within you.

Success is being able to find beauty in the humblest of things...  
a spider web glistening in the sunlight, or a simple leaf of autumn.

It is doing your best, not in just the big things, but also in the common tasks of everyday living.

Success is accepting that you are human...  
and that you will make some mistakes...  
...it is the ability to enjoy life, even when things are not absolutely perfect...  
and in knowing that they seldom will be perfect.

Success is being able to laugh every day...  
Particularly at yourself...  
...it is realizing that the earth is your home, and you, yes YOU, have an obligation to care for it.

Success is understanding that power is a privilege, not a right...  
...it is looking into the mirror and really respecting the person you see there.

It is being kind to everybody, especially to those people who do not have the blessings that you do...  
...and feeling truly and sincerely happy at the good fortune of another.

Success is forgiving those who have hurt you the most, even though it may be one of the hardest things you ever do.

It is remembering to appreciate things often taken for granted, such as the air you breathe, and the clouds that glide across a deep blue sky.

Success is keeping the child in you alive and not being afraid of making a fool of yourself now and then!

Success is giving credit to those who help along the way...  
and recognizing their contributions to your life.

Success is maintaining a positive attitude, concentrating not on everything that could go wrong, but on everything that has gone right.

Success is not giving in to regrets, but to going on to tomorrow...  
...it lies in not letting praise go to your head.

Remember, you're never as bad—or as good—as people think!

Success is enjoying your own company...  
...it is daring to try something new, because the greatest adventure of your life might be down an untraveled path.

Success is keeping an open mind and not clinging desperately to old, worn-out habits or ideas...  
...it is the resolve to never stop learning and growing.

Success is love...  
a true and generous love for yourself and for others...  
and when you have achieved this, you have achieved the greatest success of all.

By Linda Lee Elrod

Divorce is a common but unfortunate occurrence in the world today. As sad and difficult as it is when the process is unfolding, many times it is a blessing in disguise when the dust settles. Cup and I are thankful every day that our relationship is solid and getting stronger as we get older. It is amazing how two people really can become one after enough time. It's been 23 years now for us and we're running strong and we hope to be one of those couples at weddings where you remain standing after 25, 30, 35 anniversary years, etc. I know I'm older not only because there is very little hair left on my head, but now when we play basketball games I'm on the old guys team! I hope that remains my largest problem! I'm still 12 in my head and I don't think that'll ever change.

We see divorce happen to great people every month, sometimes several times each month. There are many components of a divorce, but the financial end can be quite difficult and complex to work out. If you or a loved one is going through this, never hesitate to use us as a resource for working through all of the financial aspects of this. Something we see often in the divorce situation is when one spouse has a powerful career, the other spouse feels intimidated financially and as if the world is going to crumble around him or her through this process. The high powered career spouse is often a physician, attorney, business owner or corporate executive and they have convinced the other spouse that they are powerless in the process and things will unfold badly for them. Nothing could be further from the truth! Do not be intimidated by a bully spouse when it comes to finances, this should be a topic you can openly discuss as adults regardless of the state of the relationship. If divorce is in the cards, once you get other professionals involved such as myself, attorneys, accountants and the legal system, the playing field is suddenly very level for each spouse. Even if one spouse is a financial or legal expert, the others in the equation will help equalize the playing field for the spouse who may feel under equipped to deal with the situation. Many times one spouse never deals with the money or makes any financial decisions, they often feel incapable of handling it. Don't be intimidated, you can learn what you'll need to know to get affairs in order on your own after the process is done. It may be a learning experience, but people do it every day so keep the faith. It is critical that each person realize there are laws in place to protect everyone, the children included. We have seen a few situations that have unfolded badly for people after the fact, but this has only happened when good financial and legal counsel were not sought out prior to the fact. The process doesn't need to take years either, it can be hashed out pretty quickly once all of the data is out in the open. Discovering the data is often the longest part of the process as everyone disagrees, argues, and has to get legal motions to produce the necessary documentation to make an agreement.

We've been through this process dozens of times and regardless of what picture the high powered spouse paints, the actual outcome and division of financial assets ends up being very fair. Never be intimidated financially and use us as a resource if you or a loved one is in such a predicament.

## Noteworthy News!!!

- Congratulations to Sean & Julie Quinn on the purchase of their new home! 😊
- Congratulations to Bobby McMahon and the Thomaston High Lady Bears on making it to the State Final Championship game, # 2 class S team in the state! 😊
- Congratulations to Bobbi Pare on her recent retirement! 😊
- Congratulations to Mike & Tonia Gugliotti on the purchase of their new home and Mike's new job! No free time in that household! 😊
- Congratulations to Bessie McCann on her new business, Derma Botox, [www.dermabotox.com](http://www.dermabotox.com)! 😊
- Congratulations to Mark Danaher on his new business success, his college card sort and workbook is now available online at amazon as well as on his site, [www.highschoolandbeyond.com](http://www.highschoolandbeyond.com) This is a must use if you have kids and want a great tool in what college to choose.
- Congratulations to Amy Matthews McKenna on her recent induction into the CT Women's Basketball Hall of Fame!

