

Index Oddities

Today indexing is all the hype, more time and energy is being spent on reducing investing costs, rather than actually making an investing profit. An index is a market basket of stocks, a section of a market, or an entire market, whose general direction can be tracked. Some popular indexes would include the S&P 500, the DOW 30, The Russell 2000, and the Case Schiller Home Price index. In an index, securities within the index are kept the same and rarely changed, or are changed according to some formulary. The idea is that by investing in an index, you can gain access to whatever market you want, reduce your costs, and make the same profit you would by carefully selecting individual investments. In the 1970s, indexing became popular as scholarly research showed that many indexes performed at a similar level to many actively managed investments.

In some markets this does not happen. When the markets are charging ahead, they and almost all other investments, do well together. When the markets are flat, down, or choppy, it's a whole different story. Let's look back at the last 10 years and see how the main indexes have fared.

Index	10-Yr Performance as of 6/13/11
S&P 500	0.54%
Dow 30	8.89%
Russell 1000	7.74%

These are cumulative numbers for a decade and they're horrific. This shows the total earned over the entire decade, not an annual number. You need to divide all of these numbers by 10 in order to find your annual return. If we look back and were "index"

(Continued on page 2, Index)

INSIDE THIS ISSUE

2. Index Oddities; Auto Economy
3. Noteworthy News: Q & A; Insider Opportunity
4. \$ Quiz; Pay 2 Play; Optimism
5. Inspirational Quotes; Kids Korner



Insider Opportunity

Insider trading is an illegal practice where people gain company nonpublic information and trade stocks to make money based on said information. There have been a host of people who have profited from this practice, been caught, and ended up in jail. Some of the more famous criminals guilty of insider trading have been: Albert Wiggin, Ivan Boesky, Michael Milken, Dennis Levine, Jeff Skilling, Ken Lay, Martha Stewart and more recently Hedge Fund guru Raj Rajaratnam.

Clearly, we do not want trade on nonpublic information, unless we want to be working on a chain gang. What we can do is watch what corporate executives are doing with their own money. Company executives are required by law to post with the SEC a form disclosing any purchases or sales of company stock. This is posted on a SEC form 4. It is a very informative piece of information, telling exactly who is buying what, selling what, getting or exercising stock options, what relationship the executive has to the owner, if it is a shell corporation, trust, etc. It even discloses what other family members hold in the stock and who the beneficial owners of any trusts are. This is a plethora of great information for us. I believe executives will tell lies with their mouths about companies and their future prospects. I also believe company executives will not lie with their pocketbooks.

I pay a lot of attention to what is being bought and what is being sold. It always gives me a warm fuzzy feeling if company executives are buying shares of stock I own or like. I'm not talking about any executive, but specifically those in charge, such as CEOs CFOs, Directors, etc. I'm interested in what decision makers are doing, not title holders.

Conversely, if an executive is selling shares of stock or exercising stock options that gets my attention. It's important to quantify a sell as to how much of a total position is being sold. If someone is selling 900,000 shares of a company, but they own 50,000,000 shares, that isn't too concerning. But if someone is selling 25,000 shares and they own 25,812 shares, this is a big reason for concern and worthy of deeper analysis. Company executives typically own big quantities of the companies they run and this is a good sign, it shows that they have faith in their work and their organization. Anything contrary to that does not give me warm fuzzy feelings.

(Continued on page 3, Insider Opportunity)

Index Oddities

(Cont'd. from page 1)

investors for the past decade, you would have made less than 1% annually. You would have been better off investing in banks and wouldn't have had any of the fluctuations that come with the markets.

Some indexes rarely change their components, while other indexes change according to a set schedule. The DOW only changes the components when they feel the companies no longer represent the biggest players in the industry. The Russell indexes change annually, and it's become known within the industry as the "Russell Reconstitution." Each June, the Russell management team mixes up what individual components comprise all of its indexes to the delight of people who pay attention. The Russell strategy is not rocket science. They rank the market capitalization (value of the entire company) of every publicly traded stock on US exchanges on May 31st of each year. They take the top 1000 (roughly, indexes rarely hold the exact number the names imply) companies to make up the Russell 1000 index. The next 2000 qualify for the Russell 2000 small cap, etc. On June 10th of each year, Russell produces a list of what securities will be added to and deleted from the company's index lists. The actual trade of company shares in and out of indexes doesn't happen until the last Friday in June of each year.

