

Owners & Loaners

Every entity in the world works on this principle, owners & loaners. I don't care what you do or for whom, the entity is driven by an owner or a loaner. Every entity in the world has an owner, and some of the owners are loaners, some entities have both owners and loaners. Let's look at it from a personal perspective. We all have some type of occupation, or least we once did if we're retired. ☺ The available places to work are a local business, a big business, a global business, a non-profit organization, a school, town, state or federal government agency. That's it; there are no other options out there for employment. If you're self employed you work for yourself and you are a small business. If you work for a business, any of them, the business is owned by someone or something.

The owner of the business can be one person in a small business such as ours, or it can be hundreds of thousands of people and organizations in a big business such as IBM or GE. For government entities we all supposedly own a piece of them as this is a democracy, it's for the public good. The government entities get revenue from taxes and loans. The loans come in the form of bonds. All government entities issue bonds, which is really borrowing money from people like you and I, to operate day to day.

Taxes come in as revenue for government bodies under various names, but they're all taxes. Let's look at some of the taxes we pay, some obvious, some not so obvious: income taxes, sales taxes, property taxes are the obvious ones as you see them and they're often large. There are taxes on virtually everything –

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Left, Right & the Middle!

Whatever happened to the middle? What ever happened to everything in moderation? I'm a strong believer in both concepts of balance, both a seemingly disappearing practice. It seems as though our great country has gone more and more to each extreme and although it may be the minority of people in those places, they generate seemingly most of the noise. I'm talking about all aspects of life from politics to finances to education to church. We need to get back to the middle, have balance in work, life, family and every other aspect of our world. Imbalances create stress, pressure, illness and a host of other issues. Let's tackle some of the financial imbalances in our world today and how I think they may be beginning to get corrected, and others that need attention.

The pay structure afforded to many corporate executives is anything but rational, fair, logical or just today. No person on the planet is "worth" tens or hundreds of millions each and every year, I don't care what you do or who you are. At a certain level the money simply becomes a scorecard, a right to brag, a boost to the ego! Corporate executives should make more than average employees, but how much more? Nobody knows but the numbers keep getting more and more out of balance. Historically executives made 20 times what the average worker made and although that is high, it can be justified as they do work a lot more, have much more responsibility, require vision, education and leadership, which few individuals possess. Today the ratios are out of whack and some executives are making hundreds of times what the average worker earns.

This needs to end, and it may be beginning to end now. Last year's financial fiasco highlights the injustices in the system. As firms were failing and getting help from the federal government, they were simultaneously bonusing out billions to employees, leaving the taxpayers and shareholders potentially holding the bag. There is a lot of gaming the system going on in corporate boardrooms in America. Compensation committees are doling out pay packages that are ludicrous and unfair to the bulk of the population. I'm not against anyone

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before you filled your car with gas it was taxed 5 times from pumping it out of the ground to getting it in your gas tank. On your utility bills there are a plethora of taxes that have names such as 911 surcharge, safety fee, line fee, etc. Lotto, gambling and all forms of scratch off tickets and lottery type games are nothing more than taxes on those who are bad at math. Tell this to your children the next time they whine about math class and think they'll never use what they're learning in real life. ☺ The newly enacted "Cap & Trade" policy, the extra cost on the alcohol and cigarettes you pay are taxes. The fee to hold your professional license, the fee to hold your driver's license or the fee to register your car, the fee to enter a state park, the fee to license your dog are all taxes under different names. Government entities exist on taxes they levy and loans they get from you and I in the form of bond issuances.

At the end of the day, regardless of your employment status, you are an owner of something or lending money to something whether you consciously choose to or not. You may not own all of something, but you have a built in interest in the way our financial system is structured. Some people believe they have nothing to do with most of the world and live in a little vacuum. Nothing could be further from the truth. It's actually quite impressive how the world works and works well. We have 6 billion people on the planet all working to take care of ourselves and one another, get ahead and promote the greater good.

