

## Real Estate Reality

The real estate market is likely going to feel pain for a long time coming. The past year provided the initial shock to the segment of the population who believed it will always appreciate and now we all realize the reality that prices fluctuate. Prices of virtually everything fluctuate, from stocks and bonds, to real estate, commodities and products. It's just a reality we must get used to and live with.

Certain regional real estate markets have been hammered in the past year, losing 30%-50% of their value in places such as California, Arizona, Las Vegas and Florida. Those areas were also the places where things were most inflated on the upside, so they likely still have a lot of bleeding left in them which will unfold over the next several years. Locally we've seen some price declines but nothing drastic yet and we're nowhere near done nor are we in a buyer's market, yet. There are some deals to be had today, but it's a very selective thing. Some foreclosures and short sales are attractive, but you need to be a smart buyer. I expect a slow bleed for local real estate that may last 5-7 years. Some commercial opportunities nationwide are very attractive now after they've been hammered, losing 70%+ of their value. Some of these same commercial opportunities offer fat dividends, but it's unclear if the dividends are sustainable. After this adjustment prices will better reflect reality and not a bubble.

If you're in the market to buy or sell a home, be careful. What we've been seeing a lot of lately is a seller puts his/her home on the market. Let's assume the asking price is \$400,000. The offers will come in low, maybe \$250,000-\$300,000 and eventually a deal is made maybe in the \$325,000-\$350,000 range. Everyone thinks the deal is done, but when the appraisal comes in even lower than the then agreed upon price, perhaps \$305,000, no deal can be done unless the buyer is willing to pony up additional cash because financing is limited to appraisal values.

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## Water World

We live on a planet that is 70% water and debates stir over what people are doing to the world, if anything. I recently saw a documentary about global warming that was quite powerful, illustrating the melting of the glaciers, rising of the oceans and warming of the planet. In a meeting one day the following week Eric and I were discussing this topic, melting glaciers, etc. and he had recently read a few equally powerful studies showing the opposite in other parts of the world. I don't think anyone knows what will happen long-term with our planet and how much of an impact we can make on it. I also think it's hard to tell how responsible we are for the current changes.

One thing we do know for sure is that with a swelling population people are in need of water. Water is a necessary part of life but the water we need is becoming scarce in some parts of the world. The oceans are swelling and there is plenty of water there but we cannot drink it. India is short on water, California is short on water – it seems like water is short in areas where the population is surging or where agriculture is demanding irrigation. There are clear changes in weather patterns and this June Connecticut was like living in Seattle while Seattle was nice and dry and sunny. There is nothing we can do about what Mother Nature dishes out except learn to adapt and deal with it or move or die.

Thirsty people aren't likely to move or die so we try to apply technology to solve our problems. Desalination is a technology that takes salt water and removes the salt, making water that is perfectly healthy and safe for irrigation, human consumption, etc. This isn't a new technology as it's been used for decades on cruise ships, Caribbean resorts and some seaside communities. The beef with this technology today is that it isn't efficient and is power hungry. With the green agenda on the nation's radar screen this has suddenly become unpopular.

To further push the envelope new technology has been introduced to allow energy recovery along with desalination – a win win for everyone, even the politicians. This energy recovery system allows for the desalination process to have a reasonable cost by reusing energy already inherent in the

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The lesson to be learned here is to be very careful in today's real estate market. If you're a seller today, don't wait and think you'll get a better price in a year or two because you'll likely get a lower price in just a few years. Don't lose a deal over 10%-20% of the price today. It may take 5-10 years for the prices to be above where they are today because they'll still fall for a while, eventually find a bottom and then begin a slow climb back up. Prices are a function of supply and demand and there is a plethora of supply of real estate today. There are fewer buyers, tougher lending standards and less blind optimism about real estate. There are also a few million foreclosures that have yet to hit the streets that the banks are holding up to slow the bleed of both real estate values and their associated mortgage backed securities. As these properties hit the markets, they'll further depress prices.

The psychology of this problem is very interesting. Sellers still believe their home is worth what it was 2 years ago, a fallacy indeed but they hold onto that belief. Unlike securities where you get an instant value based on the market and it states where you are so you cannot "hope, pretend or pray" that the value is higher than it actually is. After last year's stock market blood bath we all wish we could do that with our securities, but it's just not a real possibility – the statement reflects today's reality, as tough to swallow as it may be! ☺ With real estate we can use whatever number we want, unless we pay for an appraisal the number in our head is the number, regardless of how invalid it is or how or when we acquired it.

