

## China and the U.S.

Tensions seem to be heating up between the two economic giants in our world. People here are used to America as being number one in everything, from the industrial powerhouse to the economic powerhouse to the best in athletics. Moving forward, nobody really knows just how things will unfold, but I'm guessing we will not continue to lead the globe in every category.

The number one thing to remember here is the quality of the conversation is only as good as the quality of the data used to analyze the situation. There are a lot of issues with the data in our world today so take virtually everything number and data wise you hear with a grain of salt. To focus on data for just a moment, here is how we compile oil data in America. This genius method has just been audited and found to have "critical shortcomings," and I believe this is just the tip of the iceberg in data we're fed on a daily basis by our government. The oil data collection began in 1983 and hasn't changed since, what a joke. Wednesday mornings at 10:30 is very important in the oil business, the major event in the markets. The data is collected from thousands of facilities and the number of barrels of oil stored in the country is then known. This is a manual system with virtually no automation and subsequent auditing reveals mistakes that are large enough to drive spikes and dips in prices. I think in 2010 we can have a centralized, electronic, verifiable method of counting the countries oil inventory. Perhaps the government should outsource this job to UPS or FedEx; they'll get it done quickly and efficiently. Now also realize the data the U.S. produces is likely some of the best data in the world, not just on the oil front but overall reporting. This will give a whole new

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## Lowball Offers

Who doesn't want to get a killer deal on what they're buying? It doesn't matter what you're buying, it always, without exception, feels good to get a deal. The better the deal the better you feel. I don't know of anyone who is unhappy about a good deal, in fact, most people are elated when they get a deal. To get a good deal you must be lucky, opportunistic and not afraid to make a lowball offer. People in my business claim that we're all super smart, this business is one of the most complicated in the world, blah, blah, blah and that makes them the best investors, that's a bunch of baloney so don't believe a word of it. We've done well for you not through our super smarts, but more through a lot of perseverance and luck. It doesn't hurt to be intelligent, but the perseverance factor and looking at things unemotionally is more important than purely IQ. If you turn over enough stones you eventually find what you're looking for. Believe me, we missed a lot more great opportunities than we've taken advantage of, but I have no regrets. We're very blessed and we don't deserve the position we have or what we have. ☺

You all know I'm not afraid to make a lowball offer on a purchase. Whether that purchase is a car, a home or any other item, I'm happy to see if I can steal it. In general, the seller of something needs to sell it more than the buyer needs to buy it; this is where the opportunity comes in. Auctions are a great place to get deals and trading markets in our world today are nothing more than sophisticated auction markets.

There is a relatively new tactic out there in the financial arena for people to potentially be taken advantage of. This tactic is to talk people into selling their shares of illiquid limited partnership units where an orderly market no longer exists for pennies on the dollar. It's a real professional, partially misrepresented correspondence that goes to your home or business. We're getting a rash of phone calls lately due to these solicitations sent out in an attempt to convince you into allowing them to purchase shares of the limited partnerships you own, for pennies on the dollar. Most of the time, it doesn't make any sense to sell your units. We have a few instances where selling the units is painful, but the only option today.

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meaning to taking things with a grain of salt. ☺

This data process proves that markets responding to information that everyone believes is rock solid is really a fantasy. We had price spikes in oil of 2-3% in days as a result of bad data, nothing in reality. The bottom line is people are too hypersensitive to data that comes at us every second of every day. We just don't need to be reacting to things every second as we've become accustomed to doing.

As countries all over the world face mind boggling budget issues, the U.S. wants China to stop pegging the value of its currency to ours; the U.S. is claiming that the system gives the Chinese an unfair competitive advantage in the world. I agree it does indeed do just that. China is simultaneously claiming that their exporters have only a 1.7% - 2.0% profit margin and to make the currency float freely, it would mean that currency would have to appreciate by 20-25% that would effectively put the Chinese export industry out of business. If these claims are real, the Chinese export industry is going to implode either way; no business is sustainable with a 1.7% - 2.0% profit margin.

China is simultaneously setting up rules and policies that are unfriendly to monster corporations who are there, attempting to gain access to the massive population there. The companies are claiming that the new policies are discriminating against foreign companies and that those companies are forced to share their trade secrets with governments and local competitors.