## Question & Answer

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

*Q: What is divergence in the investment world?*

Divergence is when various investments perform quite differently in a given time period when they have historical patterns of performing in a very similar fashion normally. Let's take for instance a few of the domestic stock indexes that normally move in the same direction. The Dow 30, The S&P 500, The Nasdaq, Dow Transports and the Russell 2000 indexes typically move in a very similar fashion. If one is up they mostly tend to be up and vice versa. Bonds and stocks tend to move in opposite directions, when one is strong one is weak and vice versa.

When the indexes begin to diverge, one goes up and others go down or vice versa, that is an ominous sign that all is not well in the investment community and there are problems under the surface. We've been seeing divergences in the marketplace for a long time now, almost a year and a half of serious divergence. Stocks, considered risk assets, have been extremely volatile but moving up on very low volume as bonds, considered safe havens, have also been moving up on huge volume. This is a divergence we've only seen 7 times in history, each time it ended badly for stocks. More recently metals (gold, silver, copper, etc) have been getting blown apart as they haven't in 30 years and small companies are coming unglued. Many stock indices are still strong as an index basis, but leading stocks are not holding onto gains and divergences are everywhere.

With such extreme divergences in the marketplace, something is not right. We cannot tell you just yet what it is, but in time it will show itself through the ultimate market actions. This is a time to be mindful and not take on too much risk; the risks today are like I've never seen before.

During the years of 2005, 06 & 07 we all knew that lending was ridiculous and just about anyone could get a mortgage as long as they could fog the mirror. Nobody seemed to mind since the rationale at the time was houses always go up in value so the borrowers could always sell or refinance later so there is little to no risk in the entire operation. As we all know too well, mortgages that never should have been made went into default at alarming rates, thus causing the financial crisis. The spin is that the crisis happened due to inadequate regulation of banks and Wall Street greed. Banks were blamed for being bad and evil, and there certainly was plenty of that, but what about consumers for being brain dead knowing they'll never be able to repay the loan and government for setting up such a ridiculous system in the first place that wasn't mathematically sound? There is a lot of blame to go around here for all three parties. I'd like to think government would set the example and not lead by foolishness but that apparently is too much to ask.

The new mortgage rules have a lot of good components, a lot of feel good nonsensical components and two very bad aspects. Here are the things that have been prohibited that will no longer cause any problems with future mortgages, all good things which never should have been:

- Insane and exotic mortgage calculation schedules. Now we've got plain old vanilla fixed rates and variable rates. No more convoluted formulas that require a mathematician to compute.
- Negative amortization is a thing of the past. This is where the loan balance actually grew as time went on instead of slowly going down as any sane mortgage balance should.
- Clear communications from one servicer
- Warnings before interest rate changes of at least 2 months
- No excuses if the lender has poor records as a result of acquiring loans from other entities.
- Crediting payments in a timely manner and in a logical order
- Error correction in a timely manner
- Detailed billing information in writing
- Do not charge for unnecessary insurance or over charge for force placed insurance

Now the borderline rules:

- Contact borrower when payments are not made in a timely fashion. The bill doesn't show this? Personal responsibility anyone?
- Work with borrower before foreclosing. The contract isn't necessarily the contract anymore apparently.
- 3<sup>rd</sup> party determination of loan workout request. Really?

Now the foolish parts of the law:

- Down payment minimum not required
- Credit Score is not material

What? Government sure does learn slowly. The fact that they didn't put in a down payment and minimum credit score shows just how short sighted government is. Their goal is obviously to just reinflate the housing bubble!

## Money Quiz



This month's challenge is on starting young with business intentions. What very successful financial person filed his first income tax return at age 13 and deducted his bicycle as a work related business expense? You can never start thinking entrepreneurial too young can you? I don't think so and those who have this gift will not worry about money much in their lives. Last month's quiz was not won! The average home in America has depreciated 12.9% since 2008. Some spots were hit much harder with 50% losses and others haven't lost much at all. The Dakota's are strong and have been thanks to their local oil boom. Winner goes to Ruby Tuesday on us!

## New Look and Feel and Team Player

The newsletter has taken on an updated and freshened look lately. This is thanks to a new member of our team. Nick Russo has recently joined the firm and will be here as a resource for everyone. He'll work primarily out of the Connecticut offices. One of his first tasks was to make a new template for the newsletter as the original one was 10 years old and the gremlins were everywhere in the document, nothing seemed to work properly and just writing and editing it took forever and was becoming painful. I don't know why but when you continue to use a document over and over, updating, deleting and editing it over time something happens within the document and it develops problems. It was getting really old, and I have limited computer know how so this update was a welcome one and it has really made life easier for us all. We will now update the template annually so it cannot degrade to such a level again. This new look is great, but the new functionality on the inside is a real winner for us. It is now a joy again to write the newsletter as I no longer have to fight with it mechanically to do what was once very simple when the template was originally new and fresh.

