

Rates of Return

We all talk about rates of return as we refer to our financial assets. People are always talking about what the bank pays them on their savings (nothing pretty much, bad if you're the customer, great if you own the bank, we do own a lot of banks so we benefit from this) the rate on your mortgage, how your portfolio performed last year, etc. Unfortunately, few of us actually understand the way the numbers play out within the actual calculations. Last month's quiz was an eye opener for me in seeing how people deal with this very subject, calculating the numbers of rates of return given a certain set of data from which to work.

First let's think about total return on investment. This is easy in theory, but more intricate than most think. Assume you bought stock in Cam's Bar & Grill for \$100,000 and it later grew to be \$700,000. This gain of \$600,000 seems wonderful, but depending on how long it took it may not be so good at the end of the day. Here is how we compute the math of total return, (gross proceeds from sales + dividends received)/original investment or cost basis equals total return. This example would give us $\$700,000/\$100,000 = 7.0$, but we must take out our original investment of 1.0 (\$100,000 in this case, but whatever the investment is in general) so we earned 6.0 or expressed as a percentage 600%. Remember 10% financial return is 0.10 expressed as a decimal. 600% is a good return, depending on how long it took to earn. We'll look at a few scenarios on how long and how good a return in a minute. Here is how we convert the total return to a compound annual growth rate (CAGR) often found in investment literature. We must raise the total return by

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We're All Connected

More than most of us can imagine we're all connected today. We're connected by geography, employment, worship, friendship, relationship, politics and technology even though we may not want to admit we are. The physical connections are obvious, but if we go back in history the family connections are likely quite surprising. Even politically, which is painful today as most politicians seem untrustworthy as they sling the mud at one another, the economic reality of our world connects us. The political class may try to gain votes by giving away the farm, but the working class are the ones paying the taxes, giving the drunks in Washington and state capitals something to give away, so at the end of the day it all must balance out or the system will implode, whether they like it or not.

Most people haven't yet made the connections of Unions and politically dim witted electorate. Unions use their considerable membership to drastically influence elections and then the newly elected "owes" them, so they get more and more of a good thing until we have a situation like we do today with an incredible imbalance of public vs. private workforce pay and benefits. The politicians make irresponsible and fiscally impossible promises to the unions and their leaders, without any financial or legal consequence to them, as they'll be long gone by the time the bills need to be paid. We need to impose rules and laws for the politicians in that if they make political promises while in office that are unaffordable today, or if the bills are not payable until long after they're out of office, claw back provisions allow the law to go after their personal assets, pensions, health benefits and estates for irresponsible decisions. This would grossly change the game and along with term limits would make politicians act for the greater good, not just for the good of a political class who helps get the dim bulb elected. Supposedly consumer friendly groups masked as political powerhouses need to come clean and should not be allowed to influence political outcomes.

As technology gains happen quickly today, we're not too far away from being completely wired into computers in one form or another. Here is a list of things I think will become main stream in the future. These technologies already exist today, but on a very small scale. The way we live, work and play will be drastically altered by the new technologies in the coming years. Take the home care we all face today, some people are paying \$12,000 a month to reside in a rest home just because they

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the inverse of the number of years the investment was held. Let's assume it took 40 years for this to happen and we'll crunch the numbers on it, $(700,000/100,000)^{(1/40)} = 7^{0.025} = 4.985\%$ annualized return. Over 40 years turning \$1.00 into \$7.00 or \$100,000 into \$700,000 isn't so impressive. What if we did it in 10 years, then the math is $700,000/100,000^{0.1} = 21.4814\%$, a much more impressive number, one that can change your life.