Buyers know values are shrinking so they grossly underbid to avoid taking a bath on the deal and wait, and wait, and wait. Eventually we'll come to a place where things even out, but expect it to be a while. Sellers need to sell more than buyers need to buy so that is where the rubber meets the road. Once a seller holds onto something for long enough, they will eventually have to face the reality and make a deal on a price that the market will currently bear – it's amazing how time will change the number that the seller will accept on an asset.

Real estate is always appraised based on "comparables" that have just recently sold, typically within the past few months. When the market is raging ahead as it was until 2007, the houses seem to always grow in value after you bought them. You close the deal and a few months later the house is worth more. This is because everything real estate is going up in value in the market. Real estate isn't a live auction facility as securities are reflecting instant pricing; it's a delayed mechanism that is typically a few months to a year off of reality. As time unfolds, someone may invent a platform to allow people to trade real estate live, but that technology has yet to be created. Who will be the first to make this new platform?

In a declining market like the one we have today, even a current appraisal is likely an overstatement of value. The appraisal was created today with comparables of like properties that have sold in the past few months, if the market is still falling the value of homes sold 3-6 months ago is still above the value we have today, but no discount is figured in for the depreciation that has already happened in a depreciating market. This is unlike the securities market where it's forward-looking: people usually are thinking 6-12 months ahead in their pricing of assets. In real estate, people do the opposite and think 6-12 months behind on their pricing. Realize this difference and make the appropriate adjustments in what you're game plan is. If you'd like to discuss this, contact us anytime, this is an exciting time!

We live in a world of supposedly full disclosure. We have the right to know everything we need to make an informed decision and we should know where our money goes and who is doing what with it. In concept this is true, in reality it's all about politics. The full disclosure rules are very true and strong in some areas, completely lacking in others. Your investments in stocks, bonds and mutual funds are full of disclosures, that's why the associated disclosure materials are hundreds of pages long. I've been told by physicians the best sedative available isn't a powerful narcotic, but a financial proxy statement, prospectus or annual report! ☺ It's arguable the disclosure rules should be complete and simple enough that you shouldn't need an MBA or CPA to read the document. Also, legal documents should be simple enough that the average person can read and understand them in 2009 common language. Mr. Webster keeps the basic dictionary updated, but the law continues to use the oldest possible words in the world. ☺

Hedge funds have had a special exemption to the disclosure rule, but the dim bulbs in Washington are going to change that in a big way in the coming months. Congress has a special exemption on this too – their antiquated required disclosure forms are so nebulous, having such massive ranges in value for assets that you could call owning Lake Superior an "in ground pool." You could also simply state the value of real estate owned. Senator Dodd's home in Ireland has a supposed value of "just \$600,000" but that's was he says it's worth – I'd like see an appraisal on it. I love the way he says "just \$600k. Most would like to have one home worth \$600k, never mind a second one worth that. (I'd argue the home isn't an investment, but that's not the point here ☺). Unions also have a special exemption to the rule. If you're a member of a union, have you ever wanted to know where the dues go? Of course they provide you with benefits, pensions, representation, etc. but what about a full disclosure showing where all the money is going, how much the executives running the union are being paid, use of travel budgets, etc.?

The sad reality is that union bosses are no different from corporate executives in their greed, behavior and gross excesses. The only real difference is that they don't have to disclose where the money goes with any real detail. Unions can get away with a \$62,000,000 line item on a disclosure form that just states "contributions, grants and gifts to local affiliates." What a joke, how would the IRS look at your tax return if you put \$62 in a misc category like that, you'd be on the receiving end of a letter. That's a big money category and I'd like see in detail how that \$62 million was spent. How much to whom and for what!

The special exemptions extended to certain politically connected organizations is absolutely pathetic and is exactly what needs to end in our world. Everyone should be subject to same rules, whether they are for profit, non profit, union, non union, politician, civilian, military, etc. it just shouldn't matter. Push the elected dim bulbs to do the right thing and make everyone give up all pertinent information, in a simply understandable fashion so we can all make informed decisions. Why is doing the right thing such an issue that needs to be fought for? ☺

# Noteworthy News! ! !

- Congratulations to Ben & Theresa Camerota on the birth of their first child, precious daughter Anabella Grace! ☺
- Congratulations to Sean & Jennifer Delaney on the purchase of their new home! ☺
- Congratulations to Rosa Madia on the purchase of her new home! ☺
- Congratulations to Scott Metcalfe on his new position as a Director at Johns Hopkins University! ☺
- Congratulations to Nicolas Jolly, PhD. on his new position at the University of Michigan as an economist! ☺
- Our condolences to the Ives family on the passing of Bob's mother Marjorie Silliman Ives Morley. The loss of a wonderful person, mother, grandmother, great grandmother, friend, sister, and aunt.