Nick has also been very busy making new templates and calculators for many of the activities we do on a day to day basis in the computer and especially in excel. If you need a spreadsheet for any type of number crunching activity, ask us. If we don't have it made already we'll consider making it if we can use it and it will help you. Nick built great spreadsheets for budgeting, loan calculations, amortization schedules, time value of money, tax deferred vs. taxable investments, real estate conveyance fee's, loan comparisons, internal rate of return, real estate rate of return, 401(k) paycheck change, pay stub simulation, social security taxation, when to take social security and the list goes on. We use these tools daily and the difference between the new tools and the old is night and day. He's also working on white papers on most of the financial topics out there as the next stage so if you'd like to read and get educated, in plain English of course, we're happy to share our work with you to help improve your financial outcomes. ☺

## Wash the Cost

With tax day just having gone by we're all recuperating from the process! Hopefully your tax season went well. We can only wonder when they will simplify the process of paying our dues to the good old Uncle Sam! I'm not holding my breath. ☺ Cost basis and wash sales come up constantly during the season so let's explore both of these concepts so they're clear and you can use the rules in your favor.

Cost basis of an investment is what you paid for it, plus any dividends or capital gains that you've paid taxes on as the years went along that you've owned the particular security. Assume you bought 100 shares of Microsoft at \$20.00 per share; your investment is \$2000.00. This is what you paid for the stock and it is part of your cost basis. Now over the years the stock paid dividends of \$500.00 and each year you received a 1099 for the dividends received even though you invested those dividends in additional shares each year. The stock also paid a special dividend one-time of \$300.00 and just like your dividends, you didn't take that distribution, you just invested in additional shares of stock. Since you paid taxes on those dividends and capital gains, they too now are now part of your cost basis. If you sell the stock today for \$4000.00, you will owe tax on the difference between your cost basis and what you sales proceeds are. Your cost basis in this instance is what you paid for the stock (\$2000.00) + the dividends paid over the years (\$500.00) + the capital gain distribution (\$300.00) so your total basis is \$2800.00. If you sell for \$4000.00, the gain is \$1200.00. That is the amount you'll pay taxes on for the calendar year.

Wash sales are an unfair law put into the system so you cannot deduct losses on a security or a similar security if bought and sold within 30 days on either side of the trade in question. This one is a bit more technical. This scenario will be an investor buys \$5000.00 worth of IBM years ago and then sells it on January 1<sup>st</sup> for a capital loss of \$1500.00. The investor assumes he can deduct his loss of \$1500.00 on his return. If he never touched IBM again for a month he could for sure. If the investor buys the shares back within 30 days of January 1<sup>st</sup>, anywhere from December 1<sup>st</sup> to January 31<sup>st</sup>, in any account the investor may have, the loss on the stock is not allowable. It's considered a wash sale and the investor made the transaction just to create a tax loss so the IRS disallows the deduction. Unfair yes, complicated yes, but that is how the system is built. Now all is not lost, the tax loss is not gone; you just cannot use it this year. If you do buy IBM back on January 25<sup>th</sup> whatever your new cost basis is, the \$1500.00 loss you were disallowed is now added to your cost basis. On January 25<sup>th</sup> you bought back the shares for \$2000.00, but now your cost basis is the \$2000.00 you paid plus the \$1500.00 disallowed loss, so total cost basis now is \$3500.00. In this scenario you could make the \$1500.00 in disallowed loss on this investment and not pay any incomes taxes at all as the loss that was previously disallowed will now come back into a future tax return as a valid deduction. The game is complicated, but knowing the rules makes it easy! ☺

## Inspirational Quotes

- If opportunity doesn't knock, build a door, Milton Berle
- If there is now wind, row, Latin Proverb
- There are no shortcuts to any place worth going, author unknown
- We shouldn't teach great books; we should teach a love of reading, B. F. Skinner
- Those who wish to sing, always find a song, Swedish Proverb
- The beautiful thing about learning is that no one can take it away from you, B.B. King
- Courage is not the absence of fear, but rather the judgment that something else is more important than fear, James Hollingsworth
- The most powerful weapon on earth is the human soul on fire, Ferdinand Foch
- Enthusiasm is the mother of effort, and without it nothing great was ever achieved, Ralph Waldo Emerson



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

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

## Kids Korner

Sports and activities are a great thing for kids on a lot of levels. These things teach the kids to work hard, be part of a team, help others, push themselves and compete. Depending on their skill level, attitude and determination some will find that deep down they can do it and build self-esteem through sports. I find that many lessons of sports I learned as a young lad have paid dividends for me in life. I'm a bit on the compulsive side so the competitive thing that I learned in sports never left me and I want to compete in anything and everything as an adult. My princesses are no different and I can really see it in them now, they're 11 & 12 and it's comically obvious they've got the competitive bug just as bad as I do. If it's not racing to the car or up the stairs, it's playing a board game or being sarcastic with one another, but the "game" never ends. This is a healthy thing as long as it's directed at positive ventures. Sometimes a special coach, teacher or person can have a lifetime impact on a kid through athletics and that is priceless. ☺

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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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**PLACE**  
Financial Advisors

Please think of us whenever you or someone you care for needs the following:

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- ❖ Retirement Income Plans
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## Mike Chadwick's Money Matters

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