

How the Money Works

This sounds simple enough but for the most part people don't understand how the money works – if they did they'd behave differently than they do. Think about this – you drive downtown in any town in the world and when you get to the downtown area you'll see one business with an especially nice building, typically made of brick, marble or granite. What business owns that building? It's the bank, without exception. The home you live in is likely made out of plywood or particleboard – wood chips glued together. Why isn't your home made out of granite? You can't afford it. The only reason for this is because the bank understands how the money works. Here is main tenant: Those who understand interest collect it while those who don't pay it. Now don't jump to conclusions that all debts need to be paid off immediately – two types of debt remain good debt – home mortgage debt and student loans. They're both typically very low, fixed rate loans and are tax deductible. Very low interest rate loans are

Continued on page 2, money works

Educational Monster to Be Wary Of



I'm a big fan of education – it's one of the things you really can't have too much of. I'd put it in the same category as love, friends, family, happiness, and all of the rest of the "good stuff." Anyone affiliated with education typically has the best interests of the public good at heart. There may be a change in that and I'm talking about TIAA-CREF (Teachers Insurance and Annuity Association-College Retirement Equity Fund.) This firm has been known forever to be a great institution that helps the educators in our society and the greater good in general. This firm has had its reputation known as the champion of democracy in corporate boardrooms. In July 2005 TIAA-CREF asked its shareholders of its actively managed institutional funds to vote to approve more than a quadrupling of management fees – that's over a 400% increase and you thought oil prices went up a lot. The shareholders voted it down but then in January of this year TIAA-CREF asked for a revote and won, management fees went up. Even if shareholders didn't approve the firm had a plan to roll the old low expense funds to a new lineup of more expensive funds – to avoid that shareholders would have had to vote – again. Many people point to the fact that TIAA-CREF is a nonprofit but let me point out that the investment manager,

Continued on page 3, wrong turn

INSIDE THIS ISSUE

- 2 Progress or Pictures
- 3 Noteworthy News, Singles or Home Runs
- 4 \$ Quiz, Parent Trap, Nut Cases
- 5 Inspirational quotes, Radio Trivia

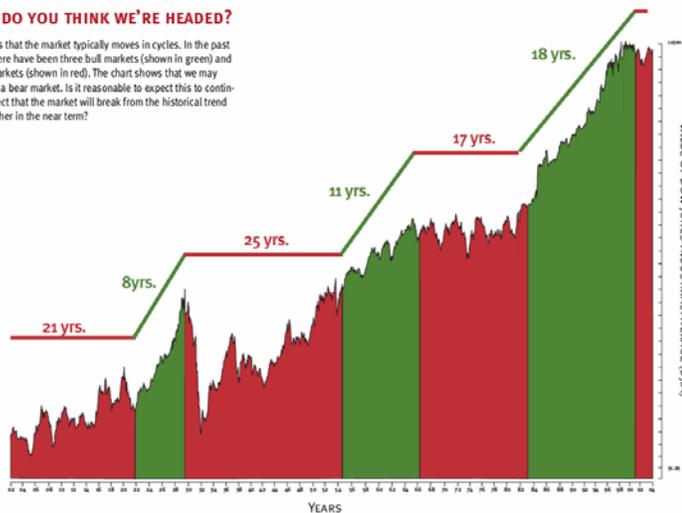
good too – auto loans, zero % financing, etc. (remember there is no such thing as zero % financing – if this is being offered the thing you’re buying is overpriced to begin with ☹) The rest of the debts in our world are bad, period. Why have a bank? That’s a good question and I advocate not using one except for loans and checking accounts. Savings at a bank is essentially an insult. I do not own a savings account. I have two checkbooks (a personal one and one for the practice) and investments – most of my money is in investments. ☺ Let’s look at Bank of America – I went to their website today (03/13/06) and noted money markets are paying 0.50% with an APY (annual percentage yield) of 0.50%. Now if you don’t meet the minimums or if you make more than three withdrawals per month you may be subject to a \$3.00 monthly maintenance fee. Lets now do some math – you deposit \$10,000 into the account and earn \$50.00 in interest for the year. If you were bad, you may have had a few months where you paid fees. Now what was 0.50% is now less. If you’d like a loan from the same bank they come in many forms and many rates - a mortgage will cost you 5-8%, a personal loan is 9-14% and a credit card loan is 16% +. The fact that they’re paying very little on deposits and charging a lot is known as the spread. I submit that the only good a bank is today is for a checking account and loans, period. If you own a business you need a good relationship with you banker to help with all of the things that happen in business but beyond that forget it. Bank of America’s return on equity (ROE) for 2004 was 16.83%, in 2003 it was 21.99% - they’re making a killing on your money. Banks don’t have a physical product, they pool the public’s money at insultingly low rates, lend it out at higher rates and make smart investments. I’m telling you to cut the bank out of the middle and do it yourself – invest wisely. I also advocate not using a huge bank, stick with local privately held banks (one local bank may not be private much longer) and credit unions as your best choice for banking. ☺

Progress or Pictures?

