

## Is \$4.00 Gas Here to Stay?

A few years ago this concept seemed outrageous, simply never an option, especially here in America. People across the globe regularly paid \$4 & \$5 a gallon for fuel at a time when we paying \$1 or \$2 and change. We Americans are a spoiled bunch - and a wasteful bunch. Unfortunately, in under two years the price of fuel has more than doubled. It's here now at \$4.00 a gallon for regular, \$4.59 for the good stuff, \$4.50 for home heating oil and \$5.00+ for a gallon of diesel. The price we pay is still relatively cheap when you consider motorists in Turkey pay \$11+ per gallon. Germans pay \$10+ per gallon.

The big question is why on Earth are gasoline and diesel suddenly so expensive? It's not an easy situation for people to deal with as our infrastructure is built to run on cars and trucks in most of this great country. Record high prices for fuel have prompted people to modify their habits whenever possible and changed the way they plan simple errand trips and big vacations. The catch word this year is "staycation" – staying at home and visiting your backyard for a vacation. Last year's catch phrase was sub-prime. We don't hear that word much anymore. There is nothing wrong with a staycation as more quality time for families to spend together talking, playing and enjoying one another is never a bad thing, regardless of where the time is spent together.

To watch our politicians grill oil company executives makes great TV but it is laughable, and our current situation is not Exxon's fault. The fact is our politicians and oil companies don't have the power to control crude oil prices: oil is bought and sold in our global marketplace. To be frank, our politicians have helped to cause our current crisis due to long-term failure to formulate national energy policy while also placing a lot of land and sea areas outside of national parks, where massive known

*Continued on page 2, Raging Prices*

### INSIDE THIS ISSUE

- 2 Fuel Prices are Out of Control!
- 3 Noteworthy News, Social Security Leverage
- 4 \$ Quiz, Sucker Soaker
- 5 Inspirational quotes, Kids Korner

## Chinese Checkers

Our economy is clearly slowing down, and many foreign economies are continuing to heat up. So where is this Chinese opportunity? Most Americans live well beyond a life of needs and in a life of convenience and wants. Some aspects of it are good and some are bad, especially our expanding waistlines because of a lack of engagement in physical activity and recreation.

Many people in foreign countries have always lived a life of needs and now see the means to begin to live a life of wants. People across the world all want what we have, but have mostly been unable to achieve it. Today the Chinese citizens are seeing the tangible possibility to substantially raise their standard of living, and are working hard to make it happen.

The recent earthquake in China is a terrible, sad thing that has caused tens of thousands of deaths and displaced millions from their homes. As the giant country with over a billion people struggles to move out of the "emerging markets" phase and into the developing world there are many challenges to be faced. The quake has magnified these challenges exponentially.

Most Americans think we only import from China – everything from gadgets and chochki's to electronics, clothing and toys. Much of this is true, but we also export a lot to China too. As China becomes more modern and strives to build modern infrastructure, and rebuild in the quake areas, a massive opportunity is created for American firms and workers. China's heavy industrial manufacturing facilities are decades behind ours in terms of modern quality standards. That's a non-issue for making dolls, but when you need roads, hospitals or power plants, it's a big deal. Prices are rising exponentially there too. What was once super cheap to produce there is now becoming more expensive and there is less of a run to go to China as

*Continued on page 3, Chinese Checkers*

stores of oil and natural gas sit, “off limits” to drilling for political (mainly ‘environmental’) reasons. This is artificially limiting the supply that oil companies can bring to market. By the way, gasoline, diesel fuel, home heating oil, liquefied petroleum gas, naphtha, kerosene, lubricants, petrochemicals (used in plastics), asphalt, and even perfumes and insecticides are all products made from a barrel of crude oil or oil derivatives.

Fuels are a commodity as are many other things we use daily – grains, orange juice, metals, etc. These commodities are traded on worldwide exchanges and the market sets the price based on supply and demand. When there is high demand coupled with limited supply the price of the commodity will go up, and that is what we see with oil today. When there is excess supply relative to demand, prices go down, which is what we are seeing now residential homes and real estate.

Commodities are considered a hedge against inflation – they usually go up in value when inflation is an issue, and it’s currently an issue, so many people are putting their money to work in commodities as an alternative to stocks, bonds or real estate. We started buying commodities in our portfolios three years ago and have been handsomely rewarded. With prices where they are, we’ve eliminated the position as it seems excessive now and commodities may be ready for a crash. Since there have been so many buyers in this space, prices have gone up.

But it’s not just a supply and demand issue – it’s also trading pressures that have driven oil prices to these levels. The trading activity in the oil markets worldwide is denominated in U.S. dollars, and with the dollar’s current weakness against foreign currencies more upward pressure is placed on prices, making oil more expensive. The dollar’s value fluctuates like a pendulum and it will at some point swing back to be strong relative to foreign currencies.

