

White Collar Corruption

It amazes me how certain people manage to get themselves into positions of power running the gamut of occupations in our society from politicians to corporate executives and everywhere in between. Last summer was crazy to say the least in the financial world and the mortgage meltdown that left many financial firms reeling was in the midst of unfolding. Bank of America decided to acquire Merrill Lynch so as to save it from a quick death. It seemed like a great move that would bolster Bank of America in the long run. It will likely work out well for the bank to acquire this investment bank in the midst of the storm: they certainly didn't pay much for the franchise and as long as they can maintain adequate capital ratios moving forward they'll likely make a killing on it.

Several months after the merger we're getting the details on the massive ignorance on the part of Merrill Lynch CEO John Thain. In the midst of getting a buyout from Bank of America, which if he didn't get the firm may have imploded, he has the gall, the audacity, to spend \$1,000,000 decorating his new office with furniture. I can assure you his old office wasn't too shabby. Why he just didn't have the furniture fixtures and equipment moved to the new Bank of America location is beyond any of us. This stupidity is what ultimately got him fired. Firing him should just be the beginning. He should be arrested and there should be laws that prevent this type of foolishness – it's pretty much theft from the shareholders. If you run a public company you should be accountable for everything. The excesses have become so egregious that the general population is ready for a revolt.

The once almighty powerful firm Thain ran is in deep trouble and he is blowing through millions of corporate money on minutia. Shareholders should have a say on much more than they do today and the only way to make this happen is to talk to our

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What is a Ponzi Scheme?

We're getting a ton of calls lately from worried clients asking "Are we involved in the Bernard Madoff investments at all?" The beauty of our old Yankee conservative attitude is that the answer is a resounding **NO!** We don't go anywhere near such foolishness. Madoff allegedly stole \$50 billion from investors the world over in the granddaddy of all Ponzi schemes. Just recently a half a dozen more crooks were exposed.

First let's define a Ponzi scheme and explain how it works, then we'll offer you a copy of a book we have on how to detect, avoid and stop such criminal activity. "Ponzi" schemes are so named because Charles Ponzi, who immigrated to America from Italy in 1903, was the mastermind of the biggest con-game of his era. He was the first to become well-known for this type of crime, though he didn't invent the idea.

How does a Ponzi scheme work? It starts with someone whom the general public trusts such as a financial advisor convincing people to allow them to handle their personal finances. They usually begin their solicitation to family and friends –people they know who trust them implicitly-and entice them with promises of superior and/or steady returns on investment. The investor hands over money to that person, believing it will be used to purchase investments for benefit of the investor.

But the investor's money never makes it to any legitimate account or investment: the crooked firm just takes the money and does with it as it wishes. Or if it is invested, it's not generating anywhere near the promised rate of return. The investor doesn't know his funds have been mis-directed because he receives periodic statements from the firm which show how much money he has and how well it's doing. (Yeah, right!®) But unbeknownst to him these statements are coming directly from the office of the investment firm (not from an independent third-party asset custodian), and are counterfeit--most if not all of the information on the statement is fictitious.

The appeal of Ponzi schemes is an offer to earn very high returns, quick returns, safe returns: one or more things that seems unusually attractive. Remember the old saying that never changes – if something sounds too good to be true, it probably is. The Madoff scheme offered the investor a risk-free annual

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legislators to write new laws that have teeth to stop this stupidity. Corporations do this constantly, many are so big and so profitable they can burn millions, sometimes hundreds of millions on minutia and nobody cares when times are good. Just like the local towns, states and federal governments should have been saving money in good times so things aren't so bad in bad times. No, that is too logical, most people have the attitude of just spend the money now while it's here because if we don't it will not be in our budget for next year. Foolishness breeds foolishness.

Mr. Thain isn't alone. Citibank is in tough times too, yet it didn't occur to Citibank management it should cancel an order for a limited edition private jet worth \$50,000,000. It was only after outraged taxpayers learned of this disgrace and spoke out did Citibank decide to cancel the order. The naming rights to the new stadium where the New York Mets play is now in question. Is it worth another \$50,000,000 or so to have Citibank name on top of the stadium?

