

Changing Habits

We're all creatures of habit. This just must be how the human being is built. I see similar traits in animals, once a habit is formed; it's quite difficult to change those habits. The habit itself takes on a deeper dimension and we just do things, sometimes subconsciously, just because the habit is built. Perhaps it is a combination of muscle and neuron memory and the being is now on auto pilot, completing activities just like we've always done, simply due to the "programming." Another interesting observation is that habits formed are typically bad unless one is pushed to form good ones initially or through mentorship. Parents, teachers, coaches all impact kids by instilling good habits into each of us, but without that guidance, what habits would form? It's always the easy decision that leads us on the path of sloth and bad habits and it takes positive action and continuous enforcement and repetition to create good habits and make them the automatic things we'd like. The real question is how do we get to change our habits? I have great financial habits but plenty of bad habits. I continue to try to always enhance the many bad habits I have and eventually make them good habits. This is what life is about, the journey. ☺

Here are some tips that may help you break some bad habits and turn them into great ones!

For some reason we need a month of a new activity before it'll really become a habit for us. When you go on this type of quest, committing to 30 days is really important to starting a new and life lasting habit. Now that we're on the month system, it's really important to do your new thing every day. Two, three or four times a week actually make it easier to break habits so daily is the critical time frequency of habit formation. Next is to start small. I have a real problem with this because I think big, really big. If you want to start training for a triathlon, going and beating yourself up for 6 hours of biking swimming and running isn't going to make that a long lasting habit or you a successful triathlete. It'll make you a great hospital patient, but we don't want that. It'll be far more effective if you just pick one activity, do 30 or 60 minutes a day to start. Choose a length of time

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Misallocation of Capital

How we allocate our precious limited capital will dictate how well we do in life in the future. We have an unlimited number of options as to where we may allocate our capital. How do we determine where to make this allocation so that we receive the most benefit and improve our outcomes? Financial decisions you make today will drastically impact your life in 10, 20 and 30 years, but you will not feel any impact today or tomorrow. The pain from making bad financial decision doesn't arrive until it's too late. If you've made bad choices in your 30's and haven't looked at finances until a month before you want to retire, chances are it's too late to really improve your retirement plan now. Don't delay and get it done sooner vs. later in life and you'll never regret it. I never hear anyone saying to me "Mike, I started saving too young" or "Mike, I saved too much money." Those words simply do not come out of peoples' mouths. What I do hear all too often is the polar opposite of those statements, such as "Mike, we started saving 5 years before our retirement date and we cannot make it work" or "Mike, we only have a small fraction of what we need to retire" or "Mike, we sent our kids to school before we planned our retirement." Each of these situations put people in a tough spot and all of them can be avoided just by thinking ahead. Always plan ahead, never get caught swimming with your trunks down. ☺

There are two big mistakes here, one is just procrastinating and the other is putting your children's college savings ahead of your own retirement savings. If you don't have enough for college you have a lot of choices, local community college, loans, the GI bill, etc. If you don't have enough for retirement the options are "Welcome to Wal-Mart." This college decision is the largest misallocation of capital I see on a daily basis. Of course we want our kids to be well educated, but the college education equation is quickly getting out of whack on every level. It now costs \$25k to send your child to UCONN, up to \$70k to send your child to a private college and maybe 4-9K to send your child to a local state or community college if they're living at home. Not every kid needs to go to college; in fact some would be better served at a tech or trade school or in some type of mechanical position where spending 300K for a bachelor's degree wouldn't add too much value to the job at the end of the rainbow. Another interesting thing we see here today as well as in some instances depending on the financial aid package your child and family can qualify for, it is sometimes more economical to go to a private or even an Ivy league school. Shopping around, as usual, is the best way to determine where to go and how to pay for it. Not getting sucked in by the brand name and looking at the facts will allow this decision to be made without any clouded judgment.

