

Global Macro Situation

This is what makes economics fun, if one can have fun in economics of course! ☺ The global situation is very intertwined today between many countries, cultures, continents and collective souls. There are of course many different types around the globe from wealthy to poor and every other mix possible. The global investor class is composed of a class of people who are actually shrinking. The fertility rates among wealthy educated cohorts in advanced economies from which the investor class is composed has begun to decline across the world. The demand for global manufacturing output among the working class of the globe has also begun to decline. You'd never know this based on prices today but the data speaks to a very different situation.

Society is moving from one based on manufactured goods to one based on digital goods and simultaneously the old school economy isn't needed as much. Of course in many instances it's needed more, but the value of tech today is far superior to the value of natural resources, services, etc. in most sectors of the world. Growth is what is lacking and of course all of the political class and the global elite push a growth story. It always makes me chuckle when a politician claims to have created jobs. The real story behind these motives by the political class and global elite is that they need growth, we don't need growth. They need growth because the developed world is so indebted growth is necessary to substation nominal asset prices, nominal liability (bond) prices and to completely avoid credit deflation. When credit deflation hits, we have price deflation and ultimately bank and portfolio troubles for the financial economy.

The individuals that comprise the economy would actually benefit from price deflation, who wouldn't want to pay a lot less for goods and services? I think we all would and it would also allow consumers to live a better life with the same income. We're all pushing income growth and paying \$15.00 for minimum wage is the complete opposite thing that we need. You'll notice the political class pushing that point to

Continued on page 2, Global Macro

INSIDE THIS ISSUE

2. Third Inning(cont'd); India's Issues
3. Noteworthy News; Junk Bonds & "Safe" Bonds
4. \$ Quiz; Seasonality; Cheap TV; Passivity
5. Inspirational Quotes; Kids Korner

College Search

We're in the midst of the college search process for our oldest princess. In our house this is a research project, a big one! We're a bit on the odd side when it comes to research and although I know the financial side of this process I'm learning a whole lot in terms of all of the other things college. The business of college today is just that, big business and I do believe its business first and education second for the industry of higher education. Many I've worked with over the years have called it the higher educational industrial complex! ☺

When you're searching for a college the best place to start is with what you're doing to be studying. There are tons of programs of study out there and many schools are good at some things and great at others. We've had thousands of conversations around this over the years and here is our take. If you have a school that specializes in something that is likely what they're good at. Some schools have token programs to attract seats in the chairs but it's not what they really do. A few examples would be Johns Hopkins is a great medical school while Springfield College is a great school for teachers and MIT is a great engineering school. Those are facts that we're not going to change. One may argue why go to Springfield College to teach as you'll make the same pay based on the grid as the gal next to you who went to Central CT State and that's a fair argument. I don't hear many saying don't go to MIT if you can get in because you'll make the same as the guy who went to Southern CT State! ☺ If a school is great at Engineering and they happen to have a film program with 35 kids in it I'd take that with a grain of salt knowing they're not committing a lot of resources to that program and we've found through experience of other families that may not be the best fit in the world. It pays to be in a place that specializes in what you want. If you don't know it may make sense to be a huge place like UCONN or UMASS or SUNY or the like where they've got so much of everything you can fish around for a year or two and find what you're passionate about and follow that lead.

Let's talk about price and how that game is played in the college game. The stated price is one thing, and for the most part you should be seated before you read the stated price on any college because they're high, really high! Some argue they're high on some type of drug when they made the prices and that's hard to argue. Now the stated price and the net price are typically two very different things for most people.

Continued on page 3, College Search

simply attempt to create price inflation. They're doing this not because it is right, but because it is the farthest thing from what they fear most, deflation.

Deflation means the political class has failed and they cannot repay their debts, as they were agreed upon, so the opposite thing is to inflate the debts away. Inflation is great for debt, horrible for the consumer and good for the government. What a messed up set up incentives that do not align for the greater good! That's for sure but it is the situation with which we currently live so we must really think through how we navigate the situation here.

When economies are working properly they economize, they work naturally to drive prices lower and become as efficient as possible and fix problems that exist for the people of the system in which they reside. When prices are driven lower by an economizing economy people enjoy a higher purchasing power and higher value of their savings. Since savings are obtained through production within an economic ecosystem, the worker has incentive to be competitive at a global wage scale of the ecosystem. Right sizing wouldn't be feared, they'd naturally gravitate towards profitability just like businesses do. When a business hits hard times it shrinks to survive and when it turns the corner it starts growing and expanding again.

