

Checkbook Automation

You all know I'm a big fan of keeping score. To do well financially, you need to keep score of your finances. Doing so will improve the outcomes for you on both fiscal and emotional levels. The most painful and monotonous task of keeping score daily is the checkbook. People don't like budgeting or spending time doing this, but it cannot be overlooked. I have a method that will make keeping score relatively painless. Let me share with you how Cup & I do it and feel free to copy it entirely or create your own version of it.

We use QuickBooks for all of our recordkeeping activities. For those of you who own businesses I'm sure you're familiar with QuickBooks or an alternative accounting system. If you don't own a business you can use Quicken or Microsoft Money or an equivalent. We do not use the newest version of the program nor do we do downloading of activity from the bank. We have two files, one for the business and one for our household. I do mostly online banking and write a check or two maybe each month between personal and business accounts.

We have arranged for all of our bills, when possible, to be paid automatically. I have it set up to have my credit card charged each month. This is always my first choice for paying bills. If I can't do it that way, then I set it up to come out of the checkbooks electronically when due. This works for us on several levels. For those bills I'm paying with a credit card, I pay my balance in full each month. By paying in full each month I never pay a nickel in interest, we float the banks money for a month or two, gain cash back rewards and have them do the accounting of my monthly purchases for me. Thanks Citibank!

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Financial Opportunity

The financial world is crazy, period. So much information comes out every day about the economy, society, politics, etc. it's easy to see why some people feel money drives them crazy. One of the keys to doing well financially is to know what information is pertinent and what is absolute nonsense. Most of the information that comes out each day is entertainment and informational only, not life shattering stuff.

Let's look at the prices of the investment world today. Historically, the stock market has priced public companies at 15 times earnings. Sometimes the market will pay higher multiples of earnings when people are feeling optimistic and sometimes it'll pay lower when they're feeling pessimistic. Fifteen times earnings is just the average, and it'll ebb and flow from there based on the emotion of the day.

Right now, the market in general is a little on the high side, but I expect it to pull back at some point. Let's look at where each sector of the market is currently priced, and how those earnings are set to either grow or shrink moving forward. With this knowledge, we can think about whether we're in the right positions or not.

Here are the current pricings per sector right now:

<u>Sector</u>	<u>Current Year P/E</u>
Consumer Services	15.53
Energy	12.33
Finance	13.83
Health Care	14.90
Public Utilities	15.94
Technology	14.74
Transportation	16.50

As you can see, there are a lot of differences in prices per sector, but for the most part, many areas are average to slightly overpriced relative to historical valuations. The two exceptions are finance and energy sectors, which are relatively underpriced. These are the prices today without regard to where earnings are headed in the future. The stock market is a forward-looking mechanism that anticipates what is likely to happen in the future, working in any possible issues that may come up along the way. Now, I want to take a look at how earnings are set to grow, specifically earnings

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Automated Money

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I've programmed the system to automatically record for me on a periodic basis, everything that is consistently happening.

I'm going to pay the bills anyway, why not automate the entire process so I'm not spending a lot of time with the gyrations of the process. Now it happens seamlessly and all I have to do is record the moving parts and balance my accounts. The moving parts are typically just lifestyle things that mostly happen on our credit cards. If you don't pay your credit cards in full each month do not do this. For those of you who are ATM addicts, this is tough because there are so many transactions that you'll need to do the accounting for because the bank will not do it as they do on a credit card. If you like ATMs keep your slips and manually enter the transactions. I'd rather use a credit card because of the perks but you need to be disciplined. If credit cards are your Achilles heel financially, don't do it that way.

Some individuals are afraid of giving the product or service providers the access to accounts electronically. I've never had a real issue with this, and if you balance your books you'll find anything that is off. For example, Anthem double billed me last month so I pointed it out and they didn't bill me the next month. This type of thing happens from time to time. It takes me 5-10 minutes each month to do all of my banking, both personal and business. That is a gift because we can always use more time.

The key to this system is being fastidious about setting up all of your categories accurately and never using miscellaneous as a category. I have it set up so that it's just logical. We have a main expense for car, then sub-expenses of repair, fuel, insurance, registration, etc. (per car, of course©). For the real estate it's very similar. One category per property and then the identical sub-expense categories such as home or property insurance, property taxes, repairs and maintenance, telephone, internet, cable, etc. I'm a bit crazy and also record quantities of everything, from kilowatt hours of electricity used to gallons of oil. That isn't necessary, but I'm a kook and love records, charts and patterns.