The key here is you have limited capital and how you allocate that capital will make you either comfortable or stressed later in life financially. If you have

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that'll be doable for you, but will challenge you. Once it is a true habit you can turn up the intensity or the time or whatever other element to get it to where you want it in the longer term. Make it impossible to forget what you'd like to accomplish. I have put little sticky notes all over the place to continually remind me of the challenge. Stickies on my monitor, in my car, in my binder, etc. all help to make it "in your face" so you just address it and don't procrastinate it away or find an excuse not to do something. I also have a game I play with myself every week, I try to do something that is uncomfortable for me, this way it forces me to leave my comfort zone and do things that will make me grow and expand my horizons.

The first step is to make your activity a daily one. Each and every day, no excuses at all for 30 days of your activity without question. It takes a month to make something habitual so that is the first part of your commitment. Next is to make sure you do it daily. 3, 4 or even 5 days a week won't cut it, it needs to be daily. You can also recruit a friend to do your new found activity with you or tell a lot of people what you're going to do. Once you've made public what you're doing, it is now a matter of having your ego ruined if you fail to follow through, the people who know will hold you accountable to what you committed to, and this is a great way to grow and make sure your habit sticks. Habits take time to form, they're not really quick. Think of habits in the cooking world like crock pots, not microwave ovens.

With habit building there are a few tricks that can help too. If you create a trigger for your habit it'll help a lot. If you want to wake up earlier each day, get up at the same time every day and not let the time float. This will form a mental trigger that will help you almost make it automatic, almost subliminal after enough time has passed where you do it ritually. You can also use a physical trigger to remind you if you need one. Many people put an elastic band on their wrist and snap it each time they go to do something they're trying to stop doing, such as smoking, eating, etc.

Replacing lost treasures is another great tool. If you quit watching TV you can replace it with a new activity such as reading or meditation, etc. Removing temptation is a way to make habit forming easier as well. If you're trying to eat better, don't have too much junk food in the house or you'll consume it. Cup hides the goodies and never has ice cream around because she knows I'll eat it if it is there. I won't go and buy it, but if it's around forget it. Keeping likeminded role models around helps your cause too. If you're trying to quit smoking and you hang out with 14 smokers that's not stacking the deck in your favor. Visualize success and allow for failure. Chances are you won't succeed the first time you work towards habit building. You may not work out every day, you may eat too much of some goodies, but visualize success every time and give yourself second chances. Visualization goes a long way. Visualize what you typically do, you not doing it even after temptation, then how elated you feel by successfully stepping away from the unwanted behavior or stepping up to the wanted behavior. Keep the faith, if you want it bad enough you'll get it, never, ever give up, continue to push forward.

Apple Cash Hoard & Tax Dodge

Apple may no longer be the darling of stocks that it once was, but it certainly still has a lot of cash and continues to make more every day. Whether or not they continue as the innovation machine they once were is a moot point. Its cash is now in excess of \$100 Billion and mostly sits in off shore accounts. If they were to bring the cash home, they'd be taxed on it once it comes to America. Instead, they're deploying some other smart financial tactics to begin to use the cash. They plan on keeping the cash overseas, not paying taxes on it, but still use the money. How is this possible and how do they avoid taxes on all of this money?

Here is the way Apple is gaming the system on a very grand scale. They have their cash hoard invested in a hedge fund type environment so they're making money on it for now, it's not just sitting in a bank earning 0.1%. What they've recently done is borrowed a lot of money here in America with a new and first time bond issuance. Corporate borrowing can come from a bank in the form of a loan or they can issue debts which are just another form of a loan or capital campaign. They issued a little over 600 million in bonds just weeks ago. Since they're a great company with great credit, earnings and prospects and no debt until now, they're able to borrow money at very low rates. The average coupon (interest rate) on Apple debt is below 5%. They're simultaneously and substantially increasing the dividend they pay to shareholders so they will use the cash from the bond issuance for normal corporate purposes as well as the dividend payments. They will continue to do the things they've always done research and create products, open stores, expand further into China and other foreign countries, etc.