The downside to an index is that, because a component fits a definition and for no other reason, it may be included in an index. That sounds innocent enough, but the system works on supply and demand and an index starting to carry a security or dropping a security can have enough juice to move the prices of many companies. Smart investors will pay close attention to this type of activity and act accordingly. There are opportunities here in both directions. If a company is to be added to an index and you want to build a position in this company, it would behoove you to accumulate shares prior to the purchases of an index, which often times are multi-billion dollar moves. Many times the indexes taking shares of a company can cause the company to rally as the volume spikes in buying causes share prices to rise. Smart traders can also short positions that are going to be deleted from indexes as the massive selling often causes pricing pressure on deleted companies.

This indexing concept makes little sense in the big picture, let's buy the biggest, most expensive companies based on nothing but their market value. This is akin to buying things when they are expensive, which we all know isn't going to make us any money. We'll see how it unfolds, I don't expect indexes to make any headway for at least a decade from now. Active is the way to go. ☺



Auto Economy

There is a new fuel label coming to a car window sticker near you. The new auto economy labels will be a little clearer and real world looking than the ones we have now that operate in a vacuum. The labels today rate fuel mileage in a simulated driving environment where the car is on rollers with no loads and no elevation changes, what a joke. The new fuel economy numbers will be based on real cars being driven around real streets by real people. Why the other numbers were ever allowed to be published is a joke. To keep pace with the information age, the new labels will have a scanner code that will allow smart phone users to scan the window sticker into their phone for comparison shopping purposes.

The new labels will compare the car you're looking at to the class average and rate it on a 1-10 scale. We have become a 1-10 society haven't we? Everything is rated on a scale from movies to lawnmowers to home appliances. ☺ That 1-10 scale will show your fuel cost savings or surcharges based on the class of vehicle you're looking at on an annual level as well as on a 5-year basis. Also included in the new scheme are smog ratings where fuel sippers will get a 10 and fuel suckers will get a 1 for being very planet unfriendly. Annual fuel costs will be reported in dollars and cents as well as gasoline or electricity usage per 100 miles.

As our energy infrastructure changes, labels designating electrical usage, gasoline usage, as well as a sliding scale for various modes of gas/electric propulsion, are listed as combined driving modes for hybrid vehicles. Since electric vehicles cost more to buy, the fuel 5-year scorecard will help to offer some type of payback schedule for the energy premium. What isn't listed is the outrageous cost of new batteries for hybrids, which can make all savings moot should you need to replace yours.

I don't see anything mentioned about fuel cells on these labels at all. Many people think hydrogen fuel cells are dead now that every automaker is rushing to release gas/electric hybrids. Electric cars are not a long-term energy solution, they simply change the fuel from gasoline to coal or whatever fires the electricity plant. Fuel cells are a real solution; they actually reduce the need for fossil fuels and eliminate pollution. While many automakers today are chasing the grants and going electric, the future seems to be fuel cells for energy. Fuel cells and electric hybrid cars are, in a sense cousins, and the research for one platform often helps the other. In 2015, we'll be seeing lines of cars from Honda, Toyota and Daimler Benz that are fuel cell only vehicles, and depending on the infrastructure, perhaps game changers. People worry about the explosivity of fuel cells, but last I checked, gasoline wasn't exactly inert! ☺

Noteworthy News!!!

- Congratulations to the Lewis family on the birth of baby girl, Elodie Isla. She joins big sisters, Eden & Ivy, to round out a trio of princesses!!! ☺
- Congratulations to the Stich family on the birth of baby Isabella. She joins big brother Gage to make two babies in the house! ☺
- Congratulations to the Stich family on the purchase of their new home! This is a busy household!
- Congratulations to Sean Cheney on his 2nd place finish at the Smith & Wesson International Revolver Championship!
- Our condolences to the Barrett family on the passing of Charles “Chuck,” the passing of a wonderful man, husband, brother, uncle, and friend. He’ll be missed dearly.
- Our condolences to the Duba family on the passing of Francis, a wonderful man, father, brother, grandfather, friend, uncle & husband. He’ll be missed dearly.

Question & Answer

Ask any financial question you have and we’ll address it here.

Q: Energy prices are insane, is this the new normal?