Let's look at last month's quiz and work through the math: Since 1950, the S&P 500 has averaged a gain or loss of how much in midterm election years? Now that is a simple question. The path to the solution is to first find the data in question, then perform the math operations. Let's first find the data. Here are the returns from 1950 – today in midterm election years of the S&P 500 index (including dividends):

1950 = 31.71%	1954 = 52.62%	1958 = 43.36%
1962 = -8.73%	1966 = -10.06%	1970 = 4.01%
1974 = -26.47%	1978 = 6.56%	1982 = 21.55%
1986 = 18.67%	1990 = -3.11%	1994 = 1.32%
1998 = 28.58%	2002 = -22.10%	2006 = 15.79%

The first approach most people use is to just add up all of the returns each year and average them out. This is what most people did as they guessed at our quiz for last month. Here is that math. The sum of all of the years returns are 158.64/15 years of data = an average return of 10.576%. This is good basic math, but not good financial math. If that were the case people would have a lot more loot than they do. To find the solution we must apply growth to the money as it would have happened, then back into the CAGR calculation. If you had invested \$100,000 in the first year and it earned 31.71%, you'd have \$131,710 going into the second year. Then that earned 52.56%, etc. Run this through all the years and in the end you have the \$100,000 initial investment growing to be \$349,052.25. Now let's apply our formula to this and find the average CAGR, which equals $((349,052.25/100,000)^{(1/15)})-1$. The answer is 8.6908%.

Back in the day at UCONN I was taught in economics to never round off. That was one of the moments in life you never forget, and with money there is a lot of money in the decimals. I'll never forget that. Let's compare how the seeming average of 10.576% and the real CAGR of 8.6908% differ over a working career. Let's assume we have only \$1,000 to start and we add \$10,000 annually to our nest egg over a 40 year career. The money growing at 8.6908% grows to be \$3,138,877.11, not a bad number considering we only had a grand to start and added \$833.33 each month for 40 years. Now if we use the 10.576% return on the same deposits over the same time horizon the pile of loot grows to be \$5,234,898.89. This is a mind boggling difference in just how the returns are calculated. Never ask the math teacher if you'll ever need to know this stuff in real life! ☺

Banking Financial Opportunity

As we enter this new phase of fiscal conservative practices by the financial system, opportunities abound and safety is forefront. The reckless years of lending are long gone and now banks are too conservative, passing up deals that make sense in fear of keeping the balance sheets fat in fear of what insanity may come out of Washington next. There is going to be a few more months of volatility as Europe works through the tail end of their fiscal problems and our elections unfold. After this happens we're likely going into a period where unknowns become known and people are back to business. As this process unfolds and the new financial regulatory rules are slowly applied to the financial sector over the next 8 years we'll see a wonderful opportunity in the sector. I like to buy things that are cheap, and this sector is cheap today, by any metric. When you can buy a business for less than book value there is little risk in the enterprise. Book value is the value of the firm if the assets were just sold off in pieces, with no value for good will, customer list, business reputation, etc. The true value of the organization is a multiple of book, typically between 1.7 to 20 times book value. Even at the low end of that spectrum, we're seeing the opportunity to make real gains in the next few years with what nobody wants today. Anytime I'm given an opportunity to buy dollars for quarters I'm interested.

We hold a lot of financials in our portfolios today, and let me shed some light on why. The prices of our businesses are in the toilet today because of near term uncertainty. The past few months have sent fear of financials running through the markets and we've lost some value as the dim bulbs in Washington debated financial reform. The new financial rules called the Basel rules are now out and we'll be basically unscathed by it as our firms didn't participate in what practices seem bad in the eyes of regulators, or if any changes need to be implemented. They'll happen over a lot of years so they'll barely be perceptible to our bottom line.

There is much less uncertainty at this point than many believe. For people like us who take a long term investment perspective, growth opportunities have never been better with the exception of March of last year. As the regulatory reform is implemented and the political game playing stops post elections, financial firms will be less worried about fat capital cushions and will get back to putting more money to work. Despite all of these headwinds, we're blessed in that our businesses are growing here and now with the uncertainty present. Once the haze clears we should see real growth happening at a higher clip. I've made appraisals of our businesses assuming zero growth, just returning to "normal" pre recessionary levels so any growth that is realized over the next few years is pure bonus territory for us. Don't be confused with the news or short term price fluctuations. Normalcy will return to this area, dividends will increase, share buybacks will be reinstated and we'll also see consolidation within the industry. Rumors are that a few of our positions are takeover targets. Should that happen I welcome it, we'll get paid now instead of having to wait for our appraisals to improve. If no consolidation happens, that's okay too, we're very happy with the potential in front of us. ☺

Noteworthy News!!!

