

## The U.S. & Japan

All of the supposed financial experts today, and there are more of them than there are mosquito's on the planet, are calling our issues today just like Japan's in the past. They're further arguing that the U.S. will have the same issues of a decade of nothing and we're suddenly going to turn into Japan moving forward. Although there are some similarities to the issues, this just isn't true. The Japanese financial issues had some of the same symptoms, but the medicine was very different. It took the Japanese government a decade to recapitalize the banks and create some policy responses to the issues.

As painful as it is, I must give some credit to our Federal officials for moving very quickly and heading things off as quickly as they did. The quick policy response and recapitalization of our nation's banks will provide for a very different outcome than Japan had in the post meltdown years. The inflation concerns also seem negligible as we're in a very low inflation environment today and deflation may be more of a worry than inflation.

This is a double edged sword with some very attractive benefits. All of this noise has people very worried about certain assets, and especially certain asset classes. Financial companies today are the bad guys. Nobody is pointing the fingers to where they need to be pointed and the financial firms are the bad guys. That is fine, regardless of the fact that the whole meltdown took a combination of flawed government policy, dumb consumers and greedy businesses, the latter are taking all of the blame. It's only a matter of time before the day of reckoning comes for the political class, but it is coming. Fannie Mae & Freddie Mac ultimately

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## Keeping it Together

This is a very sad part of our society, the number of people who cannot or will not keep their families together. I feel blessed that Cup and I have a rock solid relationship and our issues are typically very minor. We squabble about foolish things such as our response to the kids being kids. Luckily, all of our core values are compatible if not identical and we work together, each giving and taking where appropriate to find a common ground and provide a better outcome for all of us involved. Today it seems as though that is harder and harder to come by. If we had nothing but one another, I'd still consider us to be one of the luckiest couples on the planet. Nothing is easy today, there is no instruction manual for marriage or child rearing, but we wish there were.

I can totally understand why many people don't keep a marriage together and many times it's the best thing to do. There are problems in people's lives that are so large it's hard for me to fathom. From lacking trust to addictions to physical and mental abuse, controlling and manipulating behaviors, endless fights and arguing, sleepless nights, cheating, there seems to be an unlimited number of issues people face daily in their lives that many of us take for granted. How can one possibly focus on bettering their lives or the lives of their children when faced with a difficult, perhaps impossible and painfully uncomfortable lifestyle on a day to day basis? I have no idea, but my heart goes out to those struggling with such issues.

Nobody has any perfect solutions here but I hope for those not yet in an unhealthy relationship they search for mutual trust and respect and shared values. These seem to be the common elements that make a solid foundation for a long term relationship. Without these key ingredients, it seems as though any relationship will have enduring issues at best. If these elements exist and people can find common ground and each give and take, there should be the ability to have a chance at long term success. At the end of the day a relationship is a lifetime commitment and constantly requires work and sacrifice. Each participant needs to be fully aware of this and willing to make the commitment - forever.

Hopefully we'll see the success rates of marriage improve as time unfolds, it's so sad to think that almost half of relationships don't work. I have friends who in their 30's have two ex spouses they get to fight with and it's an awful situation to be in. Cup & I hope to celebrate our Golden

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have to be dealt with, but that will be after elections are done because there is just too much at stake for the lifetime political class.

All of this chaos is actually a blessing in disguise for us. These panics and big swings we've all lived through in the past few years have opened the door for contrarian investors to find pockets of opportunity. These opportunities are as great as I've ever seen in real life. I've read about these types of opportunities in the past, but this is the first time I'm blessed to live through them with the ability to identify and profit from them.

The pain and panic that was felt by us all in 2008 has been quick to reappear lately at any sign of a speed bump, but only on the surface and for a very short period of time. When anything pops up now that is negative or even less optimistic than expected, everyone seems quick to say this is next collapse. For a while earlier in the year the Greek debt bonanza made people think countries around the world would implode and we'd relive 2008 again. More recently we've had the "flash crash" which was going to lead to the second meltdown. Just a few weeks back it was the "double dip recession" that was going to lead us down another spiral. Many speculate there will be a commercial collapse of real estate as there was in the 1980's and it'll make the residential real estate meltdown look like a walk in the park. None of these gloom and doom predictions have come true and none are likely to.

It's likely that we in the U.S. will continue to climb slowly out of this recession and it may take several years to get to the levels of 2007. Just because this month's numbers are not as good as last month's numbers doesn't mean we're going back into a recession, it simply means we're climbing out slowly. Climbs out of a recession typically not linear, they are typically bumpy too and likely will be this time around. China has cooled off its growth rate and should come in for a soft landing as the infrastructure spending wanes and the currency is fairly priced against foreign alternatives. Europe will learn to live within its means and that will have to spread to America. Businesses across the globe are well capitalized, but will continue to be hesitant to spend money or hire until the political class gets a grip and cools off on spending money and shows some discipline and restraint when it comes to their own finances. Business is the enemy of all elected officials today, but it is ultimately business that powers an economy, especially out of recession. The public furor over the debt scenarios today across the globe has made leaders rethink their plans, but it'll take time before a new direction can gain some steam. There are many emerging markets that are very attractive today and have very little debt issues, we're taking advantage of them as they appear.

