

Odometers & Investments

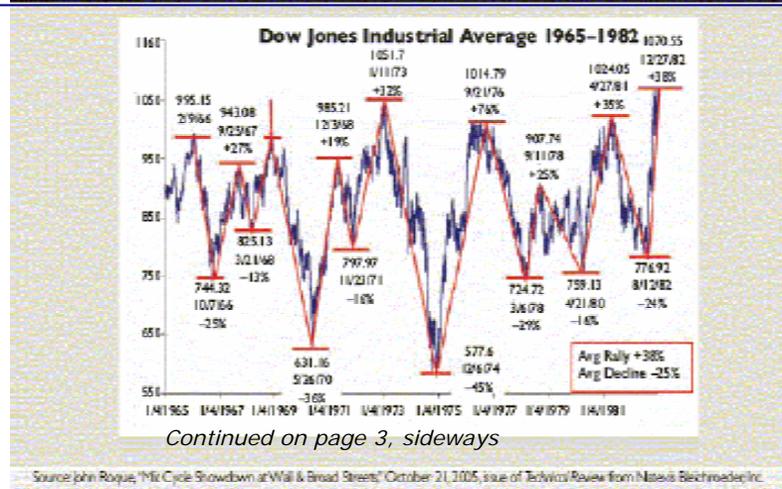
There are a lot of parallels in the worlds of cars and money. Some cars appreciate while most depreciate instantly – the same can be said for investments but hopefully with an inverse proportion if well selected. A '70 Hemi Cuda that sold for \$3,000.00 brand new is now going on the Barrett Jackson auction block for \$2,000,000 today. A 1979 Honda Civic CVCC that sold for \$1600 new is now worth its weight in scrap metal. A share of Berkshire Hathaway that once sold for \$20.00/share in the 1970' is now selling for \$92,100.00/share. Of course in the 1970's people thought that the firm Mr. Gasket was going to be the next best investment going – until they filed for bankruptcy in 1991. I see a lot of folks who have 401(k)'s that have turned into 201(k)'s in the past few years as the markets have melted down – just like our cars do when they're recycled. How do you measure or gauge whether a car is doing its job? If it runs well, gets you from point A to B, operates reliably and allows you drive hard when you're in the mood it's likely doing a great job for you. If you like the car and it does what you're looking for who cares what it costs? Nobody does – it's

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Volatility of Late!

The first five months of the year were great – up, up up. Now over the past four weeks we've had a lot of ups and downs – more downs for sure. People tend to think the market goes either up or down but there is another option – sideways. I believe we'll see a lot of small ups and downs over the next several years and perhaps decades, leaving many of the popular indices at the same levels they're at today. The Dow currently sits at 10792 and the S&P500 at 1236. In 1999 the DOW was flirting with 12000 and the S&P 500 was flirting with 1600. Here is a case where the indexes have lost money for 7 years straight – with no end in sight. I LIKE it when the markets go down – yes I said I LIKE it when the markets go down. They go down temporarily, although temporary may be long term, perhaps 20 years, and go up permanently. The indices trading flat is only a problem if you're investing passively and not rebalancing. If you're rebalancing and buying actively managed accounts you'll be fine, regardless of a sideways market. Look at this chart, showing the ramifications of a sideways market. Here is a situation -

Figure 1: Cyclical Markets Within the Last Secular Bear Market



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priceless. Why did you buy your car? I'm sure there are better cars out there but what made you choose your car? Many buy for price, looks, performance, status, economy, and reliability – whatever the reason you selected it from thousands available and as long as it continues to do what you're looking for you'll keep it – once it stops doing what you're looking for you'll sell it. Let's think through how many people choose their cars. If you're looking for price you'll likely begin with a "cheap" car or a used one – see which one(s) fit your budget and begin test driving to see which of those you feel the best is for you. If you shop for looks perhaps you saw an ad in a magazine, this paper or saw a car on the streets and you just had to have it – if it looks cool in your eyes then it fits your bill. If you're shopping for performance maybe you spent the Memorial day weekend at Lime Rock and saw Corvettes, BMW's, Porsches and Pontiacs dominate so that begins your shopping list. If you're shopping for status you may be after a Benz, Lexus, Cadillac or Bentley – whatever you believe to be a status car. Status is all about perception – in Europe Benz & Audi's are taxis while in the states they're considered all out luxury cars. Perception is reality and I define status as buying things you can't afford to impress people you don't care about. Our taxi's are Crown Vic's – as are our police cars – always better to be in the back of a yellow Crown Vic over a black and white one. ☺ If you buy for economy and reliability you likely start with Consumer Reports and see which cars have the lowest overall cost of ownership and pick the few at the top of your list then begin test driving. Regardless of what you're buying for there is a process and if followed correctly you'll get what you want. At the end of the day you likely test drive all of the cars on your final list, buying the one that feels the best to you. Since you get to test drive them the process is easy once you're behind the wheel – there is usually a stand out. You measure a cars performance with an odometer – to see how many miles you can get out of it or with a stopwatch – to see how quickly you can accelerate from 0-60 or how quickly you can conquer the quarter mile.

