

## Calls Galore

It's been three years since the new health care law was passed, but now it's just beginning to take shape on Main Street in the USA where people can feel the impact. Up to this point the changes were tiny and helpful; you could keep kids on your plan until age 26 and a few other small changes, but nothing like what we're seeing now. I'm blown away at how many calls and emails I've received on this new plan as of October 1<sup>st</sup>. They call it the Affordable Care Act (ACA) but that must be named sarcastically as it's anything but.

Of all of my phone calls and emails (70-80 conversations) from people we help who were impacted there were three main pain points:

- My plan was cancelled (ours was too so you're not alone)
- My doc is no longer taking my plan, this is true across the board for almost all plans and companies, not just the "cut rate" plans as the talking heads are preaching. Quality plans such as Anthem, CT Care, Aetna, Cigna, etc. have much smaller networks within the new plans under the ACA
- My price went up 50%, 100%, 150%, 200%, etc. (Ours went up 78%) and of all of the communications we've had with our people, only one had a better price going into 2014 than they had in 2013.

To say this behemoth was misrepresented is a gross understatement. It's not mathematically possible for this thing to work as it is laid out today so it will change drastically in time, it's just a matter of will they do the right thing up front or will it fail under its own weight and then get the necessary changes to make it work economically. The old system wasn't perfect, far from it and we needed some changes. We certainly have change folks!

Let's look a little deeper into this thing and see what we find. The great news is that anyone can now buy insurance, regardless of health and or pre-existing conditions. We needed this the most, we saw many people who were hurt badly by losing their insurance and not being able or knowing where to buy another. States had plans for those with preexisting medical issues, but it wasn't well publicized. We've steered many people to those plans over the years, protecting them from large bills. (Cont'd Pg 2)

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## The Black Box

The black box is arguably the most important thing in an airplane should a crash occur. The data retrieved from this little gem is priceless. It records all of the things happening in the plane up to impact. Now investigators can determine where the plane was, how fast it was going, altitude, conversations between the pilot and co-pilot, etc. These little black boxes have changed the way aviation takes place and has made it much safer for all of us who like to enjoy the entire globe at any time we so desire.

The real name for the black box is the Flight Data Recorder and how it does what it does is truly amazing. Think about the physics of an airliner. They often fly at (30 – 40k feet above the ground, that's about 8 miles up), are traveling at 400 – 550 miles per hour and can cross the country in about 5 hours. If anything mechanical causes failure, the 3-4 redundant systems of every mechanical piece of the airplane are meant to provide back up and back up of the back-up, etc. If the 3-4 redundant systems all fail in one mechanical system then we have a problem. This would be the hydraulic wing flaps fail so the backup set is kicked in. If the backup set fails the 2<sup>nd</sup> redundant backup set kick in. Some planes have 4 backup systems but no matter how we look at it, this is an incredibly well engineered and safe machine. If there is a monumental failure such as a wing breaking off, then we've got equal trouble as in all redundant mechanical systems failing. Should it come to this, and it rarely does, the plane is going to land and perhaps not on the wheels.

The comical part of the black box is it is not black at all, it's painted bright orange nothing on it is black except the writing on the unit. The paint on this unit is heat resistant and the unit is typically installed on the rear of the plane as that is the place it is most likely to survive a violent crash. The data recorded in this unit is often invaluable in determining the cause of the crash or at least pointing to contributing factors. These amazing little boxes are able to withstand a force of 3400 G's for a period of 6.5 milliseconds. A "G" is the force of gravity and a serious amusement park ride may have a G force of 5-6 so this is capable of handling some serious forces.

I love the black box and I'm very happy it is in every commercial aircraft in America. Not all countries require the box, but we do. Now the safety we experiencing flying are in large part due to the black box and what the engineers have learned from the contents of the recordings. Over time, we've changed a lot of the systems in airplanes because of what was learned from crashes. We've got these 3-4 redundant systems because of the black box recordings of history. The problem with plane crashes is there are no fender benders when your airplane hits the ground if it doesn't land on the wheels. We all see the news highlights of a fiery plane crash and we just hope for survivors. (Cont'd Pg 3)

There are many changes that are happening in health care that few realize today. I'll concentrate this conversation on CT only for now, but this will give you an idea of how the new game is currently being played. I will also focus on Anthem as it has historically been regarded as the best insurer locally.