Many organizations have annual events for their sales forces to reward them and keep them motivated. There is nothing wrong with this and it gives the sales team incentive for working hard and hitting or exceeding their goals. When the companies host such events, they're not cheap. For a bank or insurance company to drop a few million dollars on such an event isn't a big deal, they're entertaining thousands of people. Many firms are cancelling such events because of recent news headlines, government intervention, etc. but not all cancellations are warranted. Depending on the financial arrangements with the locations hosting the events it may make very little or no sense to cancel an event because of cancellation fees, prepaid events and such. If the firm can save most of the costs by cancelling it makes all the sense in the world to cancel the event. If cancelling is going to cost 85% of the price of hosting the event, then just have the event and be sure it's not extravagant. In these cases it's more wasteful to cancel it, but because of political pressure firms are cancelling such events regularly now, doing more harm than good.

We all thought this stupidity ended in the wake of Enron and Health South, but unfortunately it's still here. People ended up in jail over those abuses, apparently corporate executives aren't much brighter than thugs that rob banks and 7-11's because they're clearly not learning to behave well.

As a child my bedroom was in the basement and every time I walked down the stairs to get to it I had to pass by a picture that my parents had placed on the wall. I never thought much about that picture until I was an adult, when I finally realized what a profound impact it had on me.

The picture was of a man walking along, carrying another limp man in his arms along the beach and under it was a caption saying: "never judge a man until you've walked a mile in his moccasins." Another thing I remember hearing a lot as a child is never do anything that you wouldn't want printed on the front page of The New York Times.

Apparently these same lessons weren't taught to everyone in high places. ☹

One Smart Man

Thomas Jefferson was clearly one of our country's great forefathers. His wisdom was uncanny then and it even rings true today in some contexts. Look at some of the quotes he wrote and think about them in light of what's going on in the world today:

- When we get piled upon one another in large cities, as in Europe, we shall become as corrupt as Europe.
- The democracy will cease to exist when you take away from those who are willing to work and give to those who would not.
- It is incumbent on every generation to pay its own debts as it goes. A principle which if acted on would save one-half the wars of the world.
- I predict future happiness for Americans if they can prevent the government from wasting the labors of the people under the pretense of taking care of them.
- My reading of history convinces me that most bad government results from too much government.
- No free man shall ever be de-barred the use of arms.
- The strongest reason for the people to retain the right to keep and bear arms is, as a last resort, to protect themselves against tyranny in government.
- The tree of liberty must be refreshed from time to time with the blood of patriots and tyrants.
- To compel a man to subsidize with his taxes the propagation of ideas which he disbelieves and abhors is sinful and tyrannical.
- I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that grow up around the banks will deprive the people of all property until their children wake up homeless on the continent their fathers conquered.

There is no question that the wisdom this man possessed is astounding. Today we have some of the very issues he described in the early 1800's. Things are a whole lot more complicated today than they were back then but they still hold true. Our right to bear arms today is somewhat of a joke with the firepower that is available. Anyone can buy a gun but with the government's ability to destroy virtually anything with a missile at almost any point on the planet essentially renders the firearm useless on a grand scale.

The global banking system's faults have been brought to the forefront recently, as has the corporate world's ability to influence and pay off the dim bulbs in Washington and other governments. As the pendulum now begins to swing in the other direction we'll soon see if the people regain control of the system that let them down. ☺

Noteworthy News! ! !

Ponzi Continued from page 1

- Congratulations to Christina Rodrigues & Mark Moher on their recent engagement! ☺
- Our condolences to the Campbell family on the passing of Jim's father, James Campbell Sr., a wonderful man, friend, father and grandfather.
- Congratulations to John Shea on becoming partner of his law firm – Sullivan, Schoen, Campana, & Connon LLC. ☺
- Our condolences to the Shanley and Schnyer families on the passing of Helen Shanley, a wonderful woman, daughter, mother, friend, grandmother and great grandmother.

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Herd Mentality

The fear in the air today seems real. For some it is real, but that some is a very small percentage of the population. For most of the population it's the media that is making you scared. The media owns most people today – don't let them own you.