Other factors affecting price include the development of consumer societies such as India and China. Not only are these countries consuming oil and gas at record levels, the governments of those countries subsidize the retail price their consumers pay: this keeps the price artificially low and affordable, boosting demand. The Chinese people pay \$2.90 a gallon for oil – while the government spends more than that amount on the subsidy to make it affordable. This trend is slowly eroding as prices reach record levels and the country’s economic boom slows down. Middle East countries have been slowly becoming substantial consumers of oil too– they certainly still export but they’re now consuming many more times what they had in the past, leaving less for export to the U.S and elsewhere. These countries are racing to build infrastructures and other economies with all of their new-found oil money – which they know will not last forever. It may last another century or so but where will they be then economically? All they have is oil and sand – someday they’ll just have sand.

Many small countries that were typically exporters of oil have

become importers of oil as they can no longer sustain the current clip of usage and still have any surplus available for export. Electricity is causing many countries to rely more and more on oil as supplies of natural gas and coal supplies have dwindled – these fuels have historically provided electricity and all oil went to export. The USA is making a pile of money exporting coal around the world but since the average consumer doesn’t use coal they don’t know or care about that fact.

Another risk that commodities speculators fear is the arrival of the point in time known as “peak oil” which means the world’s future production of oil, a finite and non-renewable resource, is never going to be as high again and will steadily and predictably decline year after year. A few studies support this peak oil theory. Other studies support the 2017 – 2025 range when peak oil will hit. Others say peak oil will never happen because by the time it is expected to hit demand will be waning because of alternatives and government legislation to reduce greenhouse gas emissions. I tend to agree with the last argument.

Political instability in the world has also caused prices to soar. It seems that wherever there is a lot of oil in the ground there is a nutcase running the country, a war is raging on, or there is some type of issue that may disrupt oil production. None of this will last and more oil will eventually be pumped and sold. But global refining capacity is too low, especially in America, and investment in drilling and exploring has been too low. All of this will change but it will take years to take hold and impact the markets. Potentially massive new deposits of oil have been found in Brazil, Russia, China, Canada and here in America. This is not discussed but will ultimately play into the supply equation, lowering prices.

There is plenty of oil for now and for at least the next 30 – 40 years. We have more oil on the ground and in ships today than ever before so the problem isn’t today, it’s what may happen in the future. No country can stop selling oil because it’s too big a piece of their economy. I expect sharp declines in prices soon, but also expect extreme volatility in the commodities system. Current record high prices have reduced demand sharply in some areas such as here in America, where usage is now at 1997 levels.

Alternative energy sources are now becoming a reality. Geothermal heat, solar and wind energy, and fuel cells are all here to stay and will slowly play a bigger and bigger role in our energy consumption as time unfolds. Europe has built an infrastructure where public transportation, walking and bicycles are the daily norms. The new “green” trend has caused a huge decline in oil consumption as people begin to live with more planet-conscious habits. These factors also will add more capacity to the supply side, further reducing prices. Foreign governments’ reduction of oil subsidies will do the same. Will this signal the comeback of the American downtown and the death of malls? I doubt it will kill the malls but it will change our habits and reinvigorate American downtowns.

One thousand dollars to put 200 gallons of oil in my tank at home is painful! Since my furnace is about shot I may go with a more expensive to install geothermal furnace and better insulation, but then be oil independent for home heating! 😊

# Noteworthy News! ! !

- Congratulations to Jim & Marie Broderick on their recent wedding at the end of May! The beginning of a beautiful life together! ☺
- Congratulations to John & Terri Wilmarth on the birth of rugrat # 2, Ana Grace! She joins Nathan to make the family a foursome! ☺ ~~~

## Social Security Leverage

A strategy known as 'file and suspend' may result in higher benefits for married couples under certain circumstances. Let's say a husband is younger than his wife and he earns more. Have the lower-earning wife file for SS benefits early at age 62 as long as the earnings penalty won't come into play. When the younger husband reaches full retirement age, 65 – 67 depending on birth year, he will file for full benefits but then immediately suspend (stop) them, with the intent of re-instating the benefit at age 70. By the simple act of filing for benefits the husband has qualified his wife to be eligible for the spousal benefit. The spousal benefit is 50% of what the higher earning husband is entitled to at full retirement age, and is often higher than the lower earning spouse's full benefit. Now when the husband hits age 70 he will start collecting again, but the amount will be higher because for every year he didn't collect after becoming eligible the benefit amount increases by 8% – that's the kind of income advances I like to see for our retirees!