The data in China is arguably worth trusting, S&P just issued recent warnings that the debt ratings there are not what they claim they are. China's banks are almost entirely state controlled and in 2009 lent \$1.4Trillion, double the amount lent in 2008. That's pretty amazing growth and not at all sustainable. Much of the loan growth is for infrastructure projects and stimulus spending to protect their economy from the recession. Reports are that up to 50% of China's GDP is government spending on infrastructure and that a true snapshot of the country's debts and assets cannot be seen because shell entities are set up to loan money through. It's not permissible for local governments to borrow directly from the state controlled banks, so they borrow through these shell companies and the numbers are difficult to quantify. It sounds to me that the Chinese have paid special attention to Enron accounting, valuing the energy contracts at fallacious values. S&P is projecting problem loans in China could reach 10% of total loans by 2012, a level that would wipe out many banks, government run or not without more capital. Another issue in China is the inability for the population to consume. They're the reverse of us, they save all of their money and consume very little. Only 2% of the Chinese population owns an automobile. If this market develops as ours has it's a mind boggling market, but I don't know that it can.

## **The Bank Waste**

Banks have been under a lot of heat in the past few years and for the most part rightfully so. They made a lot of downright stupid mistakes, and for those mistakes they should pay dearly. Not all banks are bad and many were responsible, but they're guilty by association at this point and all are feeling the heat. One thing that has been a blessing for banks and a curse for consumers is the pathetic interest rates of today. I'm not sure if you can really say you're getting "paid" an interest rate if you leave your hard earned cash in a bank account and it "pays" you 0.1%, 0.25%, 0.50%. Those are all technically rates, but they're pathetic in every way. I feel they're downright insulting, which is why I leave very little, if any, of my capital in bank accounts. When is the last time something went wrong in a bank transaction and they charged you 0.25% or 25 cents? It's just not going to happen; you're going to take it on the chin for that error, oversight or whatever it was. ☺

From the banks perspective, this is big business. They can pay you virtually nothing on your money to accumulate it, and then they can take it and use it to earn whatever rates they do on it, keeping the spread. Banking is arguably the best business in the world; they don't have a physical product. They pool money from many people and collect it at low rates, sometimes no interest rate at all, put it all together, and then put it to work at whatever rate they can get, and keep most of the profits. They get a much better rate than they pay, or they'd be out of business. They always make money on the process. The same premise is true for casinos, they're not building those campuses because you are a winning gambler, and they're building the campuses because you lose much more often than you win. I'd like to be in either of those businesses. We are to a large degree owners of many banks, our portfolio's are highly tilted towards banks, financials and insurers today, where we see values that I have never seen before.

As an investor what's going on is great for us as owners of the banks. The spread, or rate we're making on depositors money after we've paid them is healthy, very healthy right now. As a consumer it's not good stewardship for you to leave your hard earned capital in a place where you're getting nothing, or virtually nothing, on your deposits. There are many alternatives to savings, checking and money markets. If you're going to need the money in the next few months for a purchase don't bother, but for longer term money don't let

- Congratulations to the Morris/Deschaine family on the birth of baby Evan. Another rugrat for everyone to love and another grandbaby for Pam Morris – you can never have too many rugrats! ☺
- Our condolences to the Ward family on the passing of Shawn's mother, the loss of a wonderful woman, mother, sister, wife, grandmother, sister, aunt and friend.
- Our condolences to the Pinette family on the passing of Mike, Jason & Michele's father and Norma's husband, Julian. The loss of a wonderful man, father, husband, grandfather, brother, uncle and friend.
- Our condolences to the DiCorleto family on the passing of Linda's husband Tom, the loss of a wonderful man, father, brother, uncle, husband and friend.
- Our condolences to the Michaud/Stahl family on the passing of Tracy's aunt, Geraldine Munson, the loss of a wonderful woman, sister, wife, mother, aunt, grandmother and friend.

## Water Woes

I'm not talking about California or Nevada here, although they have water problems of their own. It looks like this year they'll actually get a lot more water than once thought with all the rains we've had lately. The real craziness comes in Venezuela where the water level at the country's largest hydro electric power plant is so low they cannot make enough juice for the grid. The Venezuelan people rely on the Guri hydroelectric plant for almost 70% of the country's electricity. The rains that usually begin in April and May are ultra important this year, if they don't come the grid there may collapse.

Hugo Chavez has been quite the stand up leader there, feeling free to just nationalize companies as he sees fit. Now in a post Nationalized situation where there hasn't been the investment in infrastructure since there is no reason to do so, why would you invest in your business or your property when at the whim of one nutcase they government could just take you over and kick you out.