The old world was such that if you had Anthem, you had Anthem, end of story. It was all mostly the same and all quality across the various products and platforms was similar in many ways with different tweaks depending on where you bought your plan, through an employer, union, on your own, etc.

Now the plans are drastically different across two distinct platforms, one being plans sold on the exchanges, and the other being outside of the exchanges. The plans sold through exchanges have much smaller local networks, and locally St. Francis Hospital, arguably one of CT's best on any level, isn't accepting any exchange insurance plans. They're still on any Anthem plan that is non exchange, but they've opted out of the exchange plans as the reimbursements are not far above Medicaid levels and it would really hurt the hospital financially to have an even larger pool of Medicaid level patients in the system. As of this moment, Yale is accepting exchange plans, we'll see if this lasts, but it doesn't look promising at this point. UCONN's John Demsey Hospital is on the exchange plans and that looks solid moving forward as they're a state institution. This is also true for many top notch medical centers across the country opting out of the exchange plans, especially specialty institutions such as Mt Saini, Sloan Kettering, Mayo Clinic, Hopkins, Cedars Saini, etc.

The non-exchange plans now have networks that are limited to the geography where you live. If you're traveling you can always have emergency protection while on vacation etc. but if you live in two separate places the new system is forcing you into an exchange plan, because the network although smaller on a local level, is regional and national. The gain is the national network, but the loss is specialty and high quality care.

If you apply online and qualify for a subsidy, they're going to steer you to a Medicaid equivalent plan with no options of going to a "normal" plan. There is a lot to know about this new health insurance world so ask a lot of questions before you jump in head first.

Local docs are also in a tough spot as they wrestle with accepting the exchange plans or not. We're seeing a lot of offices still not knowing what the reimbursement rates will be; we recently had one group get informed they'll receive 136% of Medicare reimbursement rates. That's okay, but as we dug into that conversation we quickly realized people who are on this particular platform had an old plan with \$5.00 copays and they're not used to paying anything close to retail for medical care. With the new deductible of the exchange plan now at \$6500.00, the office needs to now decide if they can afford to be in the collections business if these people cannot afford the deductibles even if they can afford the plans with the subsidies. That's the biggest problem, the new plans have much higher deductibles than what they're replacing and have higher premiums so the promise of we'll make health care more affordable was indeed a fallacy. It's a start, but there is a long way to go before we have a healthy, logical health care system.

Bitcoin is big talk around the water fountain these days for sure. What exactly is Bitcoin? This is a digital peer to peer payment processing system as well as an alternative currency in the world today. Think of the peer to peer payment as an equivalent of Paypal or Western Union and the alternative currency as an alternative to the dollar, the euro, the yen, etc.

When used as a payment alternative it works like any other form of payment but the process is typically less expensive than the 2-3% typically imposed by credit card processors. When used as a currency, it is an alternative to any other legal currency's but is being challenged and attempted to be regulated by governments around the world.

This concept was born in 2009 and since inception the value of Bitcoin as a currency has appreciated rapidly. Folks are concerned that the value of their home currency will soon be worthless with government's printing money like mad across the globe, and this has gained some traction in recent years as an alternative tool to transact business.

Bitcoin is also known to be used often in illegal activities. Earlier in the year the FBI shut down a firm called Silk Road, an online black market and seized almost 30 million worth of Bitcoin from the bad guys. Recently there have also been some high profile legal uses of Bitcoin. A man recently bought a new Tesla Model S car and paid with Bitcoin, a transaction worth more than \$100,000.00. Fidelity recently decided to allow Bitcoins in their accounts, but changed their mind after just 2 days of access. There are growing networks of businesses that will accept this alternative currency.

The alternative currency angle is logical in places like Argentina where the government is nationalized everything that isn't nailed down. Nationalizing refers to taking over industries from private individuals and private businesses. This happens when a government is at the end of its rope and things are getting really ugly. That country is under such stress that Bitcoin trade at a 30% premium there to global markets. In places where there is stability like here or Europe an alternative currency is less useful. Fears are running high today that the dollar will lose its status as the reserve currency and that may happen. You could consider the Cyprus confiscation of bank deposits earlier this year a form of nationalization, but not of an industry, just of people's cash. There are talks of a one-time wealth tax in many developed countries as a way to get their budget imbalances in order.

