

Open or Closed

A mutual fund is a company whose purpose is to aggregate and invest money on behalf of individual investors. Mutual funds are a great vehicle because they provide several benefits to investors including professional research and management, diversification, and ease of administration. When it comes to investing in mutual funds there are different varieties, each with unique characteristics, benefits, and inherent risks.

The two basic flavors of mutual fund are known as open-end funds and closed-end funds. Both types can operate the same way from an investment perspective – they can both have the same investment objective, have daily operations managed by the same managers, charge the same operational expenses, and invest in the same securities. The types of investments held in a fund will be in accord with the investment objective stated in the fund's prospectus: a growth fund will typically own stocks; an income fund may own bonds or dividend yielding stocks; a real estate fund will own real estate; a commodities fund will own various commodities; and a balanced fund may own a bit of all of the above.

First let's discuss open-end funds. You may recognize names like PIMCO, American Funds, Janus, T. Rowe Price, etc. because they frequently advertise to the public.

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Loonie Tunes

You're thinking Daffy Duck, Tom & Jerry, Tweety Bird – all beloved Looney Tunes. That was my life as a child on Saturday mornings. Now in adulthood reality the Loonie I'm referring to is the Canadian dollar. The Loonie is currently at its highest level against the dollar in modern history, and going higher. We're currently seeing a lot of noise in the media about the weak U.S. dollar, and most comparisons make reference to the Euro. But it's happening around the world: the U.S. dollar is losing value against foreign currencies. The Euro is a relatively new currency, representing the economies of the European Union countries of Germany, Greece, Spain, France, Italy, Ireland, Luxembourg, Netherlands, Austria, Portugal, Slovenia and Finland. Let's make some sense of currencies and what is going on with them and how they relate to one another.

The U.S. dollar has been the world's only universally trusted currency in the world in modern times, but that is beginning to change. In the past decade we've seen many changes in global business. The world is becoming one playing field and many other countries, or combinations of countries, are becoming muscular players in the game. The newer players are beginning to make their mark in the global economic landscape. Currencies fluctuate in value based on many political and economic variables. The value of one currency against another is nothing more than a measure of relative value. When the media talks about our dollar's weakness against others it doesn't necessarily mean things are bad. This is just the infancy of global currency. There are countries that have yet to let their currency's value fluctuate, or float, in response to market forces. China is a noteworthy culprit. Until 2005 China didn't allow its currency to float. Even today the best guess is that China's currency (Renminbi RMB –

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Open-end funds don't offer a finite number of shares--the number is constantly varying depending on demand. If an investor wants to invest the firm simply issues new shares. If an investor wants to cash in (redeem) her shares the fund company simply redeems them and they no longer exist. Issuing and redeeming shares takes place between the fund companies and the investor, which means shares are not traded between individual investors. Shares of open-end funds are traded only once a day at the close of the business day. It makes no difference when you place an order to buy or sell an open-end fund—it will be executed at the close of business that day at a price that is determined after the close of business. This price, or Net Asset Value (NAV), of a share is calculated by valuing all of the investments owned by the fund and dividing that value by the total number of outstanding shares.

Closed-end funds vary in structure in that a fixed number of shares are offered for sale at an IPO (Initial Public Offering). Once shares are initially issued and bought by the general public, the only way to acquire or sell a share is to transact with someone else through an exchange, just like you would trade a stock--the issuing fund company is not involved with the transaction. This means you can buy or sell your shares intra-day at any time while the exchange is open. So if you place a trade order at 10:00am the execution price will likely be very different from the execution price for trade order that is executed at 2:00pm.

Closed-end funds can also trade at a premium or a discount to book value of their actual securities holdings. The value of the closed-end fund is whatever investors trade it to be on a daily basis based on supply and demand. The value of the fund's underlying holdings can differ widely from the price someone pays for shares of the fund. This can be an opportunity for extraordinary gain, or additional risk of loss. If you happen to see a fund with a great track record, but it's currently trading at a 30% premium to the underlying holdings true value, that may really change future performance and increase your risk. If you find a fund with a NAV that is a 20% discount to the value of the underlying holdings, perhaps you're looking at a great opportunity. But you must ask yourself the question *why is it trading at such a deep discount?* Sometimes it looks like a duck, quacks like a duck, and walks like a duck, but it's really the duck's cousin. ☺ ☺ ☺

Reply Cards

I've always said the marketing people are the smartest in the world – they're able to separate people from their money and make them feel good about it. Most of the things we own today are wants, not needs. The marketers have recently lost a marketing tool, arguably the most aggravating one in the world – the telemarketer. If you don't want to be bothered you can opt out of telemarketers' lists by going to www.donotcall.gov and registering your phone number for inclusion in the **Do Not Call** database. Politicians are excluded from the do not call laws--how convenient that they allow themselves the exclusive privilege to solicit you. With local elections around the corner you will probably be called by them or their computer ☺). Even with the loss of the telemarketing tool, new tools have been invented to regain the marketing foothold.

