

Mortgage Rates & Home Values

With rates being so low for so long people forget that rates do go up and down. In the past 5 years we've seen falling rates and we keep saying, you better buy or refinance now because rates just cannot go any lower. They keep going lower; it's been a mind boggling concept. This has changed course very aggressively in the past 2 months where rates have gone up over 1% in very short order and without any official raising of the rates by the government. Markets have decided rates will go up and they did. Let's look at the affordability of housing as rates go up and down.

Assume we're looking to buy a \$300,000 home and finance 100% of it for illustrative purposes. We're going to use the standard 30 year fixed rate mortgage on our comparison case. A few years ago a great mortgage was considered 5.5% or 6.0%. Just a few months ago a great mortgage rate was considered 3.25% and now a great rate is considered 4.625%. Now let's look and see how the changes in rates can impact the monthly payment a consumer must pay for the same \$300,000 loan.

Loan Amount	Rate	Monthly Payment
\$300,000	5.75%	\$1742.37
\$300,000	3.25%	\$1302.09
\$300,000	4.625%	\$1536.50

A slight change in the rate makes a drastic change in the monthly affordability of the house. With most people spoiled with low rates for so long it may be sobering to see how a rise in rates has a dramatic impact on home prices. To make the monthly payment the same at the 3.25% loan rate, the home price will have to decrease from \$300,000 to \$254,232.25, this decrease of 20% in price just to keep the mortgage monthly payment amount the same. As rates have climbed we've seen a substantial decrease in the mortgage applications as well as refinance applications. The indices tracking such data have made a decline in the numbers, which was quite expected. It's nice to see something behaving logically in this somewhat backward environment.

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The Psychology of the Game

I would argue most of life, as well as most pursuits in life, are psychological. People have a ton of great quotes to go along with this line of thinking, quotes such as "the sky is the limit" or "reach for the stars" or "beauty is in the eye of the beholder, or "the only thing limiting you is you" etc. We all live in the same world; the only difference is our perception of it. We each view the world through a unique lens with our own unique perception of everything. Some of us believe that things are great, the world is a blessing, and we can do anything we set out to accomplish, and we do. Others believe the world is evil and nothing can be done about it, people are crazy and the world is a train wreck, and they crawl into a hole and become anti-social and live in somewhat misery. It's up to the individual to determine how they're going to view the world and behave on a day to day basis. Being the eternal optimist, I almost universally choose to view things as great. Even today with all of the issues in our world, we'll find solutions. They'll be painful, but we'll find them. The human race isn't going to roll over, we're going to push through it and find solutions to our problems and make better tomorrows. Too many people think too negatively. Don't be naïve, always be safe and always think things through, but look at the bigger picture.

Sports are the game people often refer to and look in that arena, what separates the greats from the rest. God given talent is a huge part of it, but also the attitude and perseverance of the athlete is the real game changer. I cannot tell you how many coaches I've had tell me the most talented kids don't go as far as they should; it's the hardest working kids that go the farthest. Once a person determines (s)he is going to accomplish something, they'll move heaven and earth to do it. How to get that determination into a person is unknown. If you or anyone can find that formula you'll have a wonderful business on your hands packaging that recipe.

Life isn't much different from sports in my opinion. If you look at the big picture, pick a direction and get the wind behind your back it's just a matter of time before you reach your destination providing you can avoid any huge mistakes along the way. Mistakes are okay, they're actually good teachers as long as you don't make the same mistake twice and learn valuable lessons from each mistake you make. Don't avoid doing anything just because you may make a mistake, welcome the mistakes, but learn from them and do not repeat them. Learning from mistakes has been one of life's best teachers for me and I've made plenty of them unfortunately. Looking at the bigger picture will help you avoid big mistakes. Sometimes when we're submerged deep into a situation we cannot see the error of our ways as we're too close to the situation to see clearly. It's often easy for an outsider, a friend, a colleague, a professional, etc. to see the solution as they're not tied up with the emotion and distractions of any given situation. (cont'd on page 3)

Rates Up (continued from page 1)

Where rates go from here is unknown in the short term, long term they must go up as the government cannot keep rates at artificially low levels forever. I've got recent sales data for Connecticut homes from the MLS service last week and it is quite interesting to see how the numbers are stacking up. Sales and prices were trending up until the 3rd quarter of last year. From then on we've seen a substantial decline in real estate prices and transaction volume. Look at the numbers.