Bitcoins are stored in a digital wallet on your computer or phone. There is no real life hard asset. Fees are lower than credit cards no middle man institution such as a bank is needed to transfer them from one person to another. There are a limited number of Bitcoins created, so unlike dollars or euros central banks cannot go crazy in printing them. There is no Bitcoin bank, so be careful here. There is a story of a guy who threw away his PC and it had some Bitcoins he bought when they first come out. In doing the math, he realized they were now worth over \$9 million. There is no way to recover them and that experience isn't likely to be repeated of getting an insane gain like that pretty much just by getting lucky. Many of the fears surrounding the dollar are overblown. We may lose our reserve currency status, but the greenback isn't going anywhere anytime soon.

- Congratulations to Randee Majka on her recent retirement! 😊

## Question & Answer

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

*Q: What does "Chasing Performance" refer to in investment terms?*

Chasing performance is where people buy "investments" that are currently doing well and have a high price **in the hope that they'll continue to do so and they can later be sold at an even higher price** in the future. This is also referred to as momentum, or "momo" investing. The current environment is very much one of chasing performance. This is the exact opposite of "value" investing where one tries to buy investments that are seriously undervalued for whatever reason and hold those assets until they reach full valuation or even close to it, then sell the assets and reap the rewards. There is no real value in the investment landscape today, it's more a function of things are moving up, despite serious economic issues, and people are temporarily euphoric so more and more people are piling into this already crowded trade.

Here are a few recent examples of chasing performance that most should remember:

- Internet stocks in 1999 when anything had a .com on the end of it there was suddenly a valuation attached to it that was not justifiable by any financial metric related to the company's earnings capacity. (we're seeing a lot of this today as well, but it's not limited to just tech stocks)
- Real estate in 2006 when people felt it could only go up in value and mortgages were available to anyone who could fog the mirror. We all knew this was a train wreck, but we didn't know that mess was closely linked to credit default swaps that just about took the economy down with it.
- Gold in just the past few years when it ran up in price to levels not seen since 1980. As that was happening think about how many commercials you were hit with to buy gold, put your money in gold and the plethora of gold shops looking to buy your gold from you.

Chasing performance is a very dangerous game because you're paying high prices for whatever it is you're chasing. We're value investors where we require a margin of safety to justify risking our capital. Today the world is chasing performance so it's very important to understand this concept.

Many times there are miraculous survivors who lived through a crash that subjected their body to 100 or more "G"'s.

I'd assume we are all big fans of the black box in the airplane and agree it helped us all greatly as individuals and as a society.

Now we move into our cars. There are black boxes in your cars. Yes, that is not a misprint, there are black boxes in your cars and the government wants to mandate all cars sold in **America** have a black box in them beginning Sept 2014. If your car is built in the past few years, it's got a black box. Those in cars are called "Event Data Recorders (EDR's) and not all of them work just yet. These boxes wouldn't record video or audio information so if you're fighting with your wife nobody would know. I don't think the society will be so universally accepting of this technology, but let's look at the pros and cons of such a system should it unfold here.

One big drawback would be privacy of course. The black box would know where you are at all times, how fast you're going, where you've been, etc. The good news is that if you had an accident, you'd easily be found as long as you were still in or near your car. If a crash is detected, emergency services could be automatically dispatched. IF the crash happened, the data recorded, such as speed, engine RPM, accelerator pedal position, brake use, safety belt status, air bag deployment time, etc. would be helpful in determining how it happened. This data coupled with the driver and eye witness accounts would lead to better machines in the future.

Insurers would love this as they would now know exactly how fast you drive, how far you drive, where you go and what you do and could set rates that are far more accurate than the rates we have today. I would hate this as speeding is about the only rule I don't abide by.

We don't have a disclosure from the manufacturer showing exactly what the box would record, how it is stored, how long it is stored or how it is transmitted to others. These are pretty important ingredients we need to know about before we can make an informed decision about whether we want one in our car or not. We should be concerned with who can get access to this data. I would love for the data to be mine and only mine to share with who I please. I wouldn't like the data to be given to my insurance company or the police. They'd have a field day with me and my lead foot. I don't mind the government having it, I'm a pitifully boring person and they can know exactly where I go as long they don't record my speed! 😊 I would love for my auto mechanic to have access to this data. It would make his life a lot easier in determining what is wrong with my car when I bring it in for service.