For big businesses there are often owners and loaners. When a business owner decides to raise money for a business purpose, she can either borrow the money or sell an interest in the business to raise the required capital. Both ways work well, but both have different risk and reward characteristics. Loans are typically viewed to be much safer, especially if they're backed by specific assets such as real estate, plant or equipment. Ownership has risks because the business could close if things go bad. The returns are commensurate with the risk assumed – since bonds are typically viewed as low risk, they typically pay a low interest rate. Ownership is typically viewed as high risk, but also offers the opportunity for large rewards.

Instead of involuntarily making a decision as to how you're going to go, understand the system as a whole and make a conscious, responsible decision about whether you prefer to be an owner, a loaner, or both. For those that are self employed or employed at a high executive level running a company, they're often much more at home in the ownership role. For those who work for government or nonprofit entities or have no ownership or executive controls, loaning often feels more at home. There is no right answer for everyone. We're all different people and have different values, beliefs and feelings so don't let anyone railroad you into a particular path. In today's environment there are great opportunities for both owners and loaners. It's a wonderful world out there, if you're looking through the right lens. ☺

Leverage Leaks

In elementary school the teacher taught us about leverage by using the example of a see saw in the playground. If the fulcrum is in the middle of each seat there is really no leverage, but as you move that fulcrum closer and closer to one seat or one object on the end, you develop a lot of leverage with the other end, the longer side of the board being available to move the load or whatever is on the seat on the other end of the board. The leverage principal works with straight boards or beams just as well as with ropes, chains, gears, air pressure, hydraulics, cables, etc. With physical objects, seeing the leverage principal in action is relatively easy. We see it in operation daily with cranes, pulleys, bicycles, socket sets, construction equipment, brakes, etc. Physical leverage is employed in many applications in our world, mostly to make work easier for us. It's a wonderful tool and works well most of the time, but when it breaks it can be a train wreck because the leverage causes pressure to multiply in a big way. Think about how little force the woman uses in operating the controls of a crane from her perch high above, but she may be lifting an object that weighs 200 tons. Should something break in that system, the pent up energy causes a real shock in the system and when 200 tons falls to the ground, we all know it.

We cannot see financial leverage in day to day observation in our world even though it is used just as much as physical leverage is. The people that are typically using leverage are trained professionals and really know how to use it, but now we have the financial world marketing leveraged products to the average consumer and you must be ware. The ETF (exchange traded fund) manufacturing machine's newest kick is to offer to the public the opportunity to buy products that will perform much more extreme than any particular index or standard. An example is a three times Dow fund, if the Dow Jones Industrial Average goes up 10%, this product will go up 30%, and vice versa. The sword cuts in both directions so tread very lightly here; you must know what you're doing before you start using these tools.

Would you feel confident in your ability to operate a crane or a jet with no training? Absolutely not unless you're a male with an extreme case of ego! The financial world somehow sees fit to offer to the public leveraged tools that have the capacity to make real money, but also have an equal or perhaps larger capacity to lose real money. Most people shouldn't be using these tools or if they're using them, they should do so sparingly, they're not simple and they can really backfire.

The financial industry is more interested in making products to sell than in educating you as to how to invest well. If you'd like to discuss this, contact us anytime. ☺ ☺ ☺

Noteworthy News! ! !

- Congratulations to Kevin & Michele Gaffney on the purchase of their new home! ☺
- Congratulations to Marc Bibeau & Dawn Schibi on the birth of baby Landon, rugrat #1 for the family. ☺

Fishing For Data – Human Phishing

We all know how to fish for trout or bass, but the new era criminals have created a new breed of fishing. Phishing is when you get an electronic communication that appears to be from a legitimate source, such as your bank, insurance company, state agency or the IRS. These agencies typically don't reach out to people electronically, it's almost always by mail. If they do happen to send you an electronic communication, it's not for the purpose of trying to get you to reveal data, confirm data, tell them something, etc. When you get a communication asking you to provide information that the organization already has, be very suspicious.

The typical person to do such a thing is a very smart crook who is hoping to get your personal identity information to go on a shopping spree, on your dime. They look for all of your personal information such as date of birth, social security number, driver's license number, bank account number, credit card number, mother's maiden name, etc. Never, ever give out any of this information online or on the phone when someone calls you. If you think the call may be legitimate, call them yourself with a phone number you look up, not one that is given to you via email or telephone. Crooks can set up a phone line to seem like the real deal, but really be an imposter.