The genius response to this crisis by the government is to issue rolling blackouts throughout the day. Some parts of the country now have no juice for six hours per day. The next response is to order a mandatory 20% reduction in electricity usage. Lastly, they ordered a 50% reduction in commodity production and forced some businesses and factories to close for 1 week per month. They've also turned to praying for rain as a solution to their woes. I'm all for praying and faith, but I'm just not sure this is going to solve the country's politics. Whatever problems we have, they're nothing compared to what a lot of people in the world face on a day to day basis. ☺

Here is how limited partnerships work. You buy into this entity and it's not traded on a stock exchange but shares are issued and redeemed by the issuing company. Very much like open ended mutual fund shares, minus the part where they're priced and traded on stock exchanges. Let's say you buy into ABC partners, the only way to buy shares or redeem shares is through the partnership. The same is true if you're buying the an open ended mutual fund, if you want buy or sell the Pimco total return fund, the only way to do it is through Pimco, there is no secondary market for this tool. The biggest difference here is that fund shares are priced live, daily through exchanges and limited partnership interests are generally not priced, offering the fixed price option for those who dislike the world of moving prices. The prices really do change, but they're not being appraised often so the true value is a complete unknown, until you pay for a new appraisal. This is like your home, it's worth whatever your best guess based on what the neighbor just sold hers for, plus or minus a little based on who's house is bigger, badder or in better shape. ☺

Historically, these limited partnership interests had a fixed share price, typically \$10.00/share. In the past few years, even these historically stable investments have come down in value. With the big market meltdown, many firms are now reappraising the shares and the price is indeed coming in below \$10.00 each. With the train wreck of 2008 having wrecked peoples psyches, many investors began cashing in their shares fearing the world will end. To prevent a mass redemption of shares, to preserve cash and protect all the shareholders of the limited partnerships, the companies responded with closing their share redemption program to avoid a "run on the bank" scenario.

Without the share repurchase program, many of these programs are completely illiquid at this point. This doesn't make them bad, it just makes them illiquid. I don't like this type of illiquid investment at all and have never been a big fan of partnership style strategies. The current environment isn't a normal one and it will end. The companies will again open the partnerships for redemption and the shares should become liquid again at some point. The firms offering these partnership interests are currently non committal on a timeline as to when they'll reinstate the repurchase programs. If you're not in dire need of the money, the best thing to do today is just wait. When the shares are spun off as public companies, open for repurchase or whatever other disposition strategy opens up, then is the time to think through the best strategy. The firm soliciting you today to scare you into selling your shares cheap is CMG partners. Take what they say in their solicitation to you with a grain of salt, and don't sell your shares to them for pennies on the dollar. ☺



## De Stressing Our Lives

### Money Quiz

This month's challenge is to tell me just how quick the Government works – what is the average processing time for a social security disability application? Last month's quiz wasn't won. A stock market correction, defined as a drop of at least 10%, happens once every 328 days from 1928 to today. The winner will enjoy lunch/dinner on us at Chili's. © 031510:13

### Stock Certificates

These tools of old are likely to go the way of the dinosaurs. They used to be purchased and stored for generations in safety deposit boxes, bank vaults, and safes across America. Today holding onto physical stock certificates isn't recommended. As changes occur with companies, those who hold the physical certificates must be willing and able to interact with the rainforest of paperwork necessary to make things happen today. If a company is purchased, reorganized, etc. there will be a flurry of paperwork necessary to facilitate that transfer if you're holding the stock in an account.

Be very careful to never lose your shares. This will be a painful experience you will not want to relive if you do ever lose your certificates as the custodians will require you to pay a handsome fee to have them replaced. The SEC is also calling on making new rules to make stock certificates a thing of the past. Now you can just bring your certificates in and we'll drop them in your brokerage account, then once you have them in an account, you're no longer responsible for their safekeeping, we are. The SEC is considering altering the rules to take investment advisors out of the game so we may not be able to help you with physical stock certificates if proposed rules go through. Why this is nobody knows it makes zero sense to have a complicated process made more painful by taking those who can help out of the equation. Bottom line is that if you're holding stock certificates; put them in your brokerage account so you'll never be hit with this craziness. Speaking of crazy, what is the difference between in-laws and outlaws? Outlaws are wanted! That's funny, I don't care who you are.

We all have plenty to worry about these days. One thing we can control is how we react to things, since we have zero control over what happens to us. It would be nice if we could control what happens to us, but we cannot so the other thing we can do is we can control our reaction to whatever happens. This is after the fact, whatever is going to happen already happened, and it makes sense not to worry about those things we cannot control. We are faced with looking any situation as an obstacle or an opportunity. I'm an eternal optimistic so everything is an opportunity to me, if an obstacle gets put up in my way, I'm instantly in a search to see how I can get around it, over it, through it or knock it down. There is always a way so never give up. People get wound up over all sorts of things, some of which they cannot control and some they can such as the weather, their health, friends, family, colleagues, cars, school, etc. The list goes on and on.