## Gift Cards

This is a painful topic. Gift cards should be in the same category as time shares. They sound great and look sexy but they're nothing but aggravation at the end of the day. The rugrats get gift cards all the time on birthdays, etc. so I have all too much experience with the associated pain. I advise people to be careful with these things because they can charge you monthly fees if you don't use them, some charge fees even if you use them, and can eventually deplete themselves to zero if you don't shop right away. Forget the fact that you must pay \$5 to buy it. I really don't get it – let's pay \$5 to give someone a \$25 gift card. Just give them \$25 in cash and pocket your \$5. It's like lotto – a tax on people who are bad at math. I must give credit to the marketing people on this one. Only an American would pay \$5 to give a friend or loved one \$25 in plastic that has fees and aggravation associated with it.

The real kicker with these things is the exact change minutia. Let's say you have a \$25 card and spend \$10.89 at the store. Your balance is \$14.11, no problem. When you go to use it again, they cannot accept it, use it, swipe it, or anything else unless you know, to the penny, how much of a balance you have on this piece of plastic. To further bend the mind, there are no protections on these things – if the gift card was from Circuit City, too bad since they're out of business you're out of luck. No protection for loss or theft. Just give cash, please and save the fee and aggravation. Maybe we can start paying for timeshares with gift cards! ☺ ☺ ☺

# Water World *Continued from page 1*

process of removing the salt from the water.

There are currently 160 desalination projects underway worldwide so this isn't a small problem but a massive one. California is planning 20 alone. As a solution to less drinkable water, people are just taking the salt out of the ocean and using the newly-minted freshwater for their needs. Energy isn't our only issue the world, water is likely a greater challenge. If we have the technology to remove the salt from saltwater that's great, but if we don't have the energy to complete the process the problems go hand in hand. If we can find a way to do this water magic and simultaneously generate clean power at the same time we have a life changing winner for all of us.

We know very little about what gems reside deep in our oceans, especially the ocean floors. We are now using the ocean to generate electricity with buoys, underwater windmills and massive power snakes floating on the surface so each time a current or a wave comes by, it's generating electric power for us with no pollutants. That's great! Now the ocean is providing us with drinkable water in our dry areas or those areas with too many humans or too much agriculture. Now we must explore what is deep under the surface of the ocean, I'm sure many gifts await the first explorers to get there. Is the cure for disease in the ocean floor?

We've traveled to the moon and sent robots to Mars, but we are clueless about the depths of our very oceans. We have spent more on military might with our fleet of nuclear subs roaming the oceans to protect our country and our interests than we've ever dreamed of putting into ocean floor research. That tide is beginning to turn too. How many nuclear submarines capable of taking out any country do we really need?

In the years and decades to come we'll surely explore this last new frontier of planet Earth and it'll be quite interesting to see what we find. We all know about agriculture but few of us know about aquaculture – the raising of sea life by man in controlled areas of our oceans. This new water farming is the fastest growing segment of world seafood production and currently accounts for 25% of all the seafood you eat.

Based on estimates of seafood demand growth, aquaculture will need to increase 700% in the next 20 years to meet demand growth. This aquatic farming is a very un-natural part of the oceanic ecosystem. Not any more different than land farming but a new frontier for man. As we begin to explore our ocean hopefully we don't disrupt or ruin parts of it, but just understand what is there and enhance our planet and our lives with the earth's gifts. ☺



## Money Quiz

Last month's quiz was won by Scott Fellows, Ed.D., Congratulations! The personal savings rate in April 2009 was 5.7%, up from 0.2% in March 2008! It's amazing how a recession will scare people into saving money! ☺

This month's challenge is to tell me what the investor does when the going gets tough. At the last market peak on 10/09/07, the S&P 500 was at 1565 and investors had \$2.9 Trillion in cash. At the recent bottom on 03/09/09 the S&P 500 was at 677 – how much did investors have in cash at the bottom? More than at the peak or less? You don't need to be exact, just within \$100 million. ☺ The winner will enjoy lunch/dinner on us at Chili's. 060809:5☺

## Cash For Clunkers

The dim bulbs in Washington are at it again – they're going to give you incentive to buy a new car. The incentive is only if the new car is more fuel efficient than the old. We'll know the specific details at the end of the month as the planned rollout is July 24<sup>th</sup>. This is a twofold effort – try to consume less petroleum products while simultaneously getting people to buy new cars and keep the economy going.