An amazing sign of the times is watching the general public handle their money. When times seem good, people are pouring money into investments and when times seem bad, they're pulling it out. The trick is to know when each time is – today is a good time to buy but general fear, panic and hysteria have people pulling out, selling when they should be buying. During Sept. – Dec. 2008 we've seen record redemptions from investments – hedge funds, mutual funds etc. The silver lining is that there is no coincidence here – people usually sell low and buy high, the exact opposite of what we try to get them to do.

During any period of bear markets when we see steep price declines, the masses sell and lose money, driving prices down to attractive levels. This attracts professionals and then gains happen. Then once gains have happened, the masses come back in, missing the big run. Mutual funds also open during seemingly terrible times like today. When funds have too much money they close to maintain flexibility for existing shareholders. Once massive redemptions happen and management sees good values all around, they re-open to accommodate the situation. This is very much like the early 1970's, the last time funds reopened for the first time in many years. The next several years provided amazing results. Are you in line with the herd ready for the financial slaughter or are you going to make some money? ☺ ☺

rate of return of 10%-11% that never changed. There is no such thing as 10% risk-free! In today's environment risk free is 2%-4%.

These schemes work because the investor feels good because they believe they're getting a good return based on the account statements they are receiving. In the event an investor wishes to cash out the firm makes them whole, but the money used to repay the investor is not their own, it's someone else's. Why? Because the investor's money was squandered long ago by the swindler. So to repay that investor the swindler uses new investors' contributions to cover the distribution request. The first investor's experience is that he was able to get all his money back, plus the 10% or 11% the fictitious statement said he earned, without any delay. Based on this positive experience word spreads to family, friends, and colleagues that this is apparently a legitimate investment firm, and so new investors are continually lured to contribute their money. In fact the 'mystique' factor grows as the firm makes its services accessible only to those who have a personal connection to the firm or the swindler. Everybody wants in, but not all are allowed in. The mystique takes on a life of its own, and even more investors, usually with large amounts to invest, are lured into the trap. Madoff's scheme had been perpetrated flawlessly for decades. Then the bear market hit late last year. Suddenly too many people wanted out all at once, the supply of new investors' money dried up, and suddenly a big spotlight shines on a huge scandal.

Who in their right mind would fall for such foolish promises? Dozens of supposedly smart people did. Let's look at some of the big names that Madoff took to the cleaners: Hall of fame baseball player Sandy Koufax; actors Kevin Bacon and John Malkovich; movie mogul Steven Spielberg; Jeff Katzenberg of DreamWorks; Elliot Spitzer (poetic justice, ha?)... this lists goes on and on. How they were able to play this out so long is beyond anyone – why didn't the SEC see this on their annual audits? Or was it discovered and ignored? Time will tell. It seems implausible that fraud on this scale could occur un-detected over such a long period of time.

We don't want this happening to you or anyone so we've decided to offer you a book to learn about this criminal activity. After reading the book, you'll be able to identify such schemes and stay far away from them, protecting yourself and your loved ones while simultaneously helping the cops catch the bad guys. The book we have is called "You Can't Cheat an Honest Man: How Ponzi Schemes and Pyramid Frauds Work and Why They're More Common Than Ever." We have a supply of these books and if you are a client you can stop in and pick up a copy for free. If you're not a client you can stop by and pick one copy up for only \$7.00. This book retails for \$19.99 and it is worth its weight in gold.

Let's work together to protect those we love! ☺



Money Quiz

Nobody could accurately figure out that in 2008 there were 28 trading days had swings of +/-4% as did the 25 prior year period from 1983-2007. 2008 was 25 times more volatile than a "normal" year. Ouch! ☹ We had a ton of responses but none correct. ☹

This month's challenge is to tell me what the Boston Red Sox will do this year that they haven't done since 1995. The winner will have lunch/dinner on us at Chili's. 020909:15☺

Re-pricing Should Be Illegal

Re-pricing from a store's perspective is fine to move merchandise at a lower price. Today is a good time to be a consumer; there are a lot of killer deals out there. The re-pricing I'm not too happy about is re-pricing stock options for corporate executives. Stock options are designed to reward company executives and sometimes all level of employees for business results achieved by a company: good business results usually means the company's stock prices rises. Options are a mechanism which allow one to realize a profit from this price movement without up-front cash outlay to buy the actual stock.