Once you have this established, the fun begins. If you're just starting, feel free to go back and recreate the last 6 months to a year to see what you've been doing. Each month look at your income and expenses. If you're doing a great job you'll feel elated and can pat yourself on the back. If you're not doing a good job, now is the time to pay the piper. If you know in the back of your head you're not being a good steward of your resources, where your loot is going will be staring you in eye. This will cause you to change any self-destructive behaviors you may have. Many people don't do this simply because they don't want to know the reality of their financial world. This is like the obese person avoiding the scale like the plague. That person will never get fit if the scale doesn't become their friend.

Now be sure to compare the current month this year to the same month last year. Do the same for each quarter and the same for each year. It'll make you accountable and on top of your financial world. We also know old school ways work too and if you need help, we have a wonderful outside resource you can hire to help you with keeping score. The key is to keep score and never, ever use a miscellaneous category or hide from the facts! ©

Strange Energy Combination

Lately, the energy conversation has been about the old, dirty energy technology we've used for generations and the new, green technology that is going to be the future. The old dirty technology would be oil, nuclear power and coal. They're very powerful sources of energy, but they do pollute and the public is trying to get away from that. The fact that we're getting killed on the price of oil products is also pushing a new generation to find a new source of energy for the planet. Nobody wants to be held hostage by the Middle East for oil. Nuclear power may not pollute but what do we do with the volatility of it and spent fuel rods? The new technologies of solar, fuel cell, wind, water, wave, for example, are gaining traction. None are as reliable as the old school technologies we've relied on for centuries but they will certainly play a bigger role as time unfolds.

A strange combination of energy resources is coming. The traditional oil companies that are drilling for shale oil, which is oil that is in shale formations, are pumping steam into the ground to free up the oil and allow it to flow into their collectors. They have found the most efficient way to do this is with solar thermal collectors. These solar collectors use the sun to produce heat, which in turn produces steam and this steam is pumped into the ground to allow the black gold to flow. This is not the same technology that uses the sun to produce electricity. Solar thermal has been around for decades and is very efficient, reliable and as green as it gets. This is not only a more fiscally prudent technology; it's clearly a world away from oil or gas dependence. It is also a diversifier for traditional energy companies, something we should see a lot more of in the future. I'm amazed to see the two supposedly polar opposite types of energy coming together in some type of synergy where it's both financially beneficial and ecologically friendly.

On the solar front, the biggest customers from solar companies in the past quarter have been energy companies and the Middle East. This is a strange turn of events. The Middle East is beginning to realize that all they have is oil and sand and in an effort to sell more of their overpriced product to the world and use less of it domestically, they're trying to use solar as their energy provider. They get the additional benefit of saving money and using their virtually unlimited desert sunlight to reap solar gains. Energy companies are using solar simply because it makes fiscal and ecological sense.

French oil giant, Total S.A., has recently made a substantial solar investment in one of our positions, Sunpower. They are buying a controlling 60% stake in the company. It's given us a price surge of 45% overnight, thank you. For those getting solicitations, you don't need to do anything, simply ignore it and do not sell your shares. I see substantial upside in this arena moving forward.



Noteworthy News!!!

- Congratulations to Cara Lascko and Robert Files on their recent marriage, the beginning of a beautiful life together! ☺
- Congratulations to Pam Morris on her recent retirement! ☺
- Congratulations to Brian McManus on his new job with Southern Wine & Spirits! ☺
- Our condolences to the Wotton/Harkness families on the passing of Ruth, a wonderful woman, mother, grandmother, great grandmother, friend, aunt & wife. She'll be missed dearly.

Question & Answer

Ask any financial question you have and we'll address it here. What has happened to Citibank Stock, it went from \$4.50/share to \$45.00/share in one day?

In reality, nothing at all happened to the value of Citibank as a company, but the share price was manipulated. This is a situation where a stock price is manipulated by a maneuver called a split. A stock split situation changes the prices of a share by changing the number of outstanding shares. In the case of Citibank, they did a 1 for 10 reverse stock split. This is where they logistically give shareholders one shares of stock for each ten shares they own and increase the stock price tenfold. This has absolutely zero impact on the price of business, the return of the business, or future performance of the business. Many people wrongly believe that they are going to make more money when a company splits.

Stock splits happen for emotional reasons. Executives believe that a company stock has a "sweet" or comfortable spot for its price to be where investors are most attracted to a stock. The theory is that if the stock price is in this zone, more people will buy the stock. A reverse split has the impact of raising the stock price in dollars per share terms. The forward stock split has the impact of lowering a stock's price. Let's look at the math of the Citibank stock split.

