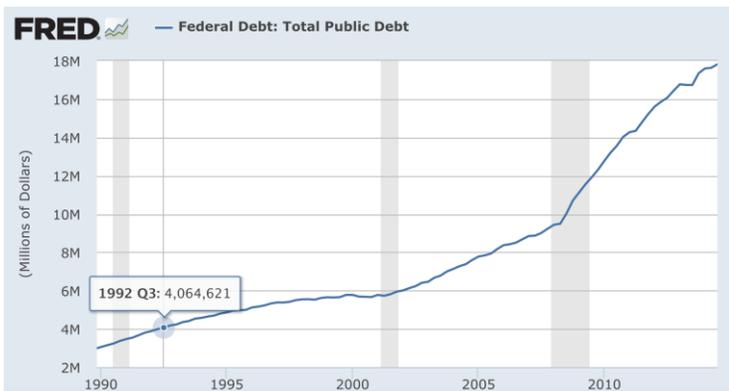


Debt & Leverage

These concepts seem identical but they're not and it's very important to understand the difference between them. Debt is simply a loan where one has borrowed from another. The way we all think about debt that is normal, well-adjusted adults, is that when you have a debt you must pay it back, but governments don't think that way. In fact, many government economists across the world today believe, quite sadly, that the debts of government shouldn't ever be paid back, ever, they should simply be serviced. Servicing debt means just paying the current interest due on the debt for the current year and leaving the balance to continue indefinitely. Since governments spend more than they receive through taxation, the debts continue to rise, lately at an exponential level. Here is the graph of America's debt levels in the past 25 years.



As you can see, in the past six years the national debt has doubled. Hard to believe it took from 1776 to 2009 to accumulate 8 Trillion in debt, that is over 200 years, but in just six years the collective geniuses running our country have doubled the debt load for us and future generations.

Debt is real and does need to be paid off eventually but leverage is essentially compound debt. If you pay off your debt then it eventually goes away and you can start with a clean slate. (Continued on page 2)

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3. Noteworthy News;? & Answer; Going South(cont'd)
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Going South

Here is a trend we see only growing as time unfolds. Not only is the weather better in the south and the cost of living lower, but when the northern states attempt to tax working people without end, it forces people to make tough decisions to leave families, hometowns and loved ones for economic security and fiscal sanity. We're a great state in many ways, but the people running the show are completely out of touch with what people are going through on a daily basis.

Connecticut just passed a 2+ billion dollar tax increase to close a monster budget hole we didn't have a few months ago during the election season. Our governor ran on a platform of no new taxes and this is the second time in last several years he's orchestrated the two largest tax increases in state history. Someone needs to put a minimum math aptitude standard for anyone who wants to hold public office. There should also be a common sense standard as well for all elected official. Buffet had a great idea in that all public officials should be ineligible for reelection to any post if the entity they're governing isn't in a financial surplus position. This will quickly change how the political class spends our money and bring fiscal sanity to the mix. The old quote of what is the difference between a drunk and a politician is that the drunk spends his or her own money while the politician spends ours is very true.

Southern states have been attracting northern people and especially retirees for decades and that trend is only accelerating. The most persuasive evidence is the strong and persistent inflow of Americans to the South. The South still attracts the most domestic migrants of any U.S. region, period. Last year the south boasted six of the top eight states in terms of net domestic migration — Texas, Florida, North Carolina, Tennessee, South Carolina and Georgia. Texas and Florida alone gained 250,000 net migrants. The top five loser states were deep blue New York, Connecticut, Illinois, New Jersey and California.

Southern dominance doesn't seem like a reality today the way many make fun of the south, the slang, the education levels, etc. but this may be changing quickly. Look at some of these details of how our country is unfolding and this may change your perception of the south. In the 1950's the south, the Midwest and the northeast had about the same populations. Today the south has the same population as the Midwest and northeast combined! Another important statistic is how the different states are nourishing families.

Southern Migration, continued on page 3

Debt & Leverage (cont'd from pg 1)

If you do not pay down your debt then it stagnates and just sits there. If you don't pay down your debt and you continuously accumulate more of it, then it grows exponentially. This is where we are today as a society both federally and many states and towns.

Most people have debt from time to time but we pay it off and then start over. Think about how it works when you buy large ticket items like cars, homes and educations. You buy a car and if you're not paying cash you get a loan for 3, 4 or 5 years (some go 8 years now, please don't do that) and then the loan is finally paid off and you hopefully drive that car for a long time while it's paid off and get some serious value out of it. At any given time they're financed for a period of time, paid off and the cycle starts again. Whenever that cycle fails to unfold like that, borrow – repay – borrow again, we have a problem as simple debts accumulate into serious leverage. That looks like borrow, don't pay back, borrow more, don't pay back, borrow more, don't pay back, etc. This process has debt levels continuously grow against an underlying asset or GDP in this case when it comes to governments. This is what governments across the world are doing today and it's all accepted by everyone. [Complete Lunacy is what is going on today in the world of finance!](#) We'll look back on this era in the history books and wonder how on earth did we ever get here and how was it allowed, who tricked everyone into drinking the Cool Aid?