Let's look at the economics of this play which are clearly in Apples favor. They keep the assets they own in foreign accounts and don't pay the 40%+ corporate tax rate on the money when it comes to America. They would pay a corporate federal tax and of course CA is highest in the nation for state income tax if they brought the money home. They instead borrow money at 5% or less through the bond issuance and pay the interest or coupon on it, which by the way is tax deductible to the corporation. They didn't pay \$40 Billion plus in taxes bringing the money home and they're getting a deduction of \$5 B each year on the bond interest payments they'll make. They're planning they'll make 5% plus on the money as they're a well-run organization but the returns will be lumpy as investment returns always are. They are willing to take the chance. This is clear and simply a tax dodge maneuver. It's perfectly legal but is it right? While millions of little guys like us work and pay 15-50%+ on our incomes and assets, which are a tiny fraction of what we're talking about here, the monster corporation gets away with arguably the best tax advantage I've seen, period.

\$40 billion in income taxes would go a long way towards fixing the imbalances in government. How many people would it take to pay 40 B in taxes? I'm not a fan of giving Washington or any state capital any more money as they're the epitome of irresponsibility with our dollars, but do the likes of Apple, GE and other monster corporations need such breaks?

Noteworthy News!!!

- Congratulations to Jeff & Chelsea Schmidt on their recent marriage, the beginning of a beautiful life together! 😊
- Congratulations to the Murtaugh family on the birth of baby Chase, he joins big brother Connor to round out the family with two little gentlemen! 😊
- Congratulations to Beverly Rogers on her recent retirement! 😊
- Congratulations to Audrey Reid on her new job with Northwest Community Bank! 😊
- Congratulations to David Swanson on his new job as a coach with the Cleveland Indians! Now that is a home run! 😊
- Congratulations to Joe Pikula on his new job with the Hartford! 😊
- Our condolences to the Majka & Toplitz families on the passing of Irving, a wonderful man, father, grandfather, brother, uncle, friend and person.
- Our condolences to the Warren family on the passing of Jean, a wonderful woman, mother, grandmother, aunt, friend and person.
- Congratulations to Nick & Susan Abu-Absi on their promotions and good luck with the relocation!

Question & Answer

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

Q: What are true mortgage closing costs when you refinance and what are pre-paid costs and what is the difference?

This is a great question and often misunderstood by many people. When you buy a home or refinance a home it is critical to understand the difference between these costs. Some costs are actual costs that you will not get back that are just expenses while other costs are pre-paid costs that will be refunded to you after the fact. Mortgages can seem complicated with all of the forms and pages to be signed, but they really boil down to a lot of little parts of one larger transaction.

Actual closing costs typically include things such as attorney's fee, title insurance, title search, town and municipal recording fee's, appraisal, delivery expenses, etc. These expenses are actually true expenses and will not come back to you after the fact. This area of expenses can get long, painful and sometimes creative; there are a lot of expenses that can be considered separate and extra charges. There are new rules in place to help keep his more consistent between companies and easier for the public to understand. Fair closing costs typically range in the \$1200 - \$1500 range.

Pre-paid closing costs are those costs that you pay in advance that will ultimately come back to you in the future. Typical pre-paid costs associated with a mortgage are homeowners insurance and property taxes. These are both typically the largest portions of a closing. Most lenders require payments of these 6-12 months in advance. If you're refinancing, you'll get these costs refunded from replaced lender.

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not set aside enough for your own future, don't double down and go private for college. Your child will make it with an alternative educational route; even if (s)he is pressured in school to choose a popular, and typically very expensive school in the last two years of high school by peers. My two little princesses are academically competitive (this comes entirely from Cup, all I cared about at that age was baseball and motorcycles, I didn't turn it on academically until college) and already talk about the Ivy's. They get the financial difference and have stated themselves, unless they get those educations for less than or equal to a state school they're not interested. How quickly does the word spread in our world? I give a ton of credit to the marketing departments of institutions all over the world, they're geniuses.

It's just like where do you shop, the no name stores such as TJ Maxx, Marshalls and Bob Stores or Macys, Michael Kors and Nordstrom's? Now bang for the buck wise it's best to shop around for everything, not just education. The parents run the house and need to make the ultimate decisions, you cannot allow a 16-18 year old to dictate how you're going to make financial decisions.