On May 8th pre stock split, Citibank traded for \$ 4.50 per share. On that day there were 29.2B shares outstanding. The product of the number of shares outstanding and the share price is the value of the entire company, or the market capitalization of the company. Here is the math - $\$4.50 \times 29,200,000,000$ (that's 29.2 billion☺) gives us the value of \$131,400,000,000 (or \$131.4 billion) as the market value of all of Citibank.

Now let's fast forward to the next day post split and we have a different share price and number of shares outstanding, but the same price per share. Just after the split the shares traded at \$45.00/share, but there are only 2.92 billion shares available. Here is the math on that: $\$45.00 \times 2,920,000,000$ gives us the value of the enterprise of 131.4 billion, the same as the day before. There is no material change to an enterprise after a split, just share price manipulation to make the stock look more attractive. ☺

Financial Opportunity

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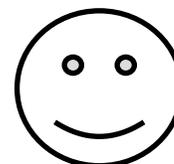
per share growth year, over the year 2011- 2012. This is a game changer in how to view the investment landscape.

<u>Sector</u>	<u>P/E Earnings Growth</u>
Consumer Services	25.90
Energy	46.02
Finance	60.86
Health Care	9.26
Public Utilities	3.40
Technology	20.65
Transportation	13.46

Throwing this wrinkle of earnings growth into the fold is certainly a game changer in determining what sector to be in. Right now, based purely on valuations, the financial and energy sector are the most attractive. No one industry is outright expensive today sector wise. Commodities are insane but they're part of this comparison. When you factor in the future earnings growth prospects of an industry, it's clear that the cheapest sector, by any metric, is financials. With earnings growth in excess of 60% from today's levels, it shows me that there is some money to be made here. You cannot focus on the issues at hand, which are real and will be worked through, just look at the facts.

It's not that earnings are growing from historical levels at 60%, they're going so fast because they were wiped out and driven negative in the 2008 meltdown. The financial sector was a cause of the issues, so people are naturally hesitant to go anywhere near them today. The news isn't all bad either; lending is up 30 billion this quarter. Household delinquency rates for loans are down 15% from a year ago and foreclosure filings are down 17.7% from the last quarter in 2010. Mortgage originations increased for the third consecutive quarter to \$499 billion. That is 65% above 2008 levels and a 31% climb from 2010 levels. Clearly, we're on the path back to a healthy financial system.

Consumers are also in the process of deleveraging their balance sheets. The consumer indebtedness has dropped 8.2% from 2008 levels. This is something we haven't seen in decades but is long overdue. Now we'll watch government do the same moving forward. Businesses are rock solid, arguably as solid as they've ever been historically. Banks are so picky with underwriting standards now that the loans they're writing today will be the polar opposite of what they were writing in 2007 and before. It's not rocket science, just separating logic from emotion.





Money Quiz

Governments everywhere are broke and in an effort to raise money, they're selling government property. Your challenge is to tell me how many properties the Federal Government wants us to buy from them in their May release? I just need a total number of properties. Last month's quiz was tough and wasn't won. After the last 2 recessions ended, the Fed began raising rates after 34 & 31 months, respectively. We're currently 23 months after the most recent recession so it's still likely a way away before we see rates going up. The winner will enjoy a meal on us at Ruby Tuesday. ☺
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Buffett on Gold

You've got to love the candor and genius of the 80-year old Warren Buffett. Much of my investing value system is from what I've learned from Buffett and his genius partner Charlie Munger. At this year's shareholder meeting of Berkshire Hathaway in Omaha, NE, Buffett let people know what he really thinks of gold. I want to share this with you because gold and other metals are going crazy price wise and getting a lot of press. I'm fielding a lot of inquiries on buying into this frenzy, but it's a mistake.

To invest well, you must buy things that are cheap, not things that are expensive. Gold is at its highest level in 30 + years. Buying it now will result in disappointment at some point in the near future as it will ultimately come tumbling down. Gold is being pushed higher as people worry about a weak US dollar and view gold as a hedge against inflation. This made sense years ago when the dollar was backed by gold, but today it's just a precious metal that has zero impact on the financial system. The supply and demand equation is pushing prices higher, but not for fundamental reasons. Buffett says gold is a metal with no utility and you're better off buying good producing businesses rather than a commodity that doesn't do anything. He also states that he will not be joining in this mania and that if you pooled all of the gold in the world together, you'd have a massive cube 67 feet in each direction. With this cube you could fondle it, polish it, climb on top if it and stare at it, but it doesn't do anything.