From last month's razor blade fiasco at our house, the path we chose was to buy a bulk supply of the old 2 blade razors from eBay, we ended up paying fifty cents each for a stash of 50 blades, which should last us a few years. ☺

## **New Banking Reality**

The new reality in banking is that we're in a new, ultra conservative era following the train wreck of 2008 and the sloppy underwriting that led up to it. The risk any financial institution dealing directly with the public is willing to take is very low today and likely to stay that way for decades to come. Many banks that were always conservative and never chased the new fad won't change very much at all. This includes many of the small, local home grown organizations around the country. Even some of the regional firms had mostly very good business and a slice of the craziness. The slice of the craziness is now long gone and the new business written will be rock solid from this point forward. There are no such things as no income no document loans anymore. Just because you can fog the mirror isn't going to get you a loan, and appraisals are also in ultra conservative mode today. These are all good signs, things never should have gotten so out of hand to begin with.

The business sector of banking and finance is a whole different animal, there are still plenty of sophisticated investors and firms willing to take on risk, sometimes big risks, sometimes small, sometimes perceived risks depending on your lens. In this market there are tremendous opportunities. Risk and reward being commensurate, there is also a lot of profit to be had. Many of the risks in the market today may seem big because money from traditional sources is tight, but in many situations there are fat pitch opportunities only available to institutional investors. I'm working on how we can participate in that arena, it's an area I really want to be in and there are some public companies who operate there and there alone.

This type of new reality is good news for everyone who would like to see some "normalcy" return to our lives. Each time there is a bad headline, people over react today and assume the worst possible outcome. This is a bad path and one I would urge you not to fall prey to. The cycles of business tend to ebb and flow, and we've just bounced off the far side of a cycle of sloppiness, greed and an amazing bubble. From this point forward a lot of our world will be working through a reset phase. This reset phase will be one where consumption in the USA is lower, period. Consumption in other parts of the world will likely be higher. Americans are paying down debt and saving at levels not seen in decades. This is good and needed to happen. The reverse is happening in China, consumers are spending more and saving less, also something that is healthy and needed to happen. The wants and needs equation is coming back into play for people who were living well beyond their means. The means to do it is no longer available. This process will take years, not months, but we are working in the right direction. ☺

## Noteworthy News!!!

- Congratulations to Bert & Kelley Lutz on their new home they recently built! ☺
- Congratulations to Marc & Jamie Lemieux on their new home they recently built! ☺
- Congratulations to Don & Carol DeWolfe on the purchase of their new home! ☺
- Congratulations to Earl Watt and his crew on their work on Barry Latta's custom classic 1954 Buick. This car was chosen as one of the best in the nation, you can see it in Street Rodder magazines website, [www.streetrodderweb.com](http://www.streetrodderweb.com) and in an upcoming issue.
- Congratulations to Tom Kleinklaus on his recent retirement! ☺

## It's All In Your Head

Stephen Covey is a great author, nobody can deny that. I recently came across a slide show he presented and it shared a wonderful depiction of how we cannot be in control of what happens to us, only our reaction to it. This hit home very hard with me as it's a story of a man and his young daughter. Here is the story. 10% of life is made up of what happens to you and 90% is decided by how you react to the 10. You're having breakfast with your family on a Monday morning and your daughter knocks over a cup of coffee on your business shirt. You have no control over that, but how you react to it will determine the fate of your day. Option one is you lose it, you curse at the situation, scold your daughter for knocking the cup over and she breaks down in tears. After that, you turn to your spouse and rip her for placing the cup of coffee too close to the edge of the table. A short verbal battle follows. You continue your tantrum by going upstairs to change and when you get back down to the table find your daughter still having a meltdown. She's too busy crying to finish her breakfast or get ready to go to school. She misses the bus. Your spouse must leave for work immediately and you rush to the car and drive your upset, unfed daughter to school. Because you're late you are of course speeding and spend 15 minutes sitting and further boiling your blood while the cop writes you a \$190.00 ticket. When you finally arrive at school your daughter runs into the building without saying goodbye to you or even looking at you. After arriving at work 40 minutes late you realize you forgot your briefcase at home with today's presentation on it. The day couldn't get any worse, so you look forward to coming home. Upon your arrival at home later that evening you find a small wedge in your relationship with your wife and daughter. Why? Because of how you reacted in the morning. What caused the bad day? The coffee? Your daughter? The cop? You? You caused your own bad day is the sad reality just by how you reacted in the 5 seconds following the spill. You should have gently told your daughter "honey it's okay, just be more careful next time" immediately after the spill. Had you done that the entire day would have been different? Same day, different outcomes simply by how you reacted to a very normal part of life. You should consider yourself lucky if that's your biggest problem. ☺

## Keeping it Together *Cont'd from page 1*

50th wedding anniversary if we're lucky enough to fog the mirror for that long!