- Congratulations to Steve & Susan Ricca on the birth of their first grandchild, Connor Steven McAvoy, born on August 23rd. ☺
- Congratulations to Don & Joline LeBlanc on the new home they recently built in sunny Florida! ☺
- Congratulations to Jan & Yuko Pfeiffer on the purchase of their new home in weather perfect California! ☺
- Congratulations to Ray & Marie Smith on the purchase of their new home in sunny Florida!

Meet the Enemy

In this crazy world we live in there is no shortage of media blasting bad news from every source possible. It's virtually impossible to avoid. Tune into life and it's all bad; the radio, television, the internet, and satellite. It's seemingly everywhere. The sad news is that the blood and guts sells media so they keep producing it. Perhaps most people would rather hear about other's losses or misery so they feel better about themselves? I cannot fathom why this garbage sells or dominates our media, but unfortunately it does. The fear today is prolific; everyone is terrified of something, whether it is jobs, terrorism, politicians (that's no joke), war, crime, money, health, etc. Admittedly there is no shortage of things to be fearful of, but let's take a realistic look at the bigger picture and see how these things really impact our lives. I'm fearful of heights and sharks, but it's not going to change my daily behavior. You won't find me cleaning the windows on a skyscraper or surfing, but that's about the biggest impact fear makes in my life.

Look in the mirror and you've found the enemy. We choose to believe the minutia we're fed every day and subsequently behave a certain way. We allow activities around us to dictate our attitude and behavior on a daily basis. We're a paralyzed society today. You don't need to be fearful of everything. The world just isn't that bad of a place, especially here in America. I wouldn't be hiking in Iran anytime soon, but common sense should dictate our behavior, not scare tactics.

We don't allow our children to play outside in the neighborhoods anymore fearing something will go wrong. We are grossly overprotective of our kids because of some nut case that kidnapped a child. It's painfully sad and terrifying, but statistically you've got a better chance of drowning in a teaspoonful of water. We obviously have to be careful about everything, but we also must challenge the kids and give them the skills they'll need in life. The biggest challenge for our youth today who do not live in or go to school in a larger city is street smarts. Most of these kids are academically brilliant, but really lacking street smarts. If given the choice between academics and street smarts, I'd choose the latter. We're also a paralyzed society legally. The bar association has so much political clout we've become a society of chickens. People no longer think about what is right and wrong, they think about legal consequences for everything. Towns and states are broke complying with legal mazes. Entrepreneurs are fewer; common sense is going away in favor of legal jockeying and extortion by law. This needs to change; it's taking away from the greatness of America. ☺

need around the clock care. We have technology that can monitor a loved one by wiring your house and that person from a remote location. As long as you've got an internet connection, you can get a live video of what is going on with the loved one. In addition to video, an accelerometer worn by the patient can detect falls and alert as necessary. The technology can also remotely monitor vital signs so trips to the doctor's office for routine medical needs may become a thing of the past. This technology can be had for about the cost of a week in a home. There are apps for your smart phones that will communicate with your doctor's office and remind you to take your medications, ensure there are no drug reactions and keep you on the straight and narrow with your health. There are smart pill bottles that will communicate with whomever they're programmed to (doctor, pharmacist, loved ones) to about when the bottle is opened and how much is taken, patterns of usage, etc.

For our youth, especially the young men who love speed and cars, there are wonderful tools that can be placed in your car that monitor the vehicles location history, speed and performance data. This will keep behaviors in line for young drivers and also keep insurance rates fair for all involved. This is also a great tool for fleets of vehicles where you need to know what is going on with the crews and equipment. In the green era when everyone wants to conserve electricity there are new smart plugs that are wired to a home server and the internet and will actually cut power to the device when not in use to prevent the small drag on the grid most electrical appliances have. These technologies will be part of our future; the question is to what degree.

In the home we now have door locks that are wired into the home server and the internet so you can remotely lock and unlock your home, change the codes and set temporary codes for babysitters and contractors on your front door or back door. You can now control your appliances from work, heating up the oven and the furnace in the house, getting them both warm upon your arrival. The digital picture frame hanging on your wall or sitting on your mantle can now download any new images you store to the web providing you with an endless stream of new pictures to look at as you walk by or sit around. The new generation TV's are now media centers, connected to the internet and all the computers in your house to provide you with a one stop media shop from the comfort of your couch or chaise lounge.