The last time we saw leverage in action was Lehman Brothers & AIG in 2008 and 2009. We saw it in General Motors during a similar time frame. We'll see it again in a theater near you in the not too distant future.

When we had the great recession in 2009 things were bad and scary but it was consumers and businesses behaving badly and irresponsibly so when the scary time came government stepped in and smoothed things over so we could gain confidence in the system again and move forward.

This time we have businesses and consumers doing a better job of paying down debt and trying to save but it's tough, incomes have stagnated and the costs of things are going up quickly in many sectors. Government insanity rules the roost today and the collective planet has temporarily accepted more and more debt as a substitution for a healthy and growing economy. When the faith in the central bankers and the global debt bubble fades, there will be no easy fix as leverage will have raised its ugly head and there is nobody to bail out governments. In the end, countries will go bankrupt over this behavior and we currently see Greece as the first one to go down this road. Greece is a very small country so it will likely be a nonevent when it finally comes as it's been brewing for years, but how Japan, China, Italy or Portugal or another sizable country will fare is likely a far different story. When the first domino goes, it'll be just a matter of time before they all start to go. Be smart, don't chase the crowd and be very diligent in what you pay for investments.

Options Decay

Financial decay can be somewhat confusing so let's start this conversation with dental decay which is far simpler. Teeth are supposed to be very hard and when your dentist pushes and prods at them with her metal pick they should simply bounce off if all is well in tooth land. When you feel the soft spot and don't hear the ping noise when the tool hits your tooth you know the unwanted has come, the tooth has decayed. The question now is the fix going to be a simple cavity or are we talking root canal or perhaps extraction and implant! ☺

It can easily be fixed if it's in your mouth but financially it's a different story. If the investment world decay only comes into play with investments that have a certain shelf life. Stocks don't have decay, you can own the stock for as long as it's publicly traded and profitable and even if a stock goes down a lot, it's capable of coming back and going way above where it started in just a few months.

Bonds mature but when they mature you get all of your principal back so the loan is over and hopefully you didn't pay too much for the bond because when it matures you only get par value, typically \$1000.00. Today's world is crazy, many bonds are trading for a 20-30% premium to par so be very careful what you buy today and pay close attention to the prices you're paying for things, everything. Investing should be just like consumer shopping, don't overpay for anything and its funny how people can be great consumers but horrible investors. People want to get a good deal on anything they buy such as a car, clothing or even a TV. When it comes to investing people seem to want to pay more for the things they're buying, hence emotion comes into play in the equation.

Decay comes into play big time when it comes to investments in securities that expire. The regulatory rules are so extreme today that I cannot write an easy to understand pieces on how some investments have set times that they must be exercised or expire worthless. We're now prohibited from putting together an educational article on financial things you really should know about because of the laws surrounding our industry. It's okay for any politician to get on national television and outright lie to everyone but we cannot educate you. The next best step is to point you in right direction. We do have some websites we can point you to that'll do a great job of explaining in detail how these contracts work, but it will not be simple, entertaining or sarcastic as we try to be.

The best information comes right from the horse's mouth and it can be found here:

<http://www.cboe.com/learncenter/default.aspx>

<http://www.cboe.com/learncenter/courses.aspx>

<http://www.cmegroup.com/education/>

Noteworthy News!!!

- Congratulations to Tom Schittina on his recent retirement! ☺
- Congratulations to Nicole Morris on her new job! ☺
- Our condolences to the Fuller family on the passing of Frank, a wonderful man, father, husband, uncle, brother, son, friend and man.
- Congratulations to Marge Pinet on her honorary doctorate from Cazenovia College! ☺

Question & Answer

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

Q: Why is there all of this talk about society going cashless?

The simple answer is because government is getting more and more power, they're basically broke and they love the nanny state. The idea is to simply outlaw cash and force everyone to do business electronically with debit cards, credit cards, mobile phones and other electronic payment systems as there are many today. I couldn't fathom a cashless society even though I live a mostly cashless life for the most part. I enjoy using the credit card for everything as I pay it off each month and earn cash back from every purchase as well as other perks from the bank. Those who don't have the habits I do may find themselves on the other end of this equation and paying handsomely for the privilege of using plastic.

