

Tales of the Tape

Two thousand six was a decent year in performance terms for the averages and indexes (DOW, S&P 500, Russell 2000, etc.) but let's take a deeper look at what actually happened to the stocks within our markets. The Morningstar Principia database lists 6,133 stocks. Of these, 2,414 stocks had negative returns. That is a very large number of companies generating a loss for the year. The average equal-weighted loss for those companies was 30.5%. The median (half are above and half are below this number) loss for those stocks was 23.2%. Five hundred sixty-two stocks suffered a loss of 50% or worse. Eighty stocks in the database returned -90% or worse. That is so painful and this is exactly why many people lose their fortunes in the stock markets when they try to "outsmart" those on Wall Street. Remember, if this were easy, everyone would be rich and day trading wouldn't have just been a fad, it would be the fastest growing occupation in America. Now let's look at the good news on the markets in 2006. Three thousand seven hundred nineteen stocks generated a positive return for the year. The average equal-weighted return was 48.7%. Equal-weighted is a very important

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Swedish Medicine

Dinosaurs have long been extinct. It may not be too long before pensions as we know them are also extinct. Plan for this – DON'T bank on your pension plan for your future if you are age 50 or younger, it may not be there for you as promised. Many public companies have eliminated pensions in favor of 401(k) type plans. Today, mostly state, local and federal government workers are the only ones to still have defined benefit pension plans. Don't get too comfortable if you fall into one of those categories – 13 states have already eliminated their plans and it's just a matter of time before they're all gone. What will never be gone is Social Security – a government-driven society-wide pension that will be here forever. The problem with Social Security is that it's guaranteed to grow no matter what happens to the economy, life expectancy of Americans or any other unforeseen issues. This has the net effect of saddling the system with paying for promises that are unaffordable. Look at General Motors today--the pension liabilities from 50 years ago are crippling the company. Nobody could have predicted that costs would get this out of hand, and the corporation blindly said it would pay for it – what used to be considered chump change now has the potential to kill the world's largest automaker. The future of GM, Ford & Chrysler lays in the hands of the negotiations with the unions, period. It's also the third rail of politics: whoever messes with it does not get re-elected, period. Sweden drastically changed its pension system years ago and that system is now a model for other countries. How is the Swedish system different? It is not designed to subsidize leisure - a very important main tenant of the system. The system has the flexibility to change and adapt to variables in the

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measure in the return figures. Equal-weighted return means small companies have as much impact as large companies. The S&P 500, by contrast, is a capitalization-weighted index, which means bigger companies have a bigger impact on the index and small companies have an almost negligible impact on the index. There are new products available on the street today that equal the weight of such indexes and are great tools to gain exposure to the parts of the market that are often quite profitable. The median positive return for the gainers in 2006 was 25.2%. The best performing stock in 2006 gained 2,208% for the year. That's a home run. If we just knew which stock to buy "on the ground floor" we could put all of our cash there and be done in a year or two! ☺ You've got a better chance of drowning in a teaspoonful of water or getting struck by lightning. Now let's look at the last 10 years of stock investing. There are only 3,626 stocks that have survived the past 10 years (that means over 3,000 have not – ouch!) Of these 3,600+ stocks the average return was a mere 3.2%. Sixty-eight of the 3626 stocks that survived 10 years had an annual return of -50% or worse.

Now let's look at the performance of stock mutual funds over time. The average mutual fund made 13.2% in 2006 and the mean was 13.4%. Ninety-nine percent of all equity mutual funds had a positive 3-year equal-weighted return. Over five years the average return was 7.5%, the median was 8%, and 2,025 funds survived the period. In the past decade, 1,059 funds survived the time period, the mean 10-year return was 8.8%, and the median was 8.5%.

The conclusion of the analysis is that individual stocks are much more risky and volatile than mutual funds: the highs are much higher and lows much lower for individual stocks. Too many stock funds buy the same stocks, so when the markets melted in 2000-2002 many funds lost money. Over the long haul the average investor is much safer in mutual funds. If you're looking for better than fund returns, that can be had with individual stocks but we do not recommend you pick stocks on your own. If you have any questions or concerns about the markets, please call the office anytime. ☺ ☺ ☺

This doesn't refer to the types of hats you may wear – baseball, sun, cowboy, top, beret! This refers to the size of a company you may want to invest in. "Cap" is short for capitalization, the value of all outstanding stock shares at current market price—the amount you would pay to buy the entire company. Let's take a look at a local example, we'll call it Joe's Bar & Grill. If Joe's Bar & Grill is being sold by its owner and he is asking \$500,000 for the business, that is the size of his business, sold in one share. If he were to break it up and sell it in 1,000 equal pieces, each share would sell for \$500.00, but the value of the business is still \$500,000. We can issue any number of shares we would like, but at the end of the day, the number of shares multiplied by the price per share is always going to equal \$500,000.