This not only gives the husband more income during retirement, but it provides much higher benefits to his wife should the husband die first (that's usually how it goes ☺). The husband's new locked-in benefits after age 70 are now the minimum amount the wife will ever collect (this is much higher than her regular benefit).

If you have a tough time meeting your cash flow needs in the interim between ages 62 – 70 you can tap other assets to live well prior to the starting of the big Social Security checks – it may make sense to tap IRA, home equity or other assets to live well if this strategy ultimately increases substantially how much you'll get from Social Security.

Social Security benefits may be tax-free if you qualify based on your income level, but even in the worst case scenario 15% of your Social Security benefits will not be taxed. Social Security benefits are very valuable because they last as long as you do, provide inflation protection as well as survivor income protection. Remember, when a spouse dies the family loses the smaller benefit so be sure you've planned your life insurance appropriately. ☺

## Chinese Checkers *Continued from page 1*

the quality is often inferior.

China is the third largest export country for us, behind Canada and Mexico. Chinese people buying American products is nothing new. For the past 8 years, growth of exports to China has grown at triple digits, a trend I expect to continue. Our exports to China are growing five times faster than any other export market we have. Does this spell opportunity? It absolutely does.

I fear many things in China – inflation, population growth, lack of infrastructure, currency pegged to the dollar to prevent rampant inflation, epic pollution, the strange breed of government where you blend a dictator and an entrepreneurial society, the peoples' lack of freedom, etc. There is a whole lot of uncertainty there but simultaneously massive opportunity. I especially like foreign firms that are based somewhere else and have the capacity to do the work the Chinese people need.

As the Chinese people demand a better lifestyle, where will those products and services come from? Many American and foreign multi-national firms will be there to deliver them. They need the things we make – chemicals, components, turbines, telecom and technology infrastructure, medical devices, drugs and sanitation equipment. If a product needs modern technology and precision engineering, chances are China needs it or will need it soon. Once these products and services are in place it's not a done deal – they'll still need services to change, maintain and repair the new infrastructure.

As our economy cools off and attempts to de-leverage itself, the Chinese are sitting on more money than most could imagine. China's national savings rate is formidable but as they begin to live better, it will decline. Smart businesses will see that opportunity and get a piece of that action. While Americans need to spend less and save more, the Chinese need to save less and spend more in the coming decades.

This is a unique opportunity – we need more work, jobs and sales while China needs our services and will for the foreseeable future. Our lifestyle revolution has happened over the past fifty years and China's is now just beginning. There is no stopping this so get on the train and go for the ride, it should be quite profitable.

Many of our economic ailments can be fixed with the China pill and we can simultaneously make new jobs and increase our future financial freedom. I often hear about losing jobs to China and other foreign countries – now we'll begin hearing about new jobs being brought to America because of China and other emerging countries. ☺

## New Investor Scams

Financial institutions never e-mail you about issues with your account, questions, verification of information etc. We will never do this, your bank will never do this, the credit union will never do this, nor will your insurance company do this to you. The government and its associated agencies won't do it either. As markets are especially volatile lately, the Financial Industry Regulatory Authority (FINRA) has recently become the target of scammers, e-mailing people after phone calls. This scam involves supposed brokers calling people on an unsolicited basis who recently bought low-priced U.S. stocks and offering to buy the shares of the almost worthless stock back. The buyback only happens if the investor is willing to pay an "administrative fee" – that's a joke. Whenever you're approached to pay a fee to get anything – be suspicious and get council prior to making any decisions.

The next step is the fake broker sends people e-mails mis-using and mis-representing who the actual sender is by purporting that the email is from FINRA. The scammer is trying to make you believe his message is coming FINRA by asserting the need to performing a stock recovery function. The e-mail conveys a sense of legitimacy since it appears to be coming from a bone fide federal agency.

**FINRA does not send out any such reports and if you want to check out any financial advisor or broker you can go online and do it live. The place to go to check it out online is:**

<http://www.finra.org/InvestorInformation/InvestorProtection/ChecktheBackgroundofYourInvestmentProfessional/index.htm>

If you'd prefer to go to [www.finra.org](http://www.finra.org), then click the **broker check** link on the top of the left column. This will bring you the to the same place as that convoluted web address above. Once you've agreed to the terms and conditions and read the disclaimer (I'm sure you read every word of each web disclaimer too ☺) you can search by name, CRD # (Central Registration Depository #) (mine is 2538140 if you want to see what one looks like). This is the only way to get accurate information – these and any other documents can be modified so be careful of what you believe and always double-check your information directly with the source. ☺