How would the tag sale work if we had a cashless society? How would people buy lunch or the newspaper, how would a lot of things happen if that were to play out?

Central banks across the globe would love a cashless society as they'd have even more control over markets and money. Peter Bofinger of the German central bank has recently called for the abolition of cash and he claims coins and notes are an anachronism. (I didn't know what that meant either, but it means a thing belonging to a different time period) The book 1984 seemed outrageous at the time but in today's world a place such as the ministry of love doesn't seem out of the question.

We've had a lot of noise about cashless countries lately, mostly from places where they're in fiscal straights and politicians are hoping to take whatever cash they can out of the system in an effort to find more tax. It's comical how politicians are trying to slowly and steadily call taxes revenues and many are buying into it. Let's be a little smarter than that as revenue is defined as income that a company received from its normal business activities, typically from the sales of goods and services to consumers.

For government to call taxes revenues is really a fallacy. I don't know anyone who volunteers to do business with government but if they don't they're quickly going to find out who is in charge. We all do what the government says mostly because we don't want to get in any trouble and it's nice when what they're doing is truly correct and not something foolish based on an agenda.

Going South (cont'd from page 1)

Unlike the Great Lakes states, the Northeast and California. Texas has increased its under age 10 population by over 17% over the past decade; all the former confederate states, outside of Katrina-ravaged Mississippi and Louisiana, gained between 5% and 10% during that same time frame. On the not loving families so much side, under 10 populations declined in Illinois, Michigan, New York, Connecticut and California. Houston, Austin, Dallas, Charlotte, Nashville, Louisville, Atlanta and Raleigh also saw their child population's rise by at least twice the 10% rate of the rest of the country over the past decade while New York, Los Angeles, San Francisco, Boston and Chicago areas experienced declines.

Why are people moving to what the media tends to see as a redneck haven? It's the economic situation, the good old show me the money! Growth in the South has outpaced the rest of the country for a generation and the area now constitutes by far the largest economic region in the country. A recent analysis by Trulia projects the edge will widen in the rest of this decade, sparked by such factors as lower costs, more common sense laws and warmer weather.

But some of this comes as a result of conscious policy. With their history of poverty and underdevelopment, Southern states are motivated to be business friendly. They generally have lower taxes, and less stringent regulations as compared to their primary competitors in the Northeast or on the West Coast. Indeed this year the four best states for business, according to CEO Magazine, were Texas, Florida, North Carolina and Tennessee. They are also much less unionized and provide a much lower cost of living, an important factor for foreign and expanding domestic firms.

Despite a tough time in the Great Recession, overall unemployment in the southern region now is less than in either the West or the Northeast. As manufacturing has fully recovered and is clearly in new growth territory, employment has rebounded quicker in the Southeast than in the rival Great Lakes, west coast or Northeast regions.

In the long run some critics suggest that the region's historically lower education levels ensure that it will remain behind. We've seen people move back north after seeing education in some areas! Every state in the Southeast falls below the national average of the percentage of residents aged 25 and older with a bachelor's degree.

It appears the education gap is shrinking. Over the past decade, the number of college graduates in Austin and Charlotte grew by a remarkable 50%; Baton Rouge, Nashville, Houston, Tampa, Dallas and Atlanta all expanded their educated populations by 35% or more. This easily eclipsed the performance of such "brain center" metropolitan areas as Los Angeles, New York, San Francisco or Chicago. Then there's the question of critical mass; Atlanta alone added more than 300,000 residents with bachelor's degrees over the past decade, more than Philadelphia and Miami and almost 70,000 more than Boston. The south has merit for sure! ☺

Money Quiz



This month's challenge is on health care, how much more, expressed as a percentage, do we spend on health care per capita against Canada? Last month's quiz wasn't won, 47% of American adults would burn through their emergency savings in 90 days! Winner goes to Ruby Tuesday on us!
06/13/15:3

Will Rogerisms

Most people know good old Will as he was arguably the greatest country cowboy sages of our history. He passed in 1935 in a plane crash in Alaska with bush pilot Wiley Post. Will was 55 when he died and he came up with so many great sayings we thought it fitting to share them after we saw them compiled:

- Never slap a man who's chewing tobacco
- Never kick a cow chip on a hot day
- There are two theories to arguing with a woman, neither works
- Never miss a good chance to shut up
- Always drink upstream from the herd
- If you find yourself in a hole, stop digging
- The quickest way to double your money is to fold it in half and stick it in your pocket
- There are three kinds of men:
 - The ones who learn by reading
 - The few who learn by observation
 - The rest of them have to pee on the electric fence and find out for themselves
- Good judgement comes from experience, and a lot of that comes from bad judgement
- If you're riding ahead of the herd, take a look back every now and then to make sure it's still there
- Letting the cat outta the bag is a whole lot easier than putting it in the bag
- After eating a full bull the lion felt so good he started roaring, then a hunter came and shot him. The moral to the story is if you're full of bull keep your mouth shut
- Long ago when man cursed and beat the ground with sticks they called it witchcraft, today they call it golf
- If you don't learn to laugh at trouble, you won't have anything to laugh at when you're old
- Being young is beautiful but being old is comfortable and relaxed.