Now on to real public companies that sell shares to the public (you and me). General Electric is a monster company, currently trading at \$34.32 a share with 10,308,100,000 shares outstanding. Yes, 10 billion three hundred eight million one hundred thousand shares outstanding. When you multiply those two numbers together, the market cap (capitalization) of GE is \$353,773,992,000 or \$353.7 Billion. That's not chump change, it's real money.

Now to look at a smaller, local company we'll use New Britain based Stanley Works. I'm guessing you've got some Stanley tools in your home. Stanley is currently selling for \$56.54 per share and there are 81,304,000 shares outstanding. If I wanted to buy the whole company, lock stock and barrel, I'd simply write a check for \$4,596,928,160. It might bounce like a rubber ball, but it would be fun writing the check. Stanley is a \$4.5 Billion firm and GE is a \$353.7 Billion dollar firm. Market caps are typically divided into various categories, small caps are usually firms worth less than one billion dollars, mid cap firms are between \$1 billion and \$5 billion, large caps are \$5-10 billion and Mega caps are those worth more than \$10 billion.

The market cap isn't as important as the price you're paying, make sure you're buying companies at a discount to their intrinsic value – or don't buy! ☺

Noteworthy News! ! !

Congratulations to Carlene Simpson on the purchase of her new home! ☺

Congratulations to Kim Hartwell on her job promotion at CIGNA! ☺

Congratulations to Joe Sullivan on his new job at RBS Greenwich Capital! ☺

Congratulations to Dan & Kim Albanese on the birth of their second child, a bouncing baby boy, Tyler Jordan! ☺

Congratulations to Ken & Marci Hinton on the purchase of their new home! ☺

Congratulations to John LaChance on the opening of his new business, JP's Homestyle Catering & Deli in Waterbury! ☺

Important Phone Numbers

Consumer Hotline	800 842 2649
Lemon Law	800 538 2277
Advocacy For Disabled	800 842 7303
Utility Complaints	800 382 4586
Home Energy Efficiency	877 947 3873
Express Bus	203 327 7433
Carpool/Commuter	800 842 2150
DMV	860 263 5701
Medicare	800 633 4227
ConnPACE	800 423 5026
Social Security	800 772 1213
Medicare Hotline	800 828 9769
Home Care For Elderly	800 445 5394
Husky Program	877 284 8759
Child Abuse Hotline	800 842 2288
Poison Control	800 343 2722
Center For Disease Control	800 246 2675
Hazardous Waste Spills	800 424 8802
Victim Services	800 822 8428
Substance Abuse	800 446 7348
Tourism Information	800 282 6863
Mosquito Information	866 968 5463

world, as it should because nothing stays the same. If the population's life expectancy is longer than originally planned, payments will go down, if the economy is poor and doesn't do well, payments will go down. It's tying the success of economy to everyone's pocketbook. Do you think the Swede's will act irresponsibly with their money and waste it if they know that behavior will ultimately reduce their monthly government checks? Not a chance.

We should have such an incentivized system here, both nationally as well as for all state, municipal and federal agencies. How employer theft and waste would evaporate if all of those involved were at a potential loss of paycheck if they didn't perform well, wasted or stole from the employer. I'm ready to implement this now. Who is with me?! The amazing part of this cutting edge, brilliant Swedish system is that the architect is an American, a Colorado native, named Edward Palmer, who is now a professor of social insurance economics at Stockholm's Uppsala University. Part of the brilliance of the system is that it allows for implementation without the political suicide component. The promise is that if everyone stays productive and contributes in a positive way, things should be good and everyone should be fine. If, however, things get sloppy, everyone will pay the price: not just the current workers, the retiree's will feel the blow as well. It is a fair system but also a successful one.

The system is so successful that many countries have adopted it or a version of it to replace their own failing systems. Brazil, Poland, Egypt and many European countries have copied the system. The bottom line with this model is that people will have to work harder for what their parents had, a fair tradeoff considering life expectancy is now almost two decades longer. There is a cost to longevity and it should be borne by the worker, not the system. Since its implementation, the average Swede retires two years later, at age 63 instead of age 61, to get a better, bigger pension payout. Poland's success with the system is mind-boggling. Despite having some of the worst demographics on the continent, the system has provided Poland with the smallest budgetary impact of any country in its peer group. This is success like people read about. Now it's just a matter of getting the system going globally.

The Swedish system also has private accounts, something they bring up from time to time here. Brazil has had private accounts for decades. What's going to happen here? ☺ ☺ ☺

Choosing a Financial Advisor

Today's consumer is faced with a much more daunting choice than those of previous generations. Financial Planning wasn't even an occupation until 20 years ago. My folks had a lawyer, an accountant, an insurance agent and a banker, period. Today's consumer has more choices than I have hairs left growing on my head. The first task is to choose which financial planner is right for you and why.