My take is don't do something because of government incentive. Buy a new car if you need one, but not because the government is providing a carrot. The same is true for the home buyers credit – with that wait for sure because even with the home buyers credit once you buy the house in today's market, it'll depreciate and you'll lose whatever you gained with the credit, plus some.

People need to get used to the fact that the American spending spree is over and we've entered into a new era of fiscal conservative nature. For those who have the money, they can do whatever they want, but they don't and that's why they have the money. Those who were living above their means cannot anymore as the foolish tools that allowed them to behave so irresponsibly are gone. It's better to be in this new fiscally responsible world than in the prior one. It'll take time to adjust to the globe consuming only 9 million cars per year and not 15 million. It'll take time to adjust to everyone cannot own a home. It'll take time to adjust to we just don't need so much junk in our lives. It's an adjustment, but it's all good. Maybe rather than cash for clunkers we should learn to enjoy one another more! ☺

## Teachers, Doctors & Educators

Those responsible for teaching and healing our society to better itself are getting the short end of the stick with a historically great institution. TIAA-CREF is not the entity it once was, the powerhouse non-profit which did all the right things. It's now a juggernaut but is no longer the low cost provider or best solution. We work with a lot of teachers, physicians and professors and TIAA-CREF is the dominant provider of retirement plans, 403(b)'s, 457 plans, pensions, etc. to the educational and medical world and our great state uses them too now.

Most of us have a retirement plan that we put our money into via pre tax contributions from our paychecks and maybe we get a match from our employer, maybe we don't. Either way this plan is easy to understand, whatever you have in it is yours when you leave, assuming you're fully vested at the time. If you're not vested you get your money and a certain percentage of the employer's money. Some of us are fortunate enough to also have a defined benefit pension that pays us a fixed amount of money per month based on a formula that was pre determined. This plan isn't easy to calculate but you're given an annual statement that clearly details what you're entitled to. That is all fine and that's what most people expect when dealing with retirement plans.

All that simple retirement planning is turned upside down when TIAA-CREF enters the arena. We have dealt with them hundreds of times, and it's rarely as simple as what I just described. We just retired a local college dean and there were 11 sub plans within the plan, or what he thought was one plan, maybe two. All of this comes on one statement with no differentiation as to what is what so the belief that there was one or two plans was very logical and most of us would have come to the same conclusion. Of the 11 sub plans we had to deal with some of them were liquid and could be changed as the owner saw fit, rolled over, withdrawn, etc. and there were some that had to be paid out to him over 10 years, some that had to be paid out over a lifetime and some that were simply stuck where they were, in a fixed account for a prescribed number of years and he had zero control over, period.

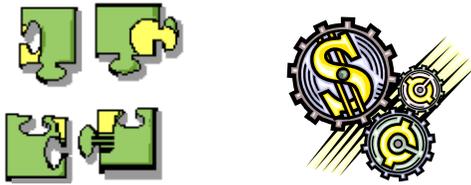
It's great to have the retirement plans and be prepared for the golden years. It's also imperative that you understand what you have and how it works. A clear understanding of what is what and what your options are well in advance of when you'll need to think about making decisions is critical in improving your financial outcomes. You'll need to think about this typically years or decades ahead of when you plan on making any decisions pertaining to these assets. How the plans are structured will change how you behave and what you do with other areas of your finances. There is absolutely no reason to make things this complicated in an already complicated field. If you or a loved one has TIAA-CREF or any plans at work or even personal that you'd like a clear understanding of feel free to call the office and we'll work with you to get to the bottom of the situation so you can make decisions that will improve your financial outcomes. ☺

# Inspirational Quotes

# Kids Korner

- *The most effective way to do it is to do it,* Amelia Earhart
- *The grand essentials of happiness are: something to do, something to love, and something to hope for,* Allan Chalmers
- *Once you choose hope, anything is possible,* Christopher Reeve
- *A sobering thought: what is, at this very moment, I am living up to my full potential?* Jane Wagner

Social vs. economics is the current bout of the century for our youth and for some adults out there too. My rugrats have learned at ages 7 & 9 the social pressures on them that are more about social status and being cool than anything else real. Does your elementary or middle school child "need" a cell phone, iPod touch or laptop computer? Absolutely not, but the social pressure they're under to have one or all of those gadgets is real. Most high schoolers don't need this stuff either. That causes them to pressure us and they're relentless, so we finally give in and find numerous reasons to intellectually justify the emotional purchase. Talk to the kids openly and teach them the difference between being responsible with limited resources and just having stuff because their friends have it. Teach them that the dog chasing his/her tail is about the same as people chasing purchases their whole life looking for happiness or bliss that isn't ever going to be on the other end of any purchase. ☺ ☺ ☺



**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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