Reply Cards are now the tool of choice. They often look like they're affiliated with or endorsed by legitimate organizations people trust. When you send away for "free information" on a certain subject you are effectively releasing your rights to opt out of telemarketing and junk mail. These firms get your information and of course sell it to an army of despicable people waiting to separate you from your money. Be very careful what you fill out and send off, even if it has a picture of a flag or seal of a government agency on it –read the fine print! If you'd like to get off as many mailing lists as possible follow these steps:

Register for the Direct Marketers Association (DMA's) mail preference service. You can do it by mail, send a check for \$1.00 to

Mail Preference Service
Direct marketing Association
P.O. Box 643
Carmel, NY 10512

You can do this online with a credit card at www.dmaconsumers.org/cgi/offmailinglist

Call Advo at 888 241 6760 to get off their lists

Email abacus at optout@abacus-us.com

Call credit opt out at 888 567 8688

www.privacyrights.org/fs/fs6-crdt.htm to stop credit card offers.

There's more to do to completely isolate yourself from marketers, but I'm out of space in this column. Call and we'll email you the complete list. This will save you a lot of aggravation and will save the planet several rainforests. ☺ ☺ ☺

- Congratulations to the Trimble family on the birth of baby Ian, their first rugrat! ☺
- Congratulations to the Scarpelli family on the purchase of their new home! ☺
- Congratulations to Herman Munill on his retirement from The Hartford! ☺
- Congratulations to the Garfield family on the birth of baby Lars Christian Henrik Garfield! ☺
- Our condolences to the Cheney/Reynolds family on the loss of Tobey Reynolds, a wonderful daughter, sister, aunt and friend. A very sad loss of a 22 year old soul!
- Congratulations to Eric & Creighton Claman on their new business, Energy Fitness! ☺
- Congratulations to Alan & Karen Hill on the purchase of their new home! ☺
- Congratulations to Rich & Connie Perry on the purchase of their new home! ☺
- Congratulations to Jeremy & Janet Jacques on the birth of their twin daughters, Haylie & Jocelyn! ☺
- Congratulations to Richard & Bonnie Jacques on the birth of their twin granddaughters, Haylie & Jocelyn! ☺

Auto Donations

For many years now non-profit organizations have been requesting the donation of your old car to be used by them as a fundraiser. You get the tax deduction and the non-profit organization gets an asset to sell and make some money. The IRS has determined this to be an **abusive practice** and no longer allows you to deduct the “book value” of the car because in many instances the book value is the same as the scrap metal value. The new rule states that you may only deduct what the charity sells the car for! You may want to think twice about which non-profit gets your car – one that auctions it off or gives it directly to a family in need. If given to a family in need you can take the “book value” of the car as a deduction. ☺

measured in yuans) is still only trading at 40% of its true value. The reason Chinese officials don't let it trade freely is because insane inflation would immediately follow. China is just now beginning to see an economic revolution like the U.S. experienced 50 years ago. Many Chinese (and there are lots of them, some 1.321 Billion) are just now beginning to live above the poverty level and consuming real goods and services. Think about what would happen if suddenly their money only bought 40% of what it did yesterday – holy #@&\$! The price of housing, automobiles, food, etc. would more than double in price.

For decades the leaders of China maintained a fixed relationship between the value of their currency and the U.S. dollar. This “pegged” value was artificially low relative to the real value of the currency-this helps to keep the relative price of Chinese goods inexpensive, which drives their export industries and trade imbalances with trading partners. China still has serious inflation problems because its economy is growing at an annual rate of about 15%.

We've lived through a lot of craziness here in the last decade including terrorist attacks, crooks in executive positions, the current war, credit crunches, the current popping real estate bubble... but somehow expecting through it all that the cost of living should be the same as it always was. In real life things change, sometimes very rapidly. We've never been so affluent and so much better off than the bulk of the planet.

Yet we complain about the cost of gasoline at \$3.00 a gallon. In Germany they pay over \$7.00 for a gallon and drive at autobahn speeds. China just levied a 10% tax on oil to discourage consumption. Gasoline costs only \$0.12/gallon in Venezuela – but I don't see them having an immigration problem there.

None of this nonsense means the value of U.S. dollar is 'good' or 'bad', it's just economics. Things change, so valuations change. When our Fed is raising rates and other country's central banks are lowering them, our currency may appreciate, and vice versa. The good part of the lower valuation we have now is it is helping to boost U.S. exports and lowering the U.S. trade deficit.