The Cardinal Investment Sin

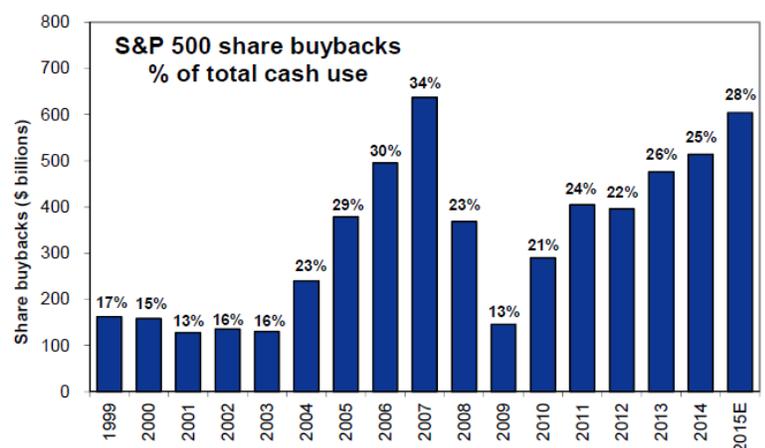
The investment business is a very illogical place in short periods of time measured in months and years. In a longer time horizon it becomes very logical but the short term distortions are amazing.

The mistake we're talking about here is not the fear of losing money which you'd think would be the big mistake but instead it's the fear of missing out. People think if they miss out on something that is happening right now they'll never have an opportunity again to partake in such activity again in their lives. The reality is that is the furthest thing from the truth as financial markets have an endless array of opportunities coming at all times and in both directions, up and down, and it's just a matter of finding something that is a great opportunity and latching onto it for a nice ride either way.

This is why we have bubbles in the markets, once a tide starts rising all want to get onboard and go for the ride. I'm a contrarian so I want to be invested when prices are in the toilet and then go for that ride and get off when the trend is still upwards. Most people are wired to latch onto something when it's well on its way up, without regard to valuation or any other financial metric. It's basically where we are in the cycle right now and have been for the past few years. People don't mind buying things high if they're going up as the assumption is they'll just keep going up and they'll be all set. This is how we created every bubble in history from the Dutch Tulip bubble to the current stock bubble we have across the globe. It doesn't only impact the average Joe, it's able to hit everyone. Look at what corporations are doing in buying back their own stock, which they tend to do at record prices, not when it's cheap. This psychology impacts not only the little guy, but the biggest and baddest corporations in the world.

This graphic from Goldman Sachs below shows you cannot deny the absurdity of buybacks at the exact wrong time. Even corporations don't want to miss out on the bubbles. We'd really expect more from government and corporate governance!

Exhibit 3: Buybacks as a percent of total cash use at highest level since 2007 as of May 28, 2015



Source: Compustat and Goldman Sachs Global Investment Research.

Inspirational Quotes

- All our dreams can come true if we have the courage to pursue them, Walt Disney
- We generally change ourselves for one of two reasons; inspiration or desperation, Jim Rohm
- Great spirits have always encountered violent opposition from mediocre minds, Albert Einstein
- The fool doth think he is wise, but the wise man knows himself to be a fool, William Shakespeare
- You cannot live your life just based on what everyone else thinks, Joyce Meyer
- We accept the love we think we deserve, Stephen Chbosky
- When you are tempted to give up, your breakthrough is probably just around the corner, Joyce Meyer
- It is not good enough to be the best in the world, one must also be the best for the world, anonymous



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

Kids Korner

A fun and important exercise with your kids is to see how strong their passwords are to their internet sites they frequent. A buddy of mine (thanks Rick!) showed me this tool a while ago and I've had fun playing with a lot of kids with this tool. The idea is to find a needle in a haystack and see just how long it would take a computer hacker to crack your password and be into your accounts, websites or wherever you go. The site is <https://www.grcom/haystack.htm>

If you send your kids there they can type in their passwords and it'll show them how quickly their likely simple passwords can be hacked. The shortest so far I've seen is 11 seconds. Let's hope their doing a better job of that at protecting their accounts and identity. It may be useful for the parents and grandparents to run through this too. ☺

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