You’ve seen it a million times – the chart that shows over time the stock market makes gains, big gains that are better than any other asset class. I agree with that statement but submit that the gains look more like a set of stairs from the side than they look like the side of a mountain. There are periods in time where the market in general doesn’t make any real progress. As I write this, the S&P 500 is at 1260, seven years ago it was at 1245. That’s seven years of no returns. If I look at the level of the Dow Jones Industrial Average in 1982 I see 1000 – if I look at it again in 1966, I again see 1000 – that’s 14 years of no progress. There tend to be three types of investment climates – Bulls, Bears and Flat. Bull markets are like those from 1990-1999 where the stocks are charging ahead and everyone makes money. Bears are period like 2000-2002 where someone cuts the cable holding your elevator and you drop 50 floors in 2 seconds flat. The Flat markets are like the one’s I’ve described above – things are volatile in general and make no real progress over a prolonged period of time. Nobody knows what market we’re in now but look at this graph and guess for yourself.

WHERE DO YOU THINK WE’RE HEADED?

History shows that the market typically moves in cycles. In the past 100 years, there have been three bull markets (shown in green) and three bear markets (shown in red). The chart shows that we may have entered a bear market. Is it reasonable to expect this to continue, or to expect that the market will break from the historical trend and head higher in the near term?



Noteworthy News! ! !

Congratulations to Brian & Susan Sanders on their marriage – our best wishes for a long and happy life together. ☺

Congratulations to Tony Calabrese on his promotion. ☺

Our condolences to the Alvarez family on the passing of Kim, the loss of an amazing 33 year old wife, mother and soul. ☹

Singles – No Home Runs

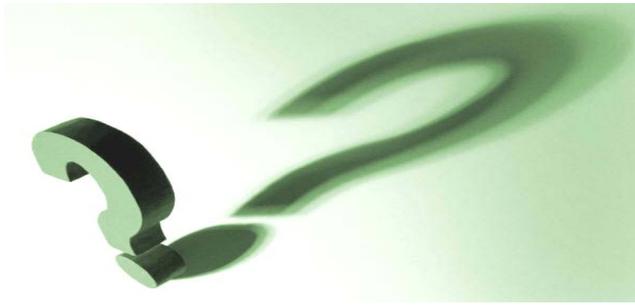
When it comes to investing I believe it makes sense to hit singles and never strike out rather than trying to hit home runs and striking out sometimes. If you can avoid big losses, you'll likely do better over the long term than if you sometimes do really well and sometimes get slaughtered. Let's compare Edward Steady, a level headed guy who invests and gets a 10% annual return over 30 years to Shark McGwire, a guy who hits homeruns and averages a 20% return but loses 50% once every 10 years – he's hitting 90% - better than any batter in history. Where do they end up after 30 years? Steady Eddy has \$1,744,940 in his account – slow and steady climbs, never knocking the cover off the ball but beating most people handsomely. Shark the home run king hits home runs 90% of the time but when he strikes out he loses 50% of his portfolio – he ends up with \$1,717,132. In this high stakes game can you handle the psychological hurdles of maybe doing well or maybe not? I suggest keeping it responsible, staying in the game forever and never striking out. Here is the dilemma – if you have \$100,000 and lose 50% you now have \$50,000. In order to get back to your original \$100,000 you need to make 100% on your \$50,000. By definition, a 50% loss is equal to a 100% gain. Remember this one +100% = -50% when it comes to your money and investments. ☺

Continued from page 1, wrong turn

CREF is for profit – preferably big ones. The bottom line here is the firm is heading in the wrong direction. In 2002 Herb Ellison became CEO after working for Merrill Lynch. People feared he'd take the firm in the wrong direction. The fact that his compensation package included a \$24,000,000 severance agreement blew over quietly. In a world where doing the right thing has landed many a corporate captain in prison, it blows my mind that this firm, who even I held in high regard, has turned to slimy tactics. There's nothing illegal about it but it certainly isn't in the best interests of the shareholders. This is like how consumer reports tests cars, they buy a car like you and I do from a local dealer, they're not getting any special models. When other magazines test drive cars, they're given special models that have better fit and finish, more time spent on them and work better than the model you and I buy. For being a non-profit I'd expect much better behavior than what I'm seeing. I like credit unions for the same reason – they're non profits, the members own the firm and they're not paying a CEO 25 million annually with a 24 million dollar severance package. With respect to TIAA-CREF's offerings the next thing worth noting is that when you invest in the fixed annuity it is a 10 year obligation that cannot be cancelled, liquidated or redeemed. The only way to get money out of this monster is request it in 10 equal installments over a 10 year period. These accounts pay a low fixed interest rate and in this environment it doesn't make any sense to tie up money in a low, fixed rate environment for a decade. When you retire there is an option of annuitizing (turning your savings into a monthly income you cannot outlive) your money – don't do it. The insurance company makes more money on your money than you do and you lose control of your asset. I'm not a big fan of insurance companies and they're sophisticated, expensive products but when faced with a decision call and we'll help you make the one that's best for you, not some corporation. ☺