For example, let's say I work for IBM and currently the shares are trading at \$95 on the stock exchange. IBM awards stock options, the right to buy or sell shares of stock, at a later and at a certain "strike price." Usually the "strike price" is at or near the current market price of the stock, in this case \$95. So if I have been awarded one stock option I have the right to control 100 shares of stock (1 option contract controls 100 round lot of shares). At this strike price, which is the same as the current market price, this option contract has no intrinsic value. If in the following years the stock price climbs to \$200 and the I exercise the options, I will be able to buy 100 shares at \$95, then immediately sell it for \$200, making a profit of \$105 profit per share.

If the stock price goes down there is no reward, and there shouldn't be any reward if the company didn't excel. The rewards come when everyone makes money and things happen for the greater good (the company, the shareholders, the suppliers, customers, etc). The issue at hand is some companies today are re-pricing their options retro-actively, lowering the strike price to ensure a profit to people who shouldn't get it. This should be completely illegal: you and I as shareholders don't get a re-pricing when things fall like they have, why should company insiders? It's time Washington steps up and makes laws that are important, that aligns the interests of all parties involved and stops the endless stupidity in boardrooms. ☹

New FICO Score

Fair Isaac & Company is the firm famous for inventing the FICO score – the methodology by which most firms determine a consumer's ability to repay a loan, or not! They've just announced sweeping changes to the FICO scoring system.

At this point only Transunion will offer the revamped score – Equifax and Experian will continue to use the old one, for now. Why? Politics as usual. This new score is supposed to do a better job of predicting borrower defaults and will be more forgiving to those who are at fault for a one-time error.

In the past few months credit has tightened so quickly for those with marginal credit history. The new FICO credit score methodology is sure to put the nail in the coffin for anyone who was previously considered a 'borderline' borrower. All along the way, the people who were borderline shouldn't have been given credit so this is the best medicine that could be prescribed.

The new system will also favor people who have accounts in good standing. Another loophole that will be closed is the authorized users trick. Borrowers with poor credit have used "credit repair" firms which happily charge a fee to add them to good credit consumer's credit card account as an authorized user. By piggybacking on the good credit risk's credit history the bad credit risk could boost their FICO score. The new system will still allow improvement over time if it's warranted, but only for those truly authorized by the card holder, not a credit repair agency. ☺☺☺

Most lenders look at the FICO score and it's a big deal in determining what possible outcomes a borrower will face with their lender. The bigger lenders are also known for tweaking their data they receive from FICO, running their own numbers as well as working their own proprietary analysis on the applicant's credit prior to making an approval of credit.

It'll be some time before all credit reporting firms use only the new scoring system so expect a blend for a while. The new system still has the same range for possible credit scores – 350 – 850. If your credit is 350 it's a really bad day, but it can be improved upon. Stellar credit is considered anything above 720 and few people get over 800.

This new scoring system will also reward those who don't use credit but have it available to them, showing restraint which more Americans would benefit from. The old system gave a bigger reward to those who were more extended than those who had credit available but didn't use it. Don't go checking your score to see this new system in operation, but continue to do your annual credit check to prevent identity theft ☺

Inspirational Quotes

- *Whoever is happy will make others happy too,* Anne Frank
- *Life is a comedy for those who think...and a tragedy for those who feel,* Horace Walpole
- *It's easy to make a buck. It's a lot tougher to make a difference,* Tom Brokaw
- *Be who you are and be that well,* Saint Francis de Sales
- *Advice, when most needed, is least heeded,* author unknown.



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

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The Easter Egg hunt is coming quickly and we're hoping you and your loved ones can come. Put it on your calendar today. The big day is **Saturday, March 28th at 2:00 p.m. at the Chadwick's house – 615 Plymouth Road in Harwinton.** Rain date is Saturday, April 4th same time same channel. If it snows it's still on, only heavy rain stops the hunt.

We'll have a similar format as last year – the eggs will have "Bunny Money" in them and your rugrats will hunt for it. The garage again will be the Bunny Store where the rugrats can make purchases with their new-found loot. Not only will it be a ton of fun, but they'll learn the buying and budgeting processes!

Dress the kids so they can get filthy and bring your smarts to see if you can solve the riddle eggs! Adults are welcome to come without kids just for a few hours of comic relief. ☺ ☺ ☺

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