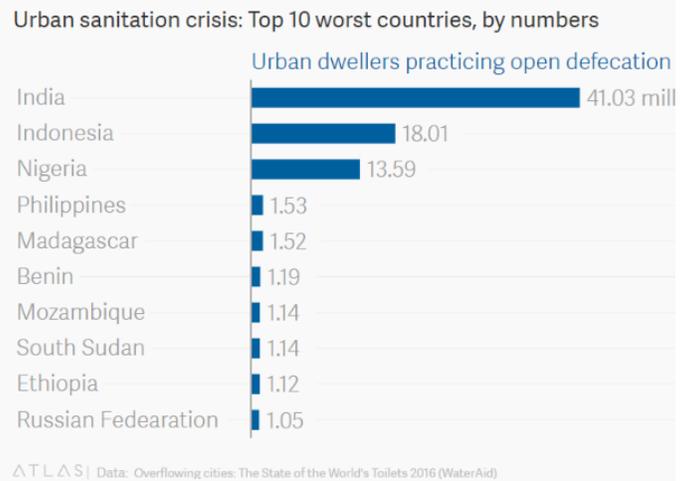
In a healthy system workers benefit from increasing productivity, innovation and automation. In today's system, we have governments taxing robots whose job is to automate simply because the government has lived beyond its means for many years and doesn't want to push the reset button so they tax things, everything for that matter. The button will be pushed and likely not on a voluntary basis but it'll be pushed nonetheless. If workers benefited from efficiency they'd live a better life and could save more, have more leisure time and have a stable life situation.

Today's system is essentially like renters reducing the value of production, and increase the value of assets by issuing unreserved credit. Now that sounds Ludacris and it is, but that is exactly what is happening to our economy today on many levels from the federal and state governments.

As we see the social unrest of our world come to our living rooms every day, what the people are mad about is how governments with their unlimited balance sheets have synthesized output growth and assumed others' liabilities into perpetuity and transferred the burden of growth from the factors of growth to those of non-productive financial statements. This creates the income gap people are so hot about and rightfully so. They're just not seeing that a higher minimum wage isn't the answer. The real answer is a return to a gold type standard where credit creation is limited by something the government cannot manipulate.

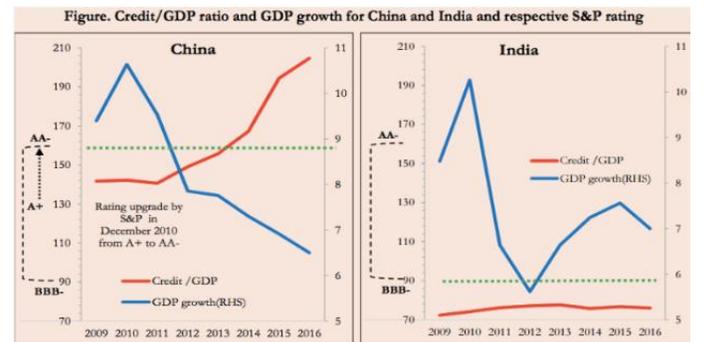
As the 10000 new baby boomers retire every day, they're consuming less and that'll have an impact on the overall GDP of our country. The young people have a very different plan on living than prior generations did, they don't look at the big house, consumption based life as one that they want, and in fact they tend to be somewhat nomadic with few possessions, often not even a car! Lots of things to weave together here, but when you do the picture becomes quite clear! ☺

The quite country with a lot of people is brutally honest when it comes to many things. It is a current high growth economy on one hand, and on the other hand it is trying to motivate its people to use the bathroom. Yes that's right, use the bathroom, there are 40 million people in India who practice "open defecation." Hard to believe but it happens in a lot of places.



Onto another note the countries chief economic advisor is in a current battle with US Ratings firms S&P & Moody's over their ratings of the country's finances. The economic boss says that the country doesn't deserve a BBB- rating and their economy is growing at almost 7%, better than Chinas yet they get a lower credit score.

Does India deserve a better rating? This is questionable and there are a lot of things that go into this but the rating agencies noted that low per capita GDP growth and high fiscal deficits contribute to their ratings decisions. Now in China they're rated AA- despite having much more debt than India. Here we can compare GDP & credit/GDP of the two highly populated countries.



This appears to be a case of India has a fair beef. They've got much less debt per capita/GDP than China and their GDP growth rate is better. The lesson here is you cannot put full faith in anything, the rating agencies are the same ones that said the mortgage backed securities that almost t30k down the housing industry in 2008 were all AAA. ☺ Use common sense, caution and valuations when making these decisions.

Noteworthy News!!!

- Congratulations to Gail Viltrakis on her new job!
- Congratulations to Rich Gallagher on his new job!
- Congratulations to Pat Loller on her new job with New Hanover Hospital. ☺
- Congratulations to the Grinvalski/Jasper families on the birth of baby Jasper Fox! ☺
- Our condolences to the Morse/Crout/Croteau families on the passing of Joesphine Morse, a wonderful woman, wife, sister, aunt, mother, person and friend.

Question & Answer

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

Q: What is the relationship between bonds and junk bonds?