If at the end of the day there is going to be a separation or a divorce, it's critical to think through how the financial assets are to be divided. Battles over financial assets are the most bitterly contentious and error filled part of separation from our perspective. If you or anyone you love may be impacted by such a sad scenario, be sure they get advice from an expert. Not all financial assets are worth the same amount and it's often difficult to compare and contract various financial assets to come to a fair split between the parties.

Today assets such as pension plans, 401(k)'s, 403(b)'s and businesses are the most valuable parts of peoples financial lives. If the true value of each asset isn't known, or cannot be compared and contrasted on a relative basis, the subsequent split will by definition be off. We use a present value calculation to make all assets, regardless of what category they belong in, all boil down to one common denominator so they can be compared accurately for their true financial value. We've seen so many deals that have gone down and things were anything but fair, it's critical to get financial people involved during the process, not after the deal is signed, sealed and delivered.

Just dividing assets in half is typically a road to ruin. Since various financial assets can have large values tomorrow and seemingly small values today, that path simply isn't the one to take. It's important that retirement plans be divided using a Qualified Domestic Relations Order (commonly referred to as a QDRO and pronounced Quadro). This is a document prepared by the courts which will allow for the tax free division of tax sensitive assets such as pension plans, 401(k)'s 403(b)'s etc. The divisions are not always 50/50 and shouldn't be, depending on the circumstances involved.

Many times these splits work with various assets. Perhaps the wife gets the house and a percentage of the retirement assets while the husband gets the business and the car collection or some other split or various classes of assets. How things are worded is also especially dangerous - if the split on an investment of \$500,000 is supposed to be 50% each, it's imperative it's not written in as the husband gets \$250,000 because if the market takes off or careens, one spouse will end up way ahead or way behind and that isn't the intention. It's also critical to understand certain assets cannot be split, but need to be correctly dealt with. Let's say one spouse has a defined benefit pension plan that pays out in 15 years when she reaches age 65. There is no cash value today but will have a substantial cash flow in 15 years. Should the spouse not reach age 65, what are the surviving spouse options in the plan and have they been designated properly? Also, knowing the difference between qualified plans and non qualified plans is also critical. With so many businesses now implementing non qualified plans, which are outside the realm of QDRO's, it's critical to know the differences. We hope you or your loved ones are not going through this, but if you are feel free to reach out to us for help in knowing what to look for and how to value the assets. ☺



## What's Next?

### Money Quiz

This month's challenge is to tell me how midterm elections normally impact the markets. Since 1950, the S&P 500 has averaged a gain or loss of how much in midterm election years? Last month's quiz wasn't won! ☹ There were 9 years in the past 75 when the S&P 500 experienced double digit losses. It wasn't back to back losses, just double digit losses, this confused a lot of people. 3 of the 9 were in the last 10 years. The winner will enjoy lunch/dinner on us at Ruby Tuesdays. ☺ 072610:1

### Related Components

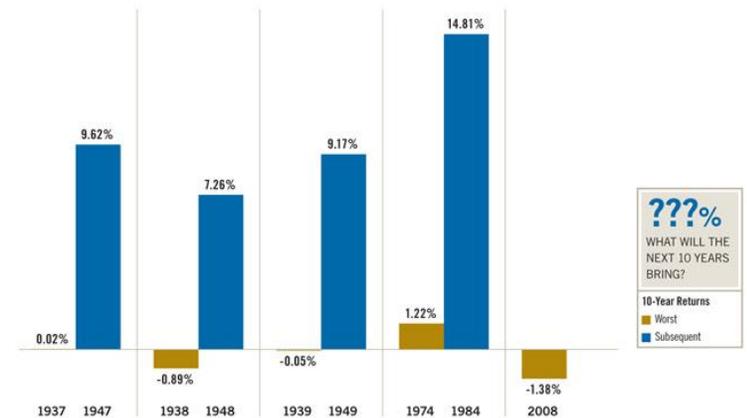
As a child we learn how things are connected. I remember signing a song about how all of the parts of the body are connected; the leg bone is connected to the hip bone, etc. Today we may think we know what is connected but that may be a perspective driven idea. Most people today assume the economy at large and the stock market averages are connected to their investment returns. Let's set the record straight right now, they're not. I suspect the economy will struggle for a few years to regain a solid growth pattern and the markets will vacillate in a sideways fashion, just bobbling up and down. This doesn't mean we cannot make money despite these seemingly insurmountable headwinds. We can make money; in fact all of these things don't need to go right in order for us to do well, especially with some of the things we own today as they're already priced at fire sale levels.