# Sales	Q1/12	Q2/12	Q3/12	Q4/12	Q1/13
Residential	5348	7277	7722	6673	5204
Condo	1112	1620	1136	1637	1229
\$ Volume					
Res	1.55B	2.85B	3.05B	2.41B	1.69B
Condo	182M	335M	343M	312M	145m
Median Price					
Residential	236k	333k	340k	292k	194k
Condo	165k	186k	188k	178k	133k
# Of Listings					
Residential	15.6k	15.4k	16.5k	18.3k	18.8k
Condo	4.04k	3.83k	4.09k	4.59k	4.35k
Commercial	2.76k	2.65k	2.72k	2.92k	1.54k
All Others	28.0k	29.3k	31.6k	34.7k	29.2k

Numbers were clearly trending up throughout mid-2012 and since then the data now shows a sharp deterioration in price and volume action. The causation of this is likely twofold. Most will blame rising rates and of course they are a big issue today, but this data is earlier in the year prior to rates heading north so we'll need to see the data in the next few quarters to see how the rates have made an impact from here. The larger issue is likely foreclosures now hitting the streets. Since Connecticut is a judge state, meaning the judge needs to approve a foreclosure, they're now finally hitting the market in large numbers. States like Florida and Arizona and Nevada had foreclosures hitting years ago and their markets fell hard at the time. Our market has fallen of course in the past few years but that is without a monster foreclosure pipeline. Now that the wheels of the legal system are finally turning out foreclosures in large quantity, we're seeing a substantial and natural hit to the real estate market.

This isn't all bad news, although the housing prices are coming down, opportunities are going up. For those able bodied and handy souls out there, there are many deals to be had now in the market if you're capable of finding a good deal, fixing it up and selling it at or a little below market prices. This is a cleansing action for the market. For those who have been living in a home in the foreclosure process without paying, the free ride is close to ending. All good things must come to an end. ☺

Canadian Comedy

Everyone loves top ten lists and our neighbor to the north is no exception. Here is a Canadian having fun with some of the worst American bad examples. This is Canada's Top Ten List of America's Stupidity.

10) Only in America ... could politicians talk about the greed of the rich at a \$35,000.00 a plate campaign fund-raising event.

9) Only in America ... could people claim that the government still discriminates against black Americans when they have a black President, a black Attorney General and roughly 20% of the federal workforce is black while only 14% of the population is black. 40+% of all federal entitlements goes to black Americans – 3X the rate that go to whites , 5X the rate that go to Hispanics!

8) Only in America ... could they have had the two people most responsible for our tax code, Timothy Geithner (the head of the Treasury Department) and Charles Rangel (who once ran the Ways and Means Committee), BOTH turn out to be tax cheats who are in favor of higher taxes.

7) Only in America ... can they have terrorists kill people in the name of Allah and have the media primarily react by fretting that Muslims might be harmed by the backlash.

6) Only in America ... would they make people who want to legally become American citizens wait for years in their home countries and pay tens of thousands of dollars for the privilege, while they discuss letting anyone who sneaks into the country illegally just 'magically' become American citizens.

5) Only in America ... could the people who believe in balancing the budget and sticking by the country's Constitution be thought of as "extremists."

4) Only in America ... could you need to present a driver's license to cash a check or buy alcohol, but not to vote.

3) Only in America ... could people demand the government investigate whether oil companies are gouging the public because the price of gas went up when the return on equity invested in a major U.S. oil company (Marathon Oil) is less than half of a company making tennis shoes (Nike).

2) Only in America ... could the government collect more tax dollars from the people than any nation in recorded history, still spend a Trillion dollars more than it has per year - for total spending of \$7-Million PER MINUTE, and complain that it doesn't have nearly enough money.

1) Only in America ... could the rich people - who pay 86% of all income taxes - be accused of not paying their "fair share" by people who don't pay any income taxes at all.

Noteworthy News!!!

- Congratulations to the Cassullo family on the completion of their new home! ☺
- Congratulations to the LaChance family on the completion of their new home! ☺
- Our condolences to the Schwartz family on the passing of Mary Sue Wilcox Schwartz, the loss of a wonderful woman, mother, sister, aunt wife and friend.
- Congratulations to Paul Thornberg on his new job with RBK Lathe! ☺
- Congratulations to Patricia George on her new job with Region 10! ☺
- Congratulations to Chris Stager on his new job with the state of CT! ☺

Question & Answer

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

Q: What is a disruptive technology?

This is the phrase of the year for sure, disruptive technology. We're hearing all about the many disruptive technologies in the world today. What a disruptive technology is, is one that changes how things are done and what people believe should happen around a given process, product or application. Disruptions happen in all sorts of areas of the world and economy, but most seem to revolve around technology.

Let's look at a few examples of disruptive technologies. LED lighting technology is disruptive. People thought incandescent bulbs were the answer, and then fluorescent became the new guy in town, but now it's clear LED's are the game changer. You see LED's in car headlights, brake lights, streetlights and everywhere now and the colors and brightness, longevity, reliability and efficiency will put these lights just about everywhere in our world. I have a true friend in LED Christmas lights, they work and one light out doesn't kill the entire string. LED TV's are now in the game and last 100,000+ hours. The disruption here is in taking out the old school bulbs, which likely won't exist in 4-5 years because of this new technology that is better in just about every way imaginable.