Bonds are a loan to an entity, a company, a government, a person, etc. Junk bonds are also a loan but as the name implies they're risky and carry a much higher risk of default because of the finances of the underlying issuer. The junk bond world tends to move like stocks so even though the junk bonds pay a nice fat dividend, **the prices move all around in tandem with stocks.**

Bonds vary in credit quality from super high credit (US government, strong states, strong cities, strong companies) to very low credit (Greece, Italy, Portugal, some cities, towns and states fall into this category as well, etc) In general a high credit bond pays a low interest rate as the risk of default is low, while a high credit bond (junk bond) carries a high rate as the investor needs to be compensated for the risk being taken on the junky bond.

Right now high yield credit is starting to roll over, which means prices are coming down and stocks will likely follow. Junk bond prices today are as high as they've ever been, implying the risks in them are very low. This is the farthest thing from the truth and today what is actually high risk appears to be low risk. Junk bonds may have low yields, currently at 3.75%, which means the asset prices are very high because an average junk bond has a dividend payment of 8-12%. With the bond values going up, it causes the yield to go down and vice versa.

Now on the other hand, the safe stuff, the best quality bonds, are actually cheap today on a relative basis. Take long term treasuries, which now look juicy in terms of price, carry a small dividend but also act as a safe place for people to run to once the narrative that all is well and the world is fine economically wears off. This is an instance where there is a bit of sleight of hand going on and it's not just in one spot of the globe, it's everywhere. The notion that junk bonds are really "safe" is pure lunacy. The fact that prices are bid up so high today is simply a byproduct of rates being so low for so long. It'll correct and when it does then we can safely go shopping.

☺

The net price is what the family is expected to pay after all financial aid packages have been awarded. Most colleges today will offer a package of aid for **most families that contain a combination of grants, scholarships, work study and loans that are above and beyond the family's ability to pay based on the formulas. There are two formulas, the public colleges follow the FAFSA formula for EFC** while many private schools will use either the FAFSA formula or the institutional formula.

A bid debate is of course are the high end colleges worth the sticker price. That's a legitimate question and before we go there understand many times It's actually the same price if not less to send your pride of joy to a great school over a state school if you're of average financial makeup. The "great" or elite schools are typically so well-endowed they'll offer packages to admitted students (and it's quite difficult to get admitted to them) that'll make it a no brainer to send you child there as the packages offer no loans. You'll get a combination of grants and work study to graduate debt free and you'll have the high end paper that your degree is printed on to boot!

Don't get overly baited by the notion that if you go to a high end school you're automatically successful because you're not. A buddy of mine went to Dartmouth and he's a successful business man but he tells me stories of a few of his good friends who are high school teachers. Not a thing wrong with that but the cost of their educations aren't providing any real returns to them because they get paid just the same as the teacher next to them that may have done 2 years at a community college and 2 years at a state school as a commuter. He paid 200k for college and the other teacher paid 25k, their pay is equal. The value equation has a lot of factors to consider and but the students of those classes are certainly benefiting from the depth of knowledge that is brought to the table. On the other end of that conversation many have told me of the power of their alumni networks and what they've done for their careers and who they know just because of the social connections. There is value in both arguments as long as you stay balanced along the way.

After you've gone through the entire process, narrowed your choices down to a handful of schools applied and know what your net cost is after receiving the financial aid packages, then it's time to really compare the various colleges of interest and noodle it down to brass tacks. One note is that the financial aid package is just the starting point, not the ending point of the conversation. Everything is negotiable and part of the trick is to find a school that wants your child/grandchild. If they're a wanted commodity to help round out the class the college is trying to fill you'll get a lot more "incentives" to go to that school than you otherwise would.

We've partnered with a few firms to help guide families on this journey, if you or a loved one is in the middle of it feel free to reach out to us for advice and counsel. It's absolutely amazing what can be done when you know how to navigate the maze of the process. ☺

Money Quiz



This month's challenge is on big income today. In 1980 it took \$80,580 of income to rank in the top 1% of all taxpayers. What rank would that same income put you in today (2014 is the most recent data) in terms of taxpayers? Last month's quiz wasn't won. The national debt has gone from 10.267 Trillion in 09 to 19.962 Trillion today, that's a growth rate of 8.67% annually. Not a good trend! © 02/21/17:14

Television Options

Inflation is reported at being 2% or so and has been for a very long time. This obviously doesn't count a lot of the things we buy every day. Think about the costs of health insurance, food, medical care, college tuition, energy and entertainment and find me any of these things that have only gone up at 2% annually for the last 8 years.

Television costs are completely out of hand and it is causing many people to "unplug" and cancel cable and satellite dish for alternatives. I've got people telling me they're paying \$200.00 per month for cable TV or Satellite service. That's nuts! The most popular alternative would be Netflix and it seems to work just fine for \$10.00 or so per month but you lose sports and local stations and news. They've got a plethora of series and their own shows to make it well worth the price of admission.