What we don't realize is when we have a smartphone a lot of this data is already being recorded about us location wise. If your phone is in the car a lot of the data is already being transmitted. There will be more and more data on each of us moving forward in our electronic age. My take of the car black box is it has a lot of cool functions and a few that are too intrusive for me. I never have a new car, but when either of ours brakes down beyond repair this will be a consideration in our next car decision. If I can control who has the data I'm all for it. If the insurance company or the radar trap can get my data I'll be driving around in a restored 1957 Chevy convertible or some other cool car with character that doesn't have such a "toy" within. 😊

### Money Quiz

This month's challenge is to tell us the total amount of college debt as of 9/30/13 and the current delinquency rate? How are we doing as a nation in educating our future leaders? Last month's quiz was won by Luigi Paganini, total credit card debt in the US was \$849 billion on 8/31/13, down 17% from 2008. © Winner goes to Ruby Tuesday on us! 11/25/13:9

### Detroit Bankruptcy

This is sad news to see the Motor City in a position where it has its back up against the ropes. A lot of really great rides were designed and built here in the decades where America was the king of cars. Being a car nut, it really hurts to see it going this way. Too many years of relying on just one industry and an accumulation of promises and loans that just cannot be repaid, is where we find the once great - great Motor City.

If you're looking for a deal on a piece of real estate, you can buy homes there for 5k. The city has lost almost 70% of its residents in the past few decades and there are entire areas where there are no street lights, no water service and no emergency services. Buildings are empty and run-down, talks of making parks out of these deserted are in the works for many areas. This is a logical conclusion and would make it a much more attractive place to be rather than looking at deserted homes and buildings of all types.

In the magical era of the 50's & 60's the cars coming out of Detroit were the best in the world. The global car heat map wasn't a factor and what they were doing in Japan, Germany, Italy or anywhere else didn't matter from a car perspective one bit. Then the 70's came along and the world global marketplace became a real issue. That coupled with the gas shortage and suddenly Americans were looking for cars that were good on gas and muscle cars were not on that list. This was the first hole penetrating the armor of old Detroit auto monopoly. There was a period where Detroit made just junk, but now it's come full circle and we've got really competitive rides coming out in every category from the Big 3 automakers.

What really to watch as this process unfolds, is not the cars coming out of the city, but how the pensions of retired city workers are treated legally. All types of numbers are being thrown around, but the judge has decided that pensions are susceptible to reduction through this process and now it's just a matter of how much. We believe the outcome of this will become a template of how cities and states deal with this problem moving forward. His problem is really extreme in Detroit with the city in ruins, but the pension aspect of this problem is happening all over the country. Pensions have been promised that may not be payable just because the town or state has made promises far beyond what the math supports. We'll be watching closes to see how this plays out.

Most times when you think of buying shares, it's of an investment of some sort. It is quite common to buy shares of a company in stock, but shares of a mutual fund, shares of an ETF, etc. Now we have the investing concept being stretched to the nth degree and they're trying to get you to invest in people. Not the company a person is running, but the actual person him or herself. Crazy, yes, but leave it to people, they come up with all kinds of things, some great and some just ludicrous.

They're calling this most recent scheme a "tracking stock" and it is supposed to track the value of the athlete. Fantex is the company starting this virtual market in shares of people, or the brand of the pro athlete. These shares will be real in that they are legal, but how much of an actual market will exist for this is questionable at best.

This looks a lot like fantasy sports with a big potential payday to me. I'm always blown away at fantasy sports. Growing up a sports-aholic, now a lot of my buddies from my youth still are sports fanatics. I'm now more interested in my kids and the markets but that is not true for a lot of my buddies. They're still knee deep in sports, some work for ESPN, they know a lot, maybe everything, about athletes today and their teams. They compete in fantasy sports leagues and spend a ton of time in following who is who and who does what, who wins, who loses, who has the best statistics, etc. I always viewed this hobby or sport as very similar to the stock market but just on paper for athletes, with no real payoff. If someone wins a fantasy sports league they can win a few bucks, but nothing huge. The biggest fantasy sports payoff I've ever seen was a few thousand dollars. I know there are "big time" online sites where payouts can be much larger. Bottom line is for the amount of time spent knowing and learning the players, it always seemed to be a better use of my time to know the players in stock market. There the payoffs are unlimited and I can share the knowledge of what companies will be winners or will grow with those who have entrusted us to help them.