In the investment world the process can be very similar. If you want to buy growth stocks as investments you do a search that measure the

growth rate of the company, return on assets, return on equity and profit margin and narrow down all of the stocks down to a more manageable list of 50 – 100. Once you've narrowed it down now it's time to hit the books and research the companies in depth. You need to know the business entirely – how good is the management, what are the revenues, expenses, how is the company growing, how big is the potential market, what does this company have that is a competitive advantage, why this company over its peers. Once you've that type of due diligence on all of the firms that have made your end list you'll have a few that you feel passionate about – but you don't get to test drive these companies – you have to buy them somewhat blind – unless you're willing to travel to visit the companies. Now unlike cars it isn't wise to buy investments based on past performance – often investments can be tricky – the worst performers of the bunch in the past can be the best performers moving forward. In the auto world a Corvette will always smoke a Camry in the quarter mile – this will never change as the cars age. Investments don't work this way – the winning stock of the 1980's may be a loser today and vice versa. How do you gauge an investments performance? Typically rate of return is the best gauge – but make sure you measure over the appropriate time period. With investments you can measure the price every minute of every day – you can gauge the performance too often – if your time horizon is 20 years it likely doesn't make sense to check the value of your investments four times per day. You need to keep abreast so if your winner turns into a loser you can get out but don't over do it. It's like measuring the distance of your road trip from here to California with a ruler – clearly the wrong tool. The odometer is the correct tool for this job. When measuring investment performance the frequency of checkups is likely best to be quarterly or annually providing you've got a professional managing the account daily. If you're doing it on your own daily is the only way to do to it. Enjoy the ride. ☺

Noteworthy News! ! !

Congratulations to Sean & Brooke Cheney on the birth of their son, Maxwell on May 1st. ☺

Our condolences to CarolLynn Albanese & family on the passing of her father Phil. ☹

Radio Show Is Now Online

You can now hear the radio show through the internet. This is very useful for those in the family who reside out of state, overseas or just outside of the signal strength area. To listen to us live on Tuesday's from 6:00 – 7:00 pm EST from anywhere on the planet, just visit www.watr.com Once you've arrived click on the blue "Listen Live" button on the top left portion of the screen and bingo – you'll be listening. If you'd prefer the old school style of radio just tune into 1320 am WATR any Tuesday night from 6:00 – 7:00 and you'll get live financial advice, entertainment and education. If you'd like to hear about anything in particular on the radio please don't hesitate to call us and suggest topics or specific areas you're interested in – we'll custom tailor our discussions to what you would like to hear about. We have a special voicemail box for radio show suggestions, comments, quiz answers, etc.

Health & Wealth

I believe that as long as you have your health, everything else is gravy. Today our society is predominantly lazy and the things we ingest are in many cases garbage. Please try to make a point of doing something good for your body every day – eat greens, exercise, lay off alcohol, soda and processed garbage. Anything done for a month becomes a habit it's just doing it for the whole month that makes it difficult. Once you begin to get in shape you also feel better about yourself and everything else in the world at large. It's your choice – which direction are you going? The healthier you keep yourself, the fewer issues you should have and if something does come upon you, you'll be better able to deal with it and get well quickly. Good Luck ☺

From 1965 - 1982 the markets did a whole lot of going up and down but made no real progress. Think about turning the clock ahead to the year 2022 – it is possible, perhaps likely, that the DOW will still be in the 11,000 range and the S&P 500 still in the 1200 range. If you're blindly investing in index funds, ETF's, Spiders, Vipers, etc. and you're not buying low and selling high there is a tremendous risk that your assets will see no appreciation for years, perhaps decades. We can make you money using any tool, but you need to know when to buy and when to sell, this is why I like it when the markets go down. Investments are scary business to most folks because the news sensationalizes it and everyone gets all wound up – this is exactly the recipe I need to make money. When the markets are going down it creates buying opportunities – for those who stay involved – if you're inclined to sell when the markets are down I want you to rethink it. Let's say you're going to buy a new plasma TV. You've researched your options and know which model you like – model # 12345 from Acme TV Company. Everywhere you look it is selling for \$3499.00 – online, at the big box retailers, everywhere. If you happen to be in Sears one day and it is mis-marked, selling for \$2299.00 are you going to buy it? I'm rushing to the checkout to buy it – I'll buy two because they're a good value. This is exactly what happens when the markets go down – it creates opportunities for those who know what they're looking for. If you owned that same TV and were selling it, would you rather sell it for the true retail price of \$3500 or the mis-marked price of \$2299.00? If you're inclined to sell at the lower price, you lose and I gain – when you're selling your shares who do you think is buying them? People like me. If you're doing it on your own and things begin to tank, you may want to sell at some point – if you've hired us or another qualified professional to help you, don't worry about the markets going down – think about the good deals you're getting. ☺