What other options exist to save people money in this world of ludicrous television prices. There are a series of set top boxes that use life on demand streaming type service. Some of the more popular alternatives are Acorn TV, Sling TV, Hulu, Amazon Prime, Cloudload, Vudu, Stan etc. I could go on and on here but you get the idea.

Another great idea that was brought to our attention by Bob Hart is an Amazon Fire stick. This is a simple USB drive item that plugs into your computer and allows you to live stream hundreds of movies, stations, etc. for free. I mean absolute zero, nada, zip, zilch. There is some navigation required and getting used to it can be tricky but once you've got it down, Wala, it's like you are just watching plain old TV. There are subscriptions within the service as well and for \$15.99/m you can get almost all of what cable offers, including the sports and local channels and news. It's just a matter of time, the empire of Cable TV, Satellite TV and the big boys dominating the markets is coming to an end. Malone couldn't have sold Direct TV at a better time! ☺

This is a time when passive investors seem to be above average investors. Passivity implies markets will always produce positive real returns and real economic growth over all time horizons. AS illogical and preposterous as this is, it's accepted by most all across the world in this field. Does that make any sense at all? Can average be above average? By definition passive investing is simply buying an index product, which is very inexpensive, which gives you average returns as stated, it's the index which is the average. Average returns are the standards by which all others are measured. Average does not mean above average in fact in the classroom average is C and above average is anything above it. A is clearly above average, C cannot be A. what happens when C is better than A for a few years, do you think students may start to behave a little differently? Sure they will they see kids doing nothing and getting a C while they're working their butts off and getting something below a C? Yes it's how it is now in the investment world.

How can we be currently in a world where average is A and average is C in the investment landscape? A bubble is how and with prices of everything being so high it's by definition what happens in investment terms. It sounds impossible but is in quite common in times like today. The nature of people is to follow the crowd and when it's working it works spectacularly, for a while until it doesn't work anymore and then it fails spectacularly. Today is a world where all of us happy investment warriors look to find explanations as to why prices are boosted beyond reason. There are a plethora of reasons from QE, fiscal stimulus, negative rates, government spending promises of infrastructure spending, etc. None of these things have actually moved the needle on the economic underpinning of the system to justify where prices are today. The value of investment intelligence and experience is diminished in such a world.

There is a great investment saying out there that goes something like this: Everyone seems like a genius when playing on the beach until the tide goes out, then very quickly you get to see who was swimming naked and who knew what they were doing. This is akin to now with the markets behaving irrationally and being very high despite the underlying economic and debt situation, when the market cycle completes and prices come down, then the average investor will see which investment gurus are indeed gurus and which investment gurus were chumps that were simply hiding amongst the elevated prices of markets in general.

Real wealth is created by net growth of an economic system. Net growth means growth – debt is a positive number. We're in a world where debt growth is outpacing economic growth and we're spending \$4.00 to get \$1.00 in economic growth. This isn't the panacea situation the narrative is selling. Stay smart, don't follow the crowd and pay attention to valuations! ☺

Inspirational Quotes

- Not everything that can be counted counts, and not everything that counts can be counted, Albert Einstein.
- You cannot perform in a manner inconsistent with how you see yourself, Zig Ziglar
- Never stand begging for what you have the power to earn, Miguel de Cervantes
- For every minute that you are angry you lose sixty seconds of happiness, Ralph Waldo Emerson
- There is no such thing in anyone's life as an unimportant day, Alexander Woollcott
- An expert has made all of the mistakes which can be made, in a narrow field, Niels Bohr
- As soon as you trust yourself, you will know how to live, Johann Wolfgang von Goethe



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

Kids Korner

How our kids behave is often a direct result of what they see us do. It's also a component of what we say, but when our actions are incongruent with our words, they're going to pay more attention to the actions they see. We're in college search phase now and it's comical to see the kids make spreadsheets and ask a plethora of questions to anyone they see who may be a source of information. We were helping out at the chicken barbeque at church this weekend and one of the patrons who walked in had a Notre Dame hot on and Hannah instantly went up to the gentlemen to inquire about his knowledge of the school. I was elated to say the least in seeing this materialize, it's a direct combination of what we've preached forever and what she sees me doing. I'm not afraid to talk to anyone about anything and that's a good thing when you're got an inquiring mind. People want to help others and information can change everything.

I urge the kids to talk eyeball to eyeball more with people and spend less time on the dreaded cell phone, which I think isn't good for them in the long run. How about the handshake, do your kids and grandkids have a solid handshake where they look at you directly between the eyes and say hello or is it a feeble finger grab where they feel frail and look down and mumble something under their breath? These seem like little things, but they certainly go a long way in life.

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

If anyone you love or care about would benefit from receiving our newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart!

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