Education isn't the only area we see misallocation of capital, let's look around our world and take a closer look at a few examples. Each of us typically does a great job with most things in our lives, but we also typically have one or two special things we tend to splurge on and that is fine. My theory is if you're on track to take care of the big things in life, the major financial goals you've set for yourself, and then enjoy the rest. Balance is the key; don't get too wound up on either end of the spectrum. Don't buy the niceties first and save what's left, it's never enough. Do enjoy yourself and find a happy medium in life. Many times the super high end of products in any category isn't a wise allocation of capital, but we can all enjoy our own guilty pleasures after we've planned well.

From the top down, our society doesn't do a good job at teaching fiscal responsibility. Our governments are short sighted, terribly inefficient and wasteful. The government is currently on a spending spree to help inspire confidence. They're trying to give people a false sense of security and get them to spend money they don't have. Shouldn't they be incentivizing savings and productive investments, not just more spending and more debt? Of course they should, but that doesn't increase GDP nor does it get the elected wastrels votes. Back to the marketing people being absolute geniuses, hopefully the population will start seeing this for what it is and act accordingly.

Short term fixes for long term problems are almost universally misallocations of capital. If the house needs a new roof you can use a tarp for a little while, but eventually you address the issue and put a new roof on it. If you have a major problem with your health you will not put a band aid on it and let it wait to explode, you will deal with it. We're great at addressing health issues as a society, but we're not great at addressing societal economic imbalances as they exist today. We have structural shifts happening economically and we're placating markets with band aids, going deeper into debt to try to fix a debt problem. Mathematically impossible to do, it's just a matter of time.

Money Quiz



This month's challenge is on banking, more importantly failed banking. During the years 2003 – 2007 there were 10 failed banks in the country. How many were there between the years 2008 - 2012? Last month's quiz was won by Mark Danaher & Al Hill – simultaneous answers this is a first! Warren Buffet was the financial genius who claimed his bicycle as a work related expense at age 13. Winner goes to Ruby Tuesday on us! 05/13/13:6

Social IRS

I think most people wouldn't consider the IRS very social. I've had a lot of experience in interacting with this agency and often times the initial communication can be rather dry as the people working there are busy and stressed like many people today. I also find that they're mostly very fair and nice once you get down to business and get into the nitty gritty. Realize they're trying to do the tax work for hundreds of millions of people, a job that is not very easy with the current mind boggling level of complexity of the tax code. It will hopefully get simplified as we move forward. Even many IRS workers don't know all of the rules and laws as there are so many, so most of them have a specialty area where they can become expert in their particular area of code. I learn something new every time I read about taxes, something that makes it a very interesting subject.

The current controversy over the IRS unfairly targeting conservative groups certainly has many enraged and rightfully so. It saddens me to see the moral compass of many in society, and especially our leaders deteriorate and go right into the toilet. Political nonsense and money truly is the root of all evil. We all need to do what is for the greater good, not what is just for us or our particular interest. When the greater good wins, we all win. I'm confident we'll have much better days moving forward as a society, but we need to change our ways and expectations and all pitch into the system and society, not look for what we can take out of the system or society.

There are new tools the IRS uses to police the system that you should be aware of. If you're doing the right things you've got nothing to worry about. Many people spend a lot of time on social networks and air a lot of their personal lives to the entire world. It's mind boggling to me to think people have time for this. I value privacy and don't think this activity is wise but many people do it. We don't use social media much but do check it occasionally to make sure the princesses are not crossing the line in the sand. If you're on social media and talking about things you've done financial transaction wise, realize not only your family and friends can see this, but so can the police force and the IRS. IF what you're talking about online doesn't add up with your return, logically expect a letter in the mail from your favorite social agency. ☺

Carrying Costs

Let's look at the monthly carrying costs of debt. Assume for this fictitious example a couple owes the bank \$100,000 on a loan(s), perhaps credit cards. Not a situation you want to be in, but unfortunately a popular one today as people search for fiscal discipline and sanity. If the rate of interest on your credit cards is at 6% you will pay \$6000.00 per year or \$500.00 per month in interest to the bank. This is your carrying costs. For most people they carry a balance on their card, averaging \$12,000.00 balance. The average interest rate on the card is 18%. SCARY. 72% of people in America have a credit card balance. 28% are like me, and hopefully you, who pay their balance in full each month and never pay a dime in interest to the bank. I even make money on the cards as I get "perks" such as cash back.