In the auto world truly 100% electric vehicles are disruptive. Tesla is the first true electric car company and the model S seems like a true player in the industry, winning a plethora of awards in its first run into the mainstream. Very expensive cars right now and not for everyone but perhaps a game changer in the long run. You know that this is a true challenge to the status quo as GM has a team of people researching the company and its products. They are making a lot of the components for other companies as well, such as Mercedes, Toyota, etc. Many other companies have gasoline/electric hybrid vehicles, but this is the first true all electric car company to have a product that competes with the gasoline engines. This may not be the end game in auto disruption, we've got a new GM/Toyota project going on now with full force fuel cell vehicles and that technology could be the real solution to the automotive challenges we face. Only time will tell which disruptive technology wins! ☺

Psychology of the Game (continued from page 1)

We're all made the same way and behave in similar fashions across the spectrum. We all have strengths and weaknesses and we all have certain needs. From my chair I see the many intricate behaviors of human beings and how people try to relate economic concepts and intertwine them with life, which is highly emotional and societal. Economics is mostly mathematical in nature and as long as a good proficiency in numbers is present, the rest of the process flows relatively smoothly. The complications come in where we are using the financial resources we've been entrusted with to try and alter, smooth, justify, or placate other areas of life.

I see a light shining on certain financial behaviors that scream compensation of other areas of our lives. If we are not comfortable with whom we are on the inside, no amount of earnings, spending or extravagance will ever scratch the underlying itch that we're trying to scratch. Here is a pattern I see clearly and regularly. Most of us develop through life and struggle to come into our own. Some of us are lucky and blessed enough to do well financially and hit the ball hard. What we do with those resources speaks loudly of who we are, how comfortable we are with ourselves, what we believe, what we value, and our internal makeup. Some like to live lavishly and flaunt their resources and show the world just how successful they are. They're using the financial scorecard to either determine or help determine self-worth. Some use the finances as a scorecard as a means to the game and to see if they're winning. Just as in sports you want to win (yeah I know you play for fun, but many of us want to win and will do just about anything to win) some find the scorecard of finance as the score of the game. Just like in a basketball game as a kid in high school you want to win and beat the opponent, in finances if you hit your goals you've won the game. As soon as you hit those goals you just keep raising the bar and start again in trying to win again. This is a normal piece of human behavior and explains why some people never quit and work 90 hours a week even after they've accumulated a billion dollars. Others who do well live just as they did when they were a pauper or were average, but instead choose to help others and give and help the greater good without anyone knowing what is going on.

No matter which situation you fit into, balance in life is key in this psycho race of a world we're all in. The world is complicated and I see many financially successful people have a great portfolio, a great life from the outside looking in and a lot of physical stuff. They also often have issues at home, with their kids and with other aspects of life. On the flipside we see people who are in great families and have love galore, but don't have 5 cents to rub together. The elusive component is to have balance of the many facets of life that we all need. I don't see a lot of people who are successful with their families, have solid loving relationships with spouses and kids, good businesses or careers that are rewarding, healthy spiritual lives and reasonable financial success. This balance is elusive and as our society gets more fast paced with more distractions, more activities, more competitions, and more keeping up with the Joneses mentality, it'll be harder to hit all aspects of life well. It'll never be perfect, every family, every business and person has issues, but keep on doing what you can to improve the areas of life that are weakest and in need of repair and it'll eventually help the greater good.

Money Quiz



This month's challenge is on government deficits. In 2007 the USA had an annual deficit of 161 Billion for the calendar year. A deficit is spending more than you take in during the year. What was it in 2012? Last month's quiz was won by Patty Nugent, 21% of homes purchased in the 1st quarter of 2013 nationwide were in some stage of foreclosure. 😊 Winner goes to Ruby Tuesday on us! 06/10/13:5 07/22/13/:5

Demise of Detroit

The Motor City has the now dubious distinction of being the largest municipal bankruptcy our country has ever had. They've got \$18 Billion in debts and no way to pay for it all. It'll be quite interesting to see how this process unfolds. They're looking for everyone involved in the city to take a big loss on the debts. The numbers currently being thrown around are 90% haircuts. I love the way they call that a haircut, if you were to remove 90% of someone's hair that would be more like a scalping, not a haircut. I would think a 10% loss would be a haircut.