The IRS never communicates electronically, even though they allow us to file electronically so any and all emails purported to be from the treasury are fake. If you get something you suspect is garbage, forward it to the IRS at phishing@irs.gov. If you do need to communicate with the IRS and you're not letting your accountant handle it for you, it's always best to send all correspondence to them via certified mail return receipt. Document all your phone calls, with whom you spoke, all reference numbers from prior correspondence on the information you send. Keep all of your printed records and be sure to do everything in writing, but never by fax or email with the IRS. We're seeing a lot of errors in reporting basis on investments, student loan interest and rollovers, and now is when 2007's letters are going out. If you need help on this call and we'll work with you to get it right. ☺

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working hard and getting ahead, I'm doing the same thing, but it cannot happen by gaming the system or unfairly at someone else's expense. Bonuses and stock options should be for when times are good, not when the sh#@ is hitting the fan and we don't know what tomorrow is going to bring, or if the company will exist tomorrow. We have the same type of gaming going on when companies reprice stock options for executives when share prices tank. If the share prices tank and the options are underwater, that's how the system is designed to work, repricing options should be a criminal offense, resulting in hard time. It's just as criminal to do that, effectively stealing from every shareholder on the planet, vs. robbing a bank or knocking down a 7-11.

The SEC (Securities & Exchange Commission) is currently getting a whipping for agreeing to give Bank of America a \$30 million fine for the bonuses paid to Merrill Lynch executives in the wake of the Bank of America takeover. The judge has ruled that the fine is a joke, and that the shareholders shouldn't pay. The agreement has been overturned and we're going to trial. There may be criminal and civil charges against company executives, and that is exactly what we need. When the bosses finally realize corporate coffers are not their personal piggy banks and their responsibility is to protect the company and shareholders, not their best interests, the world will be a better place.

Politicians should take note of this trend, they're the next in line for a good behavior correction as they clearly are owned by special interests and not representing the American people anymore. Who is the biggest donor is who is getting represented. The bar association owns our politicians, period.

It's not just in the land of the ivory towers where we see extremes in our world today. Unions are just as guilty of extremism today as the executive are. In the days long ago before labor laws when we had sweat shops and other employee abuses, unions were an absolute necessity to ensure people were not railroaded by companies. Today unions are the ones railroading the public. Towns and states cannot pass budgets because union demands are simply out of control. In a world where job security is a thing of the past, for municipal employees to demand the best benefits known to man, defined benefit pension plans, and higher than average wages, it's just a matter of time before the camel's back breaks. It would be nice to see union members view the union bosses pay and benefit packages to see just how closely they resemble those of other corporate executives. Also to see how different they are for rank and file employees, there really is no difference, the unions today are just big companies driving big paychecks for bosses and members. It's just a matter of time, but these injustices will equal out, either by force of law, by the actions of a few people, or by the laws of economics, either way the current path is not sustainable.



Money Quiz

This month's challenge is to tell me how many crooked bankers were sent to jail between 1990-1995 in the wake of the Savings and Loan crisis. Last month's winner was Eric Larson, the national vacancy rate for apartments was 7.5%. The winner will enjoy lunch/dinner on us at Chili's. 091409:12©

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The Riot Act

Most people on the planet now realize we're not going to experience another great depression as we did in the 1920's. Not everyone realizes this, but most now do. ☺ 2008 was the year where people prepared for another depression and the world had a recession. It was a big recession but just a recession and they're a normal part of an economy. We had known as a firm that the housing was grossly overvalued for a long time, but had no clue that when that bubble burst it would cause a global financial panic. Looking back, it's clear to see that a lot of the issues precipitating the chaos can be traced back to rating agencies.

Rating agencies such as Moody's, Standard & Poors, Fitch, etc. are paid to assess a securities risk. The rating agencies mostly assess bonds and insurance products for safety. Many mortgage backed securities were incorrectly rated as really good and safe (rating score of AAA, AA or A) when in reality they were really bad, (maybe deserving a low rating score of CCC or below, all such ratings are in junk bond territory and considered quite risky.) The rating agencies didn't good a thorough job of investigating all of the layers of these products, often going 40-50 layers (referred to as tranches) deep. These offering documents go into the millions of pages, each.