For people who have good financial habits such as paying their bills on time, paying down their debts, never defaulting, etc. they are typically rewarded with better rates, increased credit limits and better terms in general. For those with poor financial habits such as continuing to increase their debts, paying late, defaulting, etc. they are typically punished with higher rates, lower credit limits and more restrictive terms of credit in general. This is exactly how it should be, reward positive behaviors and have penalties for irresponsible behaviors. Most people who fall into the credit card trap find they keep spending until the limits are reached or breached and they cannot get any new cards. Once you get past a tipping point, there is no route to repayment; the only answer is often bankruptcy. The largest credit card debt I've ever seen personally for a household was \$500,000 and ironically it was a household of two physicians.

Continuing on my example if this couple with \$100,000.00 in debt had bad habits financially and subsequently grew their debt to \$200,000.00 you would assume the bank would raise their rates. You'd also assume the bank never should have extended more credit to them as they are a big financial risk. If the bank made a mistake and extended them credit and then the bank lowered their rate to 2% from 6% what would their carrying costs now be? This is of course financial suicide from the banks perspective as this debt is not going to get paid off, it's going to be written off by the bank and the bank will take a financial haircut on the loan. More like a scalping but you get the idea.

Now the carrying costs for this couple with \$200,000.00 of debt is only \$4,000.00 per year or \$333.00 per month instead of \$500.00 per month as it was when they had \$100,000.00 in debt. This couple thinks they are financial geniuses. They're not and they'll end in bankruptcy court.

This is exactly where our government is today. 4 years ago our national debt was just under \$8 Trillion and the average interest rate on the debt was around 6%. Now it's \$17.2 Trillion and the average interest rate is under 3%. Is this a wise course for the bank, who in this case is the owners of treasury debt? Sustainable? Not a chance.

Inspirational Quotes

- The best and most beautiful things in the world cannot be touched or held, they can only be felt with the heart, Helen Keller
- It is during our darkest moments that we must focus to see the light, Aristotle Onassis
- Don't judge each day by the harvest that you reap but by the seeds that you plant, Robert Louis Stevenson
- Try to be like the turtle, at ease in your own shell, Bill Copeland
- Find a place inside where there is extreme joy, that joy will burn out the pain, Joseph Campbell
- I hated every minute of training, but I said don't quit. Suffer now and live the rest of your life as a champion, Muhammad Ali
- Nothing is impossible, the word itself says I'm possible!, Audrey Hepburn
- Change your thoughts and you can change the world, Norman Vincent Peale



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

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

Push through it, suck it up, get it done, find a way, and don't whine. These are phrases we'll often use with the girls when they face a challenge and want us to do it for them. We're not talking big challenges here, just the daily things kids go through as they work toward becoming young adults. The first time I remember this was when Hannah was just starting to walk up and down stairs and she would go right foot down, left on the same stair and then right foot down to the next stair. She couldn't do one foot on each stair and go as we normally do. When we tried to get her to push through this, she had a priceless excuse that I remember like it happened yesterday. "Dad, this is the way God made me!" She finally figured it out, but that remains a priceless memory. We continue on the journey of trying to shape our kids into confident, capable and helpful contributors to society 😊

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

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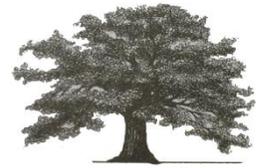
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Visit us online at www.fiscalwisdom.com

Connecticut Offices (860) 673-1942
CT Toll Free (800) 843-4513
New York Office (315) 682-0348
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15 New Britain Avenue. Unionville, CT 06085
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