I cannot give you a better image of how silly and comical this really is. Commodities are being driven up by fear. Munger states that there is something peculiar about an asset that will really only go up if the world is going to hell. Remember my TV rule, if it's on TV and people are talking it up, don't do it, run the other way. Cup & I recently saw a woman on TV selling a gold tooth on her denture to a pawn broker. Do you really want to follow that? It's a bad idea! ☺

Earnings Restatement

An earnings restatement is when a company has to go back and change their earnings statement which was already published. This could be due to many things, accounting changes, law changes, interpretation discrepancies, etc. If the tax code wasn't 55,000 pages long, we'd likely see much less of this, but it is what it is.

One of our positions, Wonder Auto Technology, is in the midst of restating earnings for 2008, 2009 & 2010. Wonder Auto Technology is an auto parts maker in China catering to the Chinese car market. This is a huge market that has hardly been penetrated, and I expect it to grow as our auto market did in the last 50 years. They've recently switched from a Chinese accounting firm to Price Waterhouse Coopers. The restatement of said earnings will take some time. The company has said they expect no real change to their financials and all numbers will come in within a penny of where they are today. With the differences in accounting standards of U.S. vs. China, I expect a bigger difference and think this is an awfully optimistic statement. The company is financially very profitable and trading at attractive valuations, so I don't expect the ultimate change in accounting after the restatements to alter the value of the enterprise long term.

As part of this accounting change, the company is also behind on filing its quarterly financial report, the 10K. The NASDAQ has recently delisted them due to this report being late. This means the company shares cannot trade on the exchange until they get the proper paperwork filed. The company is working to get the restatements and filings up to date and has also issued an "internal investigation" into their accounting systems. They have also stated they want to be delisted for a while to keep the short sellers off their backs. Many have been shorting Wonder Auto, driving the price down because of accounting fraud in other Chinese companies. This ordeal may unfold and be nothing at all or this can be the beginning of uncovering foul play by company executives. I don't know which one it will be yet, but I'll let you know as I find out. I certainly hope it's just a bump in the road and nothing evil is brewing inside the company.

In typical legal fashion, I've been contacted by law firms asking me to be a lead plaintiff in a class action suit against Wonder Auto. In conversations with the attorneys I've come to find that they know much less than I do, but the rush to get involved in a class action suit provides ample motivation for them to file one. Expect one to be filed soon. The lawyers don't know if anything wrong has been done, but are fishing for a case. If fraud is uncovered and the company cannot fix the wrongs, the corporate insurance policy will kick in. The accountants will have liability here too if they cooked the books. The company CEO has bought millions of dollars in stock in the past year so if anything is going on, he obviously has no idea. Let's hope nothing comes of it as the accounting restatement unfolds. We'll keep you abreast of anything as we find it out. ☺

Inspirational Quotes

- When a man is willing and eager, the gods join in. ~ Aeschylus
- A smile is a curve that sets everything straight. ~ author unknown
- Into the house where joy lives, happiness will gladly come. ~ Japanese Proverb
- No act of kindness, no matter how small, is ever wasted. ~ Aesop
- Never lose a chance of saying a kind word. ~ William Makepeace Thackeray
- It is never too late to be what we might have been. ~ George Eliot
- Be the change you want to see in the world. ~ Ghandi
- Do not wait for leaders to do it alone, person to person. ~ Mother Teresa



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



Vicarious Instruction

It's a sad state of affairs in our world when there is absolutely no shortage of stupidity. I use this stupidity as a tool to teach the princesses lessons about the world and point out what not to do. These lessons are priceless because they are learning through someone else's mistakes. They don't have to live through the drama, loss or emotional torture that can be the reality of life today as a result of a series of bad or irresponsible decisions. Just look around for endless examples of this. Don't try to hide the reality from your kids, show them what happens to people who have walked down the wrong path.

This is a very powerful tool, one I remember clearly from 5th grade. Our school nurse came into Mr. Renna's classroom to show us what cigarette smoking does to your lungs. She had a clear crystal plastic robot that "smoked" a cigarette as she lit the cigarette and squeezed the robots stomach. In 5 minutes and 20 puffs later, the robot was as black as midnight and you could no longer see through it. It wasn't gray or darkish; it was jet black, asphalt black, chalkboard black. Not only are vicarious lessons powerful, so are visual ones! I'll never forget how that impacts lungs! ☺

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