Don't get too loonie over the media's focus on minutia! ☺

Pension Season



Money Quiz

Last month's quiz was won by Mark Danaher, he & Laurie will enjoy dinner on us. Companies in the S&P 500 generate 46% of their earnings outside of the US, while 56% of tech companies do the same. ☺

This month's challenge is to tell me what annual income it takes to be in the top 1% of breadwinners in the USA? The winner will enjoy dinner on us at any one of a few select fine dining establishments. BTN 102207

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State Tax Trap

The cost of health care is very high here in America, but the quality is the best. A health care catastrophe can ruin someone if they're not insured. Health insurance isn't enough. What if you need long term care? Home care? Custodial care? These costs are not covered by traditional health insurance or Medicare. Not only will families facing this dilemma lose most if not all of their life savings, insult will be added to injury depending on where they reside. The IRS has a special provision for making medical expenses tax deductible to the working man. The states have no such mechanism, effectively rubbing salt into the wound. If you or a loved one were in need of long term care, chances are that care costs upwards of \$10,000 per month. When you go to file the federal income tax return, health care expenses above and beyond 7.5% of your AGI (adjusted gross income) are tax deductible for federal purposes. Let's say you needed to liquidate an IRA or 401(k) to pay these bills. At least the Feds will give you a tax break. The states are not so benevolent. If you take money out of the IRA or 401(k), regardless of what you pay for with that money, the State will tax it as income. In my example the family withdrew \$120,000. At 5% the State gets \$6,000.00 Ouch! Rather than get hammered with such a travesty, a good plan will include provisions to pay for this type of contingency ☺☺☺

The year is quickly coming to a close and it's time for year-end pension planning for tax year 2007 and planning ahead for 2008 and beyond. Depending on the plan you have or want, we now have plenty of time to get new plans established and old ones modified. If you're changing plan types it can only occur once a year, for safe harbor plans only 1/1 – if you're just changing providers that can be done anytime. October 15th was the last day we could do anything for tax year 2006 for those on extension with respect to retirement plan deductions. Looking forward, it's always easiest to plan ahead rather than do disaster recovery by looking behind. There have been a lot of changes to the tax laws over the years and if you haven't revisited your pension plan now may be prime time to do so. If you haven't established a pension plan yet you should consider investigating it. They're so beneficial the question becomes "how can I not do this?" Is the plan you have now for yourself or your company still the best plan? Do you know the internal costs of the plan? Does your plan have Roth 401(k) provisions? Does your plan offer automatic enrollment so all eligible are automatically enrolled unless they sign to opt out? Does your plan offer independent trustees to remove you from liability as trustee of the pension plan? Can you easily understand and disseminate the documents you're receiving from the plan. Do you know your true costs of the plan? Are the custodians crediting your billing or refunding to you sub TPA & 12b-1 fee's?

The annual limits for pension plans have been adjusted for inflation and here is what we have in store for 2008. ☺☺☺

- Maximum deferral for 401(k), 457 & 403(b) = \$15,500
 - Catch up for the above plans = \$5,000.00
- SIMPLE deferrals = \$10,500
 - Catch up for SIMPLE's = \$2,500.00
- Max dollar limit for defined contribution plans = \$46,000
- Annual compensation limit = \$230,000
- Key employee for top heavy tests = \$150,000
- Defining key employee = \$105,000
- Government plan comp limit = \$345,000
- Maximum defined benefit limit = \$185,000
- Minimum SEP earnings = \$500.00
- Social Security taxable wage base = \$102,000

Inspirational Quotes

- He who has health, has hope; and he who has hope, has everything, *Thomas Carlyle*
- It is not what you look at that matters, it is what you see, *Henry David Thoreau*
- We make a living by what we get, but we make a life by what we give, *Winston Churchill*
- Recognition is the greatest motivator, *Gerard Eakedale*
- Motivation is what gets you started, habit is what keeps you going, *Jim Ryun*
- Look at a day when you are supremely satisfied at the end. It's not a day when you lounge around and do nothing; it's when you had everything to do, and you've done it, *Margaret Thatcher*



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

Kids Korner

Tips to teach our youth about money

Do your kids work? Have they ever worked? Do they have too much free time? At what age should a child get a job? At what age should a child have responsibilities? There are many different camps when it comes to this but let me tell you what I've seen from experience in dealing with many families. The younger kids get responsibility – jobs, checkbooks, overall responsibility where they're not bailed out by parents, relatives and grandparents, the better off they are in the long term. Let's not be ridiculous in having your kids prepare dinner from age 8, but having basic responsibilities and consequences is great for them. It's good for adults too – be very aware that whatever structure you create for them will help for them in life, but don't be too far in any extreme, when they grow up they may go to the other side as a natural act when they're free from your controls. Kids are like money, neither come with instructions. ! ☺☺☺

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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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