Advertisers now have the technology to read faces in high traffic areas and customize digital billboards to the passersby. This is available but not in full swing due to privacy issues, but they're hammering out the legal side and will ultimately come to a billboard near you. The facial recognition technology can see if the crowd is mostly young, old, male, or female and take ads stored within to best match the crowd at the time. This is brilliant, and can be put to use wherever there are large numbers of people. Airports, train stations, subways, city blocks, areas where traffic jams occur, there are endless possibilities for this technology and there is no way out. How do you avoid the airport or the road? The big question is to what degree we'll see this new technology. ☺



“Bear”lieve it or Not!

Money Quiz

This month’s challenge is to tell me how many homes are for sale as of 07/31/2010. As of 07/31/2005 there were 2.76 million homes for sale. Last month’s quiz wasn’t won! ☹ The correct answer for last month is the total return for the S&P 500 during midterm elections since 1950 has been +8%. The winner will enjoy lunch/dinner on us at Ruby Tuesdays. ☺ 091310: 9

Candy Land

As a child I have fond memories of this game, along with Scrabble, Chutes and Ladders and a slew of other we had countless hours of fun with. Candy Land is a magical place, at each stop there is just more candy, never any work or tough times. The beauty of being a kid is that you don’t have any real stress assuming you’re in a healthy, loving home. The days were full of fun, learning, excitement and the biggest problem was who got more candy or a better colored cup at the dinner table. As we mature into adults the reality of life sets in and we begin to adjust and deal with responsibility, stress and whatever else comes our way.

Candy land is also the insulated from reality world many of our town, state and federal employees and politicians live in today. Despite the stresses of the global recession of the past few years, the governments around the country continue to press on, refusing to admit to the economic reality we live in today and the brick wall that is not too far down the road. Unions, and their insane behavior, are a threat to our future, as they no longer work for the members good, but instead work to get as much out of the taxpayers as humanly possible. This isn’t the fault of the union workers, most of who are not exposed to the real picture but get a slanted view of the world from union propaganda. It is mostly the fault of politicians who make promises with other people’s money. We see what labor laws did to Detroit, and we’re not far from the same games from taking down the public infrastructure we all enjoy. There is a joke about the difference between a gambler and a politician – the gambler uses his own money and the politician uses ours. As funny as this is it’s really not, it’s so true it’s pathetically sad. We need to hold our elected officials accountable, most of these people are making deals and decisions that they’re not paying for and when the bills come due, they’ll be long gone having escaped dealing with the reality. Just as each of us has adjusted in recent years, government and unions need to wake up and see the reality, and bring spending down. You can’t spend your way out of fiscal debt, you must conserve. The recession persists because of bad decisions at the top that don’t reflect reality and have caused too many unknowns. When the tide begins to turn back to reality with politics and finances, we’ll see a much quicker recovery from this nonsense. Vote in November.

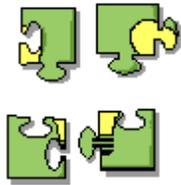
We are participating in a collaborative public art project this year called “Bear”lieve it or Not. This is a public art project that will support Litchfield County, promote tourism and enhance the visibility of local artists in the area. The way it works is local businesses sponsor a fiberglass bear and local artists come up with a great idea to turn the bear into a work of art. We’ve sponsored two bears, which you can view anytime during business hours 8-4 M-F at both Connecticut locations. There is a “bear hunt” challenge to find all of the bears in the program, and participating and completing the work will give you an opportunity for one of many prizes. You need to get the job done and into the chamber by November 1st to qualify for the prize so get to work. This is a great thing for the kids. My rugrats and I did the last one and we’ll be working on this one soon as well. This is a fun day or two, as the hunt will have you traveling all over northwestern Connecticut hunting for the 36 bears that are the hunt. Don’t forget to take pictures; we made a wonderful photo book of the event last time.