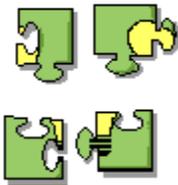
I'm just happy if I get to fog the mirror today, which is a blessing in and of it. Focusing on the positive is the way to go rather than driving yourself crazy over the negativity in the world –and they're plenty of it. It's raining today and I'm as happy ever, it's still a beautiful day and think of those who live in the desert or in draught ridden areas, they're praying for rain and we've got extra.

Venezuela will take any extra rain we don't want that we can somehow get to fall there. If there are things we cannot control and we've been dealt a bad hand, we must learn to cope and make the best of what we have. If it's a health issue, perhaps we can exercise more, eat healthier, quit smoking or do whatever it takes to help improve our outcomes. Whining about it and doing nothing is only going to frustrate us and suck those around you down, an outcome nobody wants.

The day to day minutia of our lives is also something we can control. Do we really need to be as busy as we all are? I know we want to be involved and we want our kids to have fun, fulfilling lives but I think to a degree we've reached a tipping point in how many things we can do and do them all well. So much of life is what we make of it and sometimes we make things too complicated. At UCONN, one of my most vivid memories comes from an economics professor of all people and his advice was to employ the KISS formula. KISS = keep it simple, stupid. Now we all know economics is a complicated subject, but after you understand the moving parts it's like anything else, not rocket science and you just do it. The bottom line is that we often make our lives more complicated than they need to be and we miss the best times because we're so busy racing from place to place, activity to activity that we cannot smell the proverbial roses. I think the best of times are just hanging around with family and friends in the backyard or at someone's house, and it's important we enjoy those moments, enjoy the now. Life is a journey! ☺

# Inspirational Quotes

- Dream as if you'll live forever, live as if you'll die today, James Dean
- You see things and say Why? I dream things that never were and I say Why not! George Bernard Shaw
- What is not started today is never finished tomorrow, Johann Wolfgang Von Goethe
- Really great people make you feel that you, too, can become great, Mark Twain
- It is not how much you do, but how much love you put into the doing, author unknown
- It is not how much we have, but how much we enjoy, that makes happiness, Charles H. Spurgeon



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

# Kids Korner

Mark your calendars for April 10<sup>th</sup> at 2:00pm at the Chadwick's house, 615 Plymouth Road in Harwinton. Rain date is April 17<sup>th</sup>, same time same channel. The madness escalates and continues this year; we'll have 13,000 Easter eggs and a new twist so bring the rugrats! Same format as last year, grouping the kids by ages and the eggs will be stuffed with "bunny money" and Cup and the girls turn the garage into the bunny store for the hunters to go shopping for prizes with their spoils. For the know it all teens and adults, we'll continue to have the riddle eggs, about 20 eggs will be incredibly hard to find, the only way to uncover them is to solve the riddles. Dress the kids so they can get dirty, because they will - we'll keep the water and mud obstacles alive. You can never have too many rugrats at the Easter egg hunt so please come. ☺ ☺ ☺

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- Mike = [mike@fiscalwisdom.com](mailto:mike@fiscalwisdom.com),
- Nancy = [nancy@fiscalwisdom.com](mailto:nancy@fiscalwisdom.com),
- Betsy = [betsy@fiscalwisdom.com](mailto:betsy@fiscalwisdom.com),
- Andrea = [andrea@fiscalwisdom.com](mailto:andrea@fiscalwisdom.com),
- Michele = [michele@fiscalwisdom.com](mailto:michele@fiscalwisdom.com),
- Maureen = [maureen@fiscalwisdom.com](mailto:maureen@fiscalwisdom.com),

## New York Directory (315) 682 0348

- Teresa = [teresa@fiscalwisdom.com](mailto:teresa@fiscalwisdom.com),
- Mark = [mark@fiscalwisdom.com](mailto:mark@fiscalwisdom.com),
- Jackie = [jackie@fiscalwisdom.com](mailto:jackie@fiscalwisdom.com)
- Tom = [tom@fiscalwisdom.com](mailto:tom@fiscalwisdom.com),
- Josh = [josh@fiscalwisdom.com](mailto:josh@fiscalwisdom.com),

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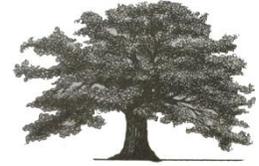
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