In this evolving industry the gold standard of certifications is the CERTIFIED FINANCIAL PLANNER™ (CFP®) designation. Anyone who is serious about their financial planning should seek an advisor who has earned the right to use the CFP® mark. It is financial planning's version of CPA (certified public accountant). To earn the CFP® mark the advisor must hold a 4-year college degree, be engaged in financial planning for 3 years, present character witnesses to the CFP® Board of Standards, and pass a two-day examination that tests applied proficiency in 101 financial planning topics such as investments, taxation, etc. CFP® practitioners also commit to continuing education requirements and adhere to strict ethics standards. Today, everyone in the world is a "financial planner" – banks, insurance companies, investment firms, CPA's, trading firms, everyone. I hope the industry soon enacts laws like medicine and law: without the proper credentials you simply don't practice. Speaking of practice, why is what professionals do called practice? I'd like an expert doctor, lawyer or financial planner, not someone who's still practicing! ☺ Seriously, a CERTIFIED FINANCIAL PLANNER™ professional or a Registered Investment Advisor (we are both of these) is required to act as your **fiduciary** – a legal standard that requires us to hold your best interests above our own (wouldn't any professional do this?). Why does a law have to exist to make this happen? This should just be how it's done if you're in business, period). Now an analysis of titles – if you see a title of Broker, Wealth Manager, Insurance Agent, Associate, Sales Agent, Special Agent, Wealth Manager, Trader, Financial Consultant, Banker, CPA you should be wary. This is a specialized field – one that is hard enough to master--forget about trying to master it along with another field. How many physicians do you know that are Cardiologists as well as Radiologists – NONE. Don't trust your finances to a "double duty" professional, it'll cost you your future. ☺ ☺ ☺ *(learn more at www.cfp.net)*



Money Quiz

Last month's quiz was amazingly not answered correctly again. A hospital stay has increased 11.2% per year, a total of 738% over the past 20 years. This month's challenge is to tell me how many consecutive days have gone by prior to 2/27/07 when the markets fell by 3.5% before the last 3.0%+ drop in the markets? The winner is going to dinner on us at any one of a few select fine dining establishments. BTN 031207

Childs Play

There are some substantial changes in the Tax Increase Prevention & Reconciliation Act (TIPRA) (are they kidding, preventing tax increases – all they do is increase taxes in ever more complex tax laws, while telling us they're cutting our taxes). One of the main changes affects how children's accounts are taxed. These accounts, often referred to as UGMA's or UTMA's, stand for Uniform Gift to Minors or Uniform Trust to Minors. Either way, the bottom line is the assets are the legal property of the child, with parent or grandparent as decision maker until the child reaches the age of majority, which is 21 in Connecticut. The way these accounts are taxed is the first \$850 in interest or dividends is not taxed, the next \$850 is taxed at the child's bracket, typically 5% or 10% for most kids who don't file returns. Then, any interest above \$1,700 is taxed at the parent's top marginal bracket. UTMA/UGMAs are still a real nice place to park around \$20,000 in a mutual fund-- you won't pay too much tax, if any, in this environment. Don't let the accounts get too big: as they approach \$20,000 and as the kids age, consider 529 plans instead. ☺ ☺ ☺

☺ Easter Egg Hunt ☺

As a valued client, you're invited to our Easter Egg Hunt. This is a fun event for your kids, grandkids and even for you. We don't have any age restrictions, and we put the kids into various groups from toddlers to first and second graders, third and fourth, etc. Some eggs are so hard to find, some of the adults cannot find them. There are special prizes for tough to find eggs, golden eggs and real eggs with yolks. A total of over 5000 eggs will be hidden on the property so come and try your luck. There are no off limits areas on the property, kids will get dirty, muddy, wet and will come home a complete mess so have them dress appropriately. We'll have music, drinks and lots of fun for your family. This is as much fun for adults as it is for kids so please join us on Saturday April 7th at 1:30 at the Chadwick's house, 615 Plymouth Road in Harwinton. Please call or email so we'll know your coming and can plan drinks accordingly. Adults don't need to call ahead if you are just there for entertainment, but we need a head count of children. Please bring an Easter Basket, bag or some type of container for your child to collect eggs in. If you have any questions or need directions, please call the office. The rain/snow date is Saturday April 14th, same time, same channel.

Inspirational Quotes

- To laugh often and much; to win the respect of intelligent people and the affection of children, to leave the world a better place, to know that even one life has breathed easier because you have lived. This is to have succeeded. Ralph Waldo Emerson
- To gain that which is worth having, it may be necessary to lose everything else. Bernadette Devlin
- You must never run from fear. You must face it. Fear is a tracker that will hunt you down. Lynn Andrews



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

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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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