## Money Quiz

Last month's quiz was won by Jim Biondi, he enjoys dinner on us at Chili's. The S&P 500 index earned 3.5% annually for the 10 years ending 03/31/08. ☺☺☺

This month's challenge is to compare yesterday to today. In 1934 44% of all US homes were in default on their mortgages – on 03/31/08 what % of homes were at least 30 days delinquent on the payment? The winner will enjoy dinner on us at Chili's. BTN 060208:5

~ ~ ~

## Sucker Soaker

The kids know what a super soaker is – a very powerful squirt gun that holds about a gallon of water and can instantly soak you. They love it. Politicians are now rambling about things they promise everyone in hopes of getting elected come November 4<sup>th</sup>. The tax policy in our country is very interesting and complicated, on the surface. Kurt Hauser established a factual relationship between income tax rates and government revenue as a percentage of GDP (gross domestic product) and the results are astounding. No matter where the top income tax bracket was in modern America, the tax revenues that the government received were the same.

Over the past sixty years top marginal income tax brackets have been as low as 28% in the 80's to as high as 91% in the 50's. No matter what the top marginal bracket was, the government realized about 19.5% of gross GDP in tax revenue. What happens here is higher tax rates reduce GDP and lower taxes increase it, so at the end of the day it's basically a wash. This is very disappointing for supposed redistributive tax policy – it doesn't do that at all. The real push here is politics: who can benefit in the short-term with elections, power, etc. by offering a large voting constituency certain tax incentives at the expense of everybody else.

The bottom line is capital moves away from regimes that tax it harshly and flock towards regimes that treat it fairly – let's hope they really think tax policy through carefully in the coming months before they crank up income tax rates! ☺

# Inspirational Quotes

- Most people have the will to win, few have the will to prepare to win, *Bobby Night*
- About the time we can make ends meet, somebody moves the ends, *Herbert Hoover*
- The world hates change, yet it is the only thing that has brought progress, *Charles Kettering*
- Education's purpose is to replace an empty mind with an open one, *Malcolm Forbes*
- The only place success comes before work is in the dictionary, *Vince Lombardi*



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

# Kids Korner

## *Spoiled Rotten*

Kids can be spoiled rotten. We all want to make life better for our rugrats but be careful here – you can help your child so much you hurt them. Don't hide them from the economic realities of life – let them participate in yours and be responsible for their own. I don't think after college is the first time kids should understand banking, checking and balancing accounts. Most kids live in a debit world where money comes out of machines and walls and they buy what they want online on eBay and don't have any money responsibility.

This must stop now and we must formalize financial education for our children in our schools! Some teachers have asked us to help with this lately and we will do this for your schools. We can make presentations or help build curriculum for you existing teachers – just ask. ☺

~ ~ ~

## Company Directory

- Mike = [mike@fiscalwisdom.com](mailto:mike@fiscalwisdom.com), phone extension 202
- Eric = [eric@fiscalwisdom.com](mailto:eric@fiscalwisdom.com), phone extension 208
- Nancy = [nancy@fiscalwisdom.com](mailto:nancy@fiscalwisdom.com), phone extension 201
- Maureen = [maureen@fiscalwisdom.com](mailto:maureen@fiscalwisdom.com), phone ext. 206
- Betsy = [betsy@fiscalwisdom.com](mailto:betsy@fiscalwisdom.com), phone extension 203
- Telephone = (860) 673 1942, (860) 489 8880, (800) 843 4513
- Facsimile = (860) 673 5177 or (860) 482 5300

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 \_\_\_\_\_

Registered Representative, securities offered through Cambridge Investment Research, Inc. a Broker/Dealer, member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Chadwick Financial Advisors and Cambridge are not affiliated. Opinions expressed may not necessarily be those of Cambridge Investment Research, Inc.

**Visit us online = [www.fiscalwisdom.com](http://www.fiscalwisdom.com)**



Financial Advisors

Call us anytime at (800) 843 - 4513



Financial Advisors

Please think of us whenever you or someone you care for needs the following:

- Stock option analysis, diversification
- Pensions - qualified and non qualified
- Family Protection Strategies
- Retirement Income Plans
- Investments & Investment Advice
- Business Protection & Succession
- Retirement Plans
- College Funding
- Tax Savings Strategies
- College Financial Aid Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Employment contract negotiations
- Settlement option analysis
- Financial Advice - hourly or annual retainer
- Fee based investment management
- In depth portfolio & risk analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income—Guaranteed or variable
- Income Replacement Techniques
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long Term Care Issues & Strategies
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

## Mike Chadwick's Money Matters

15 New Britain Avenue  
Unionville, CT 06085  
(860) 673 1942

199 Main Street  
Torrington, CT 06790  
(860) 489 8880