Nut Cases

When I was a kid and did something silly, Pop called me a nutcase. Now when my rugrats do something silly I do the same to them, and they reciprocate – something I never did. The world is a crazy place today – people are bombing each other, attacking churches and seemingly making no progress. I think there are a lot more nut cases today than there ever were – or they are at least a lot more prominent. I saw a video clip of an interview with a leader of the terrorists and a reporter - she took this man to school and he had no answers. The message was why are people being violent in trying to get their message accepted? Whether it's the Muslims or the terrorists or whomever, violence isn't the key to winning global respect. She had a pointed argument that in history when a group was oppressed – Jews, African Americans, American Indians, whatever, they all worked hard, protested, educated and eventually won their rights and global respect. Attacking churches seems outrageous as a way to win respect. I don't know much about the various belief systems in the world but I do know there are universal methods of communication that work and those that don't work. Respect, humility and honor are universally good – there isn't much of a chance of doing poorly if those basic tenants are followed. Growing up as a child there was a sign that was in the stairway heading down to my room – it read “don't judge another person until you've walked a mile in his moccasins.” It's true and has had a profound effect on me that I didn't realize until adulthood. It's also known that certain acts or behaviors almost always produce poor results – arrogance and violence are two of those things. Our government has done its share of bad and stupid things, mostly short sighted, politically motivated decisions that we must now live with. This interview is priceless and I hope you get to see it. Hopefully this will change the course of violence we're seeing today – I hope our media shares this good news along with all of the bad it loves to share.



Money Quiz

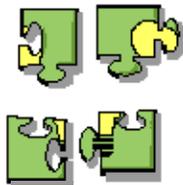
Last months' quiz was won by Robert Sulik. He'll enjoy dinner on us at Saybrook Fish House. Advertisers spent \$2,500,000 for a 30 second TV spot during the superbowl. This month's challenge is to tell me what year the NYSE saw it's first 100 million share trading day? The winner is going to dinner on us at any one a few select fine dining establishments. 03:13:06

The Parent Trap ☺

Your parents may not want your help, but they need it. Many people who grew up in the World War II era have accumulated handsome nest eggs on next to nothing incomes and simple lifestyles. Privacy is a big issue to this group so losing the ability to operate independently not only hurts but also leads to a lapse in privacy – they tend to be closed mouths about finances. Don't wait until they lose their ability to manage their own affairs, have healthy conversations along the way and open the channels for communications now. Raising these issues can trigger emotional issues such as independence, pride and privacy. The words you use can either open the channel of combination or shut it down immediately. I'd much rather hear "I love you, I'm worried about you and you're being taken advantage" of rather than "you're doing stupid things with your money and I'm taking over." I'd also rather hear "my friend and his parents have a similar situation, what do you think they should do to honor the parents' wishes?" vs. "I'm worried about my inheritance." If you'd like to talk about your situation, call the office anytime. ☺

Inspirational Quotes

- The real measure of your wealth is how much you'd be worth if you lost all of your money, Bernard Meltzer.
- What breath is to the physical body, hope is to the human spirit, John R. Claypool.
- Don't compromise yourself, you're all you've got, Janis Joplin.
- The ultimate lesson all of us have to learn is unconditional love, which includes not only others but ourselves as well, Elizabeth Kubler-Ross.
- Reason often makes mistakes, but conscience never does, Josh Billings. ☺



Radio Trivia

- In February 2004, the average yield on money market mutual funds was 0.50%, what is the average yield on taxable money market mutual funds in March 2006? 3.92%
- OPEC's anticipated revenue for 2006 from the oil it exports to the rest of the world is how much per minute? \$1,000,000 per minute. Not a bad pay rate!
- Alan Greenspan's new book covering his 18.5 years as Fed Chairman will earn him how much? \$8,000,000 – 44 times his old annual salary.
- How many income tax returns reported gambling losses in 2003? 895,000 or 2% of all returns – remember gambling is a voluntary income tax. ☺

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

If anyone you care about would benefit from receiving this 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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