Money Quiz

Last month's quiz was won by Mark Danaher. He & Laurie enjoy dinner on us at Dakota's. 7918 people turn 60 each day. This month's challenge is to tell me 1 out of how many ___?___ homes are worth at least \$1,000,000 in California? The winner is going to dinner on us at any one a few select fine dining establishments. 04:24:06

Index Gangplank Fallout ☺

A group of smart people are profiting handsomely from all of the people who believe in index or passive investing. Let's think through this process – if we buy all of the securities in an index then we're going to all own the same stocks, buying and selling simultaneously when the indexes change. On June 16th, Russell investments will publish the changes to all of the benchmark indexes – the Russell 2000, 3000, etc. By definition this means all firms that provide indexes or their equivalents will soon be buying the new additions to the indices and selling the deleted securities. Although the announcement comes out on June 16th, the actual trades won't happen to the indexes until June 30th. The smart traders are going to act ahead of this information by buying the newly added stocks prior to all of the indexes buying and selling the deleted stocks prior to the indexes doing the same. Everyone investing in indexes will by definition feel the pain – all buys between June 16th and June 30th will see a substantial price appreciation when the indexes begin to buy heavily and create a big demand, driving prices up. Similarly on the sell side, traders profit by selling ahead of the mass sell off of index securities on the 30th. Which side of this equation are you on? Call to discuss if you're concerned. ☺

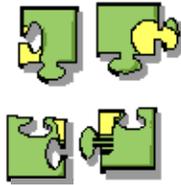
Controlling the Capital

Who would you rather be in control of your future – you or some financial institution? I'm hoping it's always the former. Think about choices you'll have in life when it comes to controlling capital. If you win lotto (please don't play that game – you've got a better chance of drowning in a spoonful of water), a lawsuit or have to make a pension election you're always faced with two types of choices – a monthly payout or the lump sum. Please call when this comes up – it almost always makes sense to take the lump sum if you are the consumer. It helps the institution if you choose the monthly payments because they get to control your capital, make all of the return and only give you a small portion of the return. If you know what you're doing this is a no-brainer but many people and small organizations don't know what to do so they defer to an insurance company to purchase an annuity. This annuity is a promise to make monthly payments to an individual for a lump sum today. Insurance companies aren't in the business of losing money – they're always going to ask for more a lump sum than it takes to provide you with the capital – even if you live to be 126 years old. This is where financial savvy and good advice can change your life. Never give up control of the capital if you're given that choice. If you are on the other side of the equation and are the employer, trustee, etc. you will want the opposite position. It will benefit you more to keep the capital, invest it for the earnings and make a promised monthly payout to the beneficiary. The financial industry preys upon those who don't know what to do and profits handsomely from this lack of knowledge. There is a profound statement on education and discovery, please think about this carefully: The obstacle to discovery isn't ignorance but the illusion of knowledge.

Call the office to discuss your thoughts or concerns anytime.

Inspirational Quotes

- Diligence is the mother of good luck, Ben Franklin
- Character may be manifested in the great moments, but it is made in the small ones, Phillip Brooks
- Constant dripping hollows out a stone, Lucretius
- By doing just a little every day, I can gradually let the task completely overwhelm me, Ashleigh Brilliant
- No pessimist ever discovered the secrets of the stars, or sailed to an uncharted land, or opened a new heaven to the human spirit, Helen Keller ☺



Radio Trivia

- How long is the world's largest ship, in feet? 1112 feet long – more than 3 football fields with end zones.
- What percentage of Americans have saved less than a mere \$25,000.00 for their retirements? Sadly, very sadly 53% of our population – 150,000,000 people. ☹
- Social Security will go bankrupt in 30+ years, when will Medicare go belly up? 12 years. ☹
- What is the healthiest state in the Union where people have the longest life expectancies and the fewest medical issues? Vermont – it must be because they have a teddy bear factory that makes everyone smile. ☺

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.

Name _____

Address _____

City _____ State _____ Zip Code _____

Name _____

Address _____

City _____ State _____ Zip Code _____

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