This will not be the last municipal entity to need to do this so how this plays out legally should develop some type of playbook as to what can be done when a municipality goes through the process in the future. Right now they're looking to reduce bondholder's debt by 90%, cut pensions, health care costs privatize public services and completely change the way the city operates. This is a start to the process and they need big changes for sure to be fiscally viable. Many of the northern and coastal states and large cities are in similar but not as extremely bad fiscal shape as Detroit.

The problem is twofold, the big industry they once had, auto making, has shrunk and moved to friendlier cities and states and a large percentage of the population has moved out. This is what happens when government runs awry. Mayors and governors across the country should pay particularly close attention to the outcome of spendthrift fiscal policies. We cannot allow our towns, cities and states to run on the basis they've now been running on for decades, which is to promise payments they cannot afford way into the future.

State debt used to be considered the safest type of debt out there, since the state can always raise taxes to pay the bills when they come due. Well apparently the back of the taxpayer is broken here and now the costs of funding debt for all towns and states will likely rise as a result of this outcome. This is quite justifiable, if the debt isn't safe and the issuer can go bankrupt, even with taxing power, why should they get preferential rates? They shouldn't. This also uncovers opportunities as many bonds have been rocked, even in safe and fiscally sane places where there are no long term structural or debt problems.

Traditional business plans involve slowly building a business, getting one customer at a time, charging fair prices for your products or services and giving a great experience to the customer. Repeat enough and slowly get larger, gain new customers, reinvesting profits and growing over the decades. It normally takes at least a decade to get big and become a household name when you build a business the traditional way, sometimes many decades. This is how most of us ended up with a business or a job at a company where we work today. This is still a popular way to grow businesses but many high tech firms today have a new way. These new era businesses turn this model upside down and they start a business with no costs for customers. Yes that is correct, a business where the customer doesn't pay a dime for the product they're using.

These newfangled firms start either in a bedroom with a PC or with a bunch of people with a new idea from across the globe and some lucky ones get to start with a big injection of capital up front from an investor or Venture Capital firm. Once they create a tool, a traffic platform everyone loves, then they begin to charge for ads on that platform to pay the bills and run the business. Ads are quite valuable on these sites because of the massive traffic the platform has so many people will see/hear the ads. So many technology companies do this today and it is a winning model that nobody would have ever thought could hold water a decade ago. Think about all of the things you do on the internet with your PC or on your phone with apps, the similarities of this business plan are amazing. Let's look at a few examples that everyone knows. Google, Facebook, Pandora, Zillow, Yelp, Angies List, Realtor.com, Zillow, the list goes on and on.

When you're online and you look on the internet for information, some people are really put off by the data big companies are collecting on them and giving to governments. If you'd like to avoid any such data collections, for your search needs you can use a site called duckduckgo. They're a search engine just like any other, and they're good, and do not store any personal data so they cannot send it to the government and build a profile of you of course as it is not stored anywhere. I don't much care what they know about me, I look up economic data, stocks, sports, exercise information, cars and electronics as my main topics. I'm a really boring person to track via online behavior and interests, although the systems will know for sure I'm conservative and common sense based and can market to me appropriately, as they already do.

Years ago if I were to ask you which business model works better to build an online database? Hire the smartest people you can find and pay them a high wage to compile the database or allow people from around the world to openly edit the same database. Hire the pros of course would be our answer. Wikipedia is the open model and Microsoft Encarta is the hire the best people model. Based on the success and popularity its clear the open source platform is the superior business model. Upside down from what you'd expect! 😊

Inspirational Quotes

- You are confined only by the walls you build yourself, author unknown
- Take risks, If you win you'll be happy and if you lose you'll be wise, author unknown
- The trick is to enjoy life, don't wish away your days, hoping for better days ahead, Marjorie Pay Hinckley
- No matter how hard the past, you can always start again, Buddha
- The soul always knows how to heal itself, the trick is to silence the mind, Caroline Myss
- Always laugh when you can, It's cheap medicine, Lord Byron
- Discovery consists not in seeking new lands but in seeing with new eyes, Marcel Praust
- Hard work beats talent when talent doesn't work hard, author unknown



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

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

Khan academy is a wonderful online tool my kids use as part of their school curriculum. I use this tool as well as there is so much great stuff in there to learn and refresh from years ago. You can make an account, search topics of your choice and learn how to do things via a wonderful video instruction tutorial system. If you're not familiar with this, spend some time there and grow your mind. The site is located online at www.khanacademy.org. If you love to learn, it's worth a visit to the site to check it out. Once you're in the know introduce it to your kids and set them up with some type of curriculum that goes along with what they're learning in school. This is a tool to learn all about many subjects, with wonderful instructional videos on topics ranging from math to physics to economics to humanities to test preparation. Where was this stuff when I was a kid? 😊

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

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- Nancy
- Andrea
- Michele
- Nick
- Betsy
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