In the wake of this mess the SEC rightfully has the rating agencies in its crosshairs. Look forward for a lot of new rules to come about in how rating agencies operate, who pays them, and what other services they're allowed to perform. Now we have a system that is being gamed by the company offering the business to the rating agency offering the best quality rating to do the work.

Cheap vs. Expensive

A lot of things in the world are cheap right now. It's a wonderful time to be a shopper of virtually anything as you can get a good value for your money. People are hard pressed to sell things, especially higher priced luxury items as the market for many of such things has evaporated. It's not a universal rule, but there are deals to be had in many areas today. For the most part, stocks are quite cheap here in America. Small company stocks offer a better value today over their large cap brothers. Some of the biggest names in stocks are not so cheap anymore, even here in America. Overseas also offers bargains, but not in all places. China seems anything but cheap today, with them having almost double digit gains for the year the prices aren't cheap. They also have massive growth potential so perhaps it's priced in but I love a screaming deal and I don't see any to be had there right now.

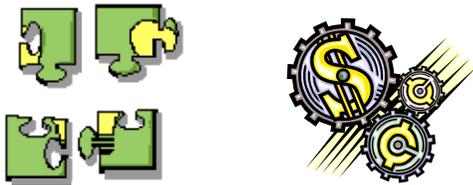
Many bonds remain very attractive as well. Bonds typically offer very limited upside but after last year when even bonds were murdered, some for good reason and others simply because of guilt by association, there are great opportunities there too. Not all bonds offer good values – I wouldn't trust a municipal issue from California as that state may soon need to declare bankruptcy. If the dim bulbs in Hartford don't find a way to get smart and cut spending we may be in the same boat in a few years. The paths some states are on are simply not sustainable.

Real estate presents some select opportunities across the country. Commercial offers better values today than residential but there are residential deals to be had from banks and lenders via foreclosure or short sale anywhere, if you're patient and you drive a hard bargain. Real estate will become much more attractive in the next few years so don't feel rushed to buy something today. The real estate pendulum takes years to swing back and forth, not months so we may have a period of 4-5 years where prices keep on falling. Patience is the investors friend, be slow and methodical and you'll do well.

Commodities are expensive. I hear all day long about people telling me how well their gold is doing. This is a medical profession killer, more physicians have gold than any other group I see. Perhaps they listen to the radio the most? Whatever the reason, understand commodities are expensive today. Gold reached a high of \$1000 an ounce in 1981, then dropped for the next almost 30 years. Just recently it again eclipsed this number, but it's at a high today, not a low. To be a successful investor, you must be able to buy assets when they're low and do not look good. Buying them when they're high is easy and isn't likely to make you a lot of money. I suggest you buy what is low and buying what is low feels bad to the average investor. When you get used to it, you'll get excited about buying low, you'll understand it's like going to the store and getting your groceries on sale. Today's sale prices are 25-80% off a lot of investments, this is the opportunity of a lifetime. © © ©

Inspirational Quotes

- Think wrongly, if you please, but in all cases, think for yourself, Doris Lessing
- History never looks like history when you are living through it, John W. Gardner
- Wanting to be someone else is a waste of the person that you are, Kurt Cobain
- The world can only be grasped by action, not by contemplation, Jacob Bronowski
- A single twig breaks, but the bundle of twigs is strong, Tecumseh



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

Kids Korner

For the kids you know who are driving or close to driving, educate them on the dangers of texting in the car. A young driver is 23 times more likely to have a car accident if they're texting while driving rather than paying attention to the road as they should be. This texting is big business for our children, some of them send 6-10,000 text messages per month. On the low side, this is 200 texts/day, which is 12.5 texts/hour assuming you sleep 8 hours. That's a text every 4.8 minutes. Holy cow! I guess it is how generation Y communicates, and that is fine, as long as they're not doing in the car while driving. There are currently laws prohibiting cell phones in many states without hands free devices, but texting is often excluded. We don't need another law here, we need parents to make sure the kids use common sense. The world could use a whole lot more common sense and a whole lot less law. ☺ ☺ ☺

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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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