The notion that each and every investment is related or linked to the performance of a Government statistic such as GDP, or a state specific economic indicator is a total fallacy. We can find a plethora of examples of how even today, in the midst of the "great recession" companies are doing as well as they've ever done. Even in California and Greece, where governments are in a drunken frenzy, some businesses continue to do well. This will continue to be the case in the future as well so it's best to recognize it and capitalize on it whenever possible. The same is true for the market averages, unless you happen to be following a passive index by investing in one. We don't do any of that so if you're onboard with us you'll see successes in spite of these factors because we're interested in tactical allocation and specific investment selection. We don't want to be "average" investors; we want to be the best investors we can possibly be. Who wants to be average anyway? Nobody that I know of, we would all like to think we have a special skill or ability in a certain aspect of life. It's very important to understand what truly is linked, and what isn't so your perspective is real and not tainted by the "noise" of this business. ☺

People are nervous to say the least about the big gyrations in the markets lately. The economy is sagging, there may be a double dip recession, the airwaves are full of reasons to stay in bed and put the blanket over your head. This isn't what anyone actually does, but it's sometimes tempting if you allow yourself to be exposed to all of the craziness in the world.

This thought process is completely normal after the past ten years. We've ridden a rollercoaster in stocks not seen in a generation. The past ten years have been the worst ever for equities, worst than the years of the great depression. This recent past isn't reason to think it's all bad moving forward. It may be reason to believe the exact opposite, the prices today represent the best bargains we've seen in a generation. There are lot of things to worry about today, as usual. There are some new issues as well, but realize there will always be issues facing us, and that is what leads to innovation and creativity to solve our problems. Here is the the historical 10-year returns following the worst 10-year period returns since 1926 have benefited those who were invested in stocks. The decade ahead remains a question mark.

**S&P 500 Index Worst 10-Year Returns and Subsequent 10-Year Returns**  
10-Year Periods Ended December 31

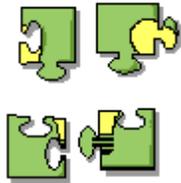


Source: ©2010 Morningstar. Indexes are unmanaged, and one cannot invest directly in an index. Since no subsequent 10-year results are available for years past 2000, only 2008 was included to demonstrate that the next 10 years are still unknown. For the 10-year period ended 2009, the S&P 500 Index returned -0.92%. **Past performance does not guarantee future results.**

Now this is just the basic index and as you all know I'm not a big fan of an index. With thought and active management, superior results can be had than the indexes alone can provide. Even as bad as it's been in the past ten years, active management has earned positive returns during this time. Similar results have been had in other flat markets such as the 60's – 80's, regardless of the fact that the market has been bad for those who choose to go the index route. I'm excited about the future and all of the craziness happening in our world today only makes for better opportunities. ☺

## Inspirational Quotes

- If knowledge hangs around your neck like pearls instead of chains, then you are a lucky man, Alan Price
- There is no such thing as great men, only average men who do extraordinary things, author unknown
- The difference between the impossible and the possible lies in a person's determination, Tommy Lasorda
- Failure is the tuition you pay for success!
- The greatest wealth is health, Virgil
- A healthy body and soul come from an unencumbered mind and body, Ymber Delecto
- To avoid sickness eat less; to prolong life worry less, Chu Hui Weng
- Well done is better than well said, Ben Franklin
- All know the way, few actually walk it, Bodhidharma



**We can piece the puzzle together!**

## Kids Korner

We try to teach our children everything they'll need to know to grow and mature and do well in the world today. Here is great advice for our kids on how to choose a boyfriend/girlfriend. "Never, ever, date anyone charming – a hottie or a player! Remember (s)he got there through practice, Felicz H. Stewart."

Don't even think about this person if they ever committed a crime; are a drug user; wants you to use drugs, break the law or are violent towards you or animals.

You deserve better if they're more than two or three years older than you; have lots of former boyfriends or girlfriends; don't listen to you; uses and/or wants your money or other physical possessions or those of your family; lies to you.

This could be a good fit if the potential partner appeals to you; listens to you; respects your wishes; never, ever scares or threatens you; has values, plans and goals that are compatible with yours.

When there are questions or they're in the maybe category remember: Love isn't supposed to hurt; Love isn't supposed to be incompatible with the rest of your life; Love is supposed to bring out the best in you. ☺☺☺

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If anyone you love or care about would benefit from receiving our 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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## Mike Chadwick's Money Matters

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