We’ve been getting a lot of visitors to the offices to see the bears. A lot more people than we expected, but a very welcome thing. Everyone is so happy to see the bears and find the hidden themes and images. These bears are truly works of art and something special to be seen. Feel free to stop by anytime to see them and if you’d like to participate in the hunt you can find information on the bear hunt at the chamber website, which is www.nwctchamberofcommerce.org. You’ll need both the contest form and bear map to find out where all of the bears are hiding all over the area. Our two bears on the hunt are # 6, located in our Unionville office, and # 26, locating in our Torrington office.

Our bears were created by two local artists and have very interesting themes wound into them surrounding the business of finance. The bear in Unionville was created by Marc Stolfi, you can find out all about Marc by visiting his website at www.marcstolfiart.com. Marc’s bear showcases his ability to make things look like they are there when they’re really not, it’s called Tromp L’oeil. Our bear looks like it’s made out of wood, but it’s not, even though it looks like it is and you’ll tap it prove it to yourself. When I first visited the site, I thought many of the images I was seeing were pictures of something or a canvas with his art work sitting on top of it. Not the case, the entire image of what you’re seeing is completely his work, there are no objects layered into it, just mind boggling talent. The bear in Torrington was created by Carol Garrett, you can find out all about Carol by visiting her website at www.odyc.com/CG. Carols bear is a mind boggling landscape on the canvas of the bear. We have her specialty sunflowers, along with a river, waterfall, fields, trees clouds and the rest of a picturesque nature scene. Carols site showcases her awesome talent, from hooked items, watercolors, pen and ink, furniture, cards, clothing to bears or anything else you can imagine. Take a few minutes and check out talent. I can do math, but this is true talent. ☺

Inspirational Quotes

- One important key to success is self-confidence. An important key to self-confidence is preparation, Arthur Ashe
- Strength does not come from winning. Your struggles develop your strength. When you go through hardship and decide not to surrender, that is strength. Author unknown.
- It has been my philosophy of life that difficulties vanish when faced boldly, Isaac Asimov
- Victory belongs to the most persevering, Napoleon
- Unless you try to do something beyond what you have already mastered, you will never grow, Ronald E. Osborn.
- The past cannot be changed, the future is yet in your power, Hugh White



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

Kids Korner

Kids make us laugh; there is no question about that. My youngest daughter Samantha and I had an argument the other day and she was upset and mad and trying to cry, but I was laughing so hard she could only laugh. This went on for half an hour. I had perma-smile and my stomach hurt from laughing. She was in the same state, no longer looking to show her displeasure at not ruling the world at age eight. These are the priceless moments life is all about. Here is a cute collection of some pearls of wisdom from kids actually written on exams, enjoy!

A senator is half horse, half man; an optimist is a doctor who treats your eyes; an epistle is the wife of an apostle; the feminine of bachelor is lady-in-waiting; the future of "I give" is "I take"; momentum is what you give someone when they are going away; inflation is the material you put in your attic in the walls, it helps keep your house warm in the winter; vacuum is where the pope lives; the parts of speech are lungs and air; an executive is the man who puts murderers to death; an aviary is the place where aviator sleep; to germinate is to become a naturalized German; a diva is a swimming champion; a fjord is a Scandinavian car; the eastern part of Asia is called euthanasia. ☺☺☺

Connecticut Directory (860) 673 1942

- Mike = mike@fiscalwisdom.com
- Nancy = nancy@fiscalwisdom.com
- Betsy = betsy@fiscalwisdom.com
- Andrea = andrea@fiscalwisdom.com
- Michele = michele@fiscalwisdom.com
- Maureen = maureen@fiscalwisdom.com

New York Directory (315) 682 0348

- Teresa = teresa@fiscalwisdom.com
- Mark = mark@fiscalwisdom.com
- Jackie = jackie@fiscalwisdom.com
- Tom = tom@fiscalwisdom.com
- Josh = josh@fiscalwisdom.com

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Visit us online = www.fiscalwisdom.com



Connecticut Offices (860) 673 – 1942
CT Toll Free (800) 843 – 4513
New York Office (315) 682 - 0348
NY Toll Free (888) 693 - 8390



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Mike Chadwick's Money Matters

15 New Britain Avenue
Unionville, CT 06085
(860) 673 1942

Torrington, CT
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