The way this sports investment works is this. Let's say you wanted to buy shares in Kobe Bryant. Fantax may be offering a "Kobe Bryant Fantax Series Tracking Stock" and raise \$10 million dollars. Then they split this up into 1million \$10.00 per share units. They break up the money by giving most of the money to Kobe. Fantax gets a fee for underwriting the deal and now the shares trade. In exchange for the cash, Kobe forks over 20% of his future earnings from everything he does. Play sports, ads, endorsements, etc. For the athlete this may be the biggest decision of their lives. With the athlete now owning 80% of the shares of his or her namesake, it certainly gives them incentive to be the best they can be. It is insurance for the athlete as well, if they subsequently get injured, it's a really nice payout up front. For the investor, it's a monster gamble in a very new and unproven marketplace. I wouldn't go anywhere near this until it develops into a real market with proven liquidity and values. If this does come to fruition and becomes real, those with the knowledge of sports and those able to kill it in fantasy leagues may be able to take that skill and kill it on the investment arena in sports shares. Many in sports are awesome people who are grossly underpaid, coaches especially. This could allow them to use their knowledge and profit handsomely.

## Inspirational Quotes

- If one advances confidently in the direction of his dreams, and endeavors to live the life which he has imagined, he will meet with success unexpected in common hours, Henry David Thoreau
- People will forget what you said, but people will never forget how you made them **feel**, Maya Angelou
- When you want to succeed as much as you want to breathe, then you'll be successful, author unknown
- Mind is everything. Every thought you create manifests itself in real world; if you didn't achieve something you strive for, you simply didn't believe in it enough, Mario Novak
- Live so that when your children think of fairness, caring, and integrity, they think of you, J. Jackson Brown, Jr.
- People often say that motivation doesn't last. Well, neither does bathing, that is why we recommend it daily, Zig Ziglar



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

## Kids Korner

This month we're going to share some great quotes that kids could use:

- Do not regret growing older, it's a privilege denied to many.
- Spending **time with children is more important than spending money on children**, Anthony Williams
- Putting your phone away and paying attention to those talking to you – there's an App for that, it's called RESPECT!
- Take care of your thoughts when you are alone and take care of your words when you are with people.
- I don't have time to worry about who doesn't like me, I'm too busy loving the people who love me
- When you try to control everything, you enjoy nothing. Relax, breathe, let go and just live!

### Connecticut Directory (860) 673.1942

Mike [mike@fiscalwisdom.com](mailto:mike@fiscalwisdom.com)  
Andrea [andrea@fiscalwisdom.com](mailto:andrea@fiscalwisdom.com)  
Michele [michele@fiscalwisdom.com](mailto:michele@fiscalwisdom.com)  
Nick [nick@fiscalwisdom.com](mailto:nick@fiscalwisdom.com)  
Betsy [betsy@fiscalwisdom.com](mailto:betsy@fiscalwisdom.com)  
Maureen [maureen@fiscalwisdom.com](mailto:maureen@fiscalwisdom.com)

### New York Directory (315) 682.0348

Mark [mark@fiscalwisdom.com](mailto:mark@fiscalwisdom.com)  
Larry [larry@fiscalwisdom.com](mailto:larry@fiscalwisdom.com)  
Josh [josh@fiscalwisdom.com](mailto:josh@fiscalwisdom.com)  
Jackie [jackie@fiscalwisdom.com](mailto:jackie@fiscalwisdom.com)  
Tom [tom@fiscalwisdom.com](mailto:tom@fiscalwisdom.com)

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Visit us online at [www.fiscalwisdom.com](http://www.fiscalwisdom.com)

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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## Mike Chadwick's Money Matters

15 New Britain Avenue. Unionville, CT 06085  
860.673.1942  
Torrington. CT . Manlius. NY

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