We don’t know for sure, but I doubt it. I expect energy prices to come down, especially oil and its related products. Electricity will likely stay where it is, or close to it, and natural gas will likely get more expensive as time evolves. Energy prices, as all other commodity prices, are based more on trading pressures than on actual fundamental demand and supply characteristics. We have people out there so hungry to make money that they’re trading heavily in commodities and energy and causing price spikes and valleys, hurting most of the average people in the world. Everyone knows I’m no big fan of government intrusion in our lives, but this is an area they need to address.

Monster investment firms are profiting handsomely by the trades in energy and it must stop. Average people are hurting just to put gas in their cars and oil in their homes, but these companies are making billions on the trades. It’s not the government or the oil-rich nations that set oil prices, it’s the markets. The markets are forward-looking mechanisms. Massive growth in China, India, Brazil and other emerging markets are making future forecasts for energy and other commodities appear to be growing exponentially. It won’t play out with massive growth and energy shortages as is being forecast, it never does. There are too many factors to cover all aspects of energy in this space, but the bottom line is, we shouldn’t be paying what we are for energy. Take trading pressures out of the equation and oil is likely to be \$80.00 a barrel. OPEC runs all of their projections at that number, which they consider to be true balance. ☺

Insider Opportunity

(Cont’d. from page 1)

Right now, it’s almost comical to see the news of the world unfold and watch where company executives are putting their own “hard earned” cash. I have a summary for the past 12 months on insider trading by sector that will show you the massive difference between daily news feeds and economic reality under the covers. This will show buys and sells by sector.

Sector	\$ Value Sells	\$ Value Buys	Ratio
Consumer Disc	189,533,224	7,341,553	25.8
Consumer Staples	20,562,136	690,125	29.8
Financials	33,802,259	34,449,310	1.0
Industrials	342,657,963	5,501,394	62.3
Health Care	33,265,119	6,980,982	4.8
Basic Materials	52,251,266	2,097,862	24.9
IT	376,948,517	2,499,456	150.8
Conglomerates	2,466,799	0	0
Energy	13,018,344	1,194,207	10.9
Utilities	3,467,708	194,682	17.8

This information speaks volumes to me. Let’s look at the most extreme sectors today. On one end we have IT (Technology) where people are selling 150.8 shares for every share they’re buying. This indicates rich valuations in the sector, perhaps a quasi-bubble for the most richly valued companies. On the flipside we have financials, where there is a buy for every sell out there. This means company executives are taking their money off the table far more than they’re putting it on the table in virtually all areas of the market except financials. In financials we have an even 1:1 ratio.

Now if we move our attention to the news, it’s virtually all negative on financials: jobs are growing slower than the administration would like, real estate pressure isn’t lifting, and businesses are still sitting on their stockpiles of cash. This is the polar opposite of where the money is actually flowing. As is typical in the investment world, it’s almost an inverted situation where you need to move counter culture to make money and not follow the herd to the slaughter.

Regardless of what the news says or the mood of the day, basic fundamentals continue to rule the roost when the dust settles. I’m much more confident following proven, basic financial principals and buying things that are cheap and out of favor to make us money with our hard earned capital. It’s a consolation prize when the captains of industry follow in our footsteps. Don’t follow the crowd; make your own way forward. ☺



Money Quiz

Everyone is going nuts about unemployment; the US unemployment rate is currently at 9.1%. To be considered healthy, the government would like it at 3%. As bad as it is here, it's much worse in other parts of the world. This month I want to know what the unemployment rate is in Spain. Last month's quiz was tough and wasn't won. The answer to last month's challenge was 12,217, the number of properties the government is trying to sell to save some cash. The next winner will enjoy a meal on us at Ruby Tuesday. © 06/06/11: 14

Pay 2 Play

I'm happy to say the genius of our government is on to something really good here. There is a new law in play now that disallows investment advisors from making political contributions in excess of \$350 per election cycle for candidates they are eligible to vote for, and \$150 for those outside of their voting area. This is huge, as many firms have given politicians piles of loot to get elected and then, in return, the newly elected politician hires investment firms to manage pension and other public funds. Hiring the firm is necessary, but the job should go to the best firm, not the one who made the most political contributions to a candidate.

This new regulation is comprehensive; it even expands into prohibiting solicitations of donations for a candidate, often known as bundling. The law is also requiring third party firms who solicit government business for investment advisors, to be registered as investment advisors and thus, be regulated as such. This is great and should have been in force all along. Advisors will be required to maintain records of all political contributions.

This rule has become known as the death penalty rule because if anyone violates it, it would ban them from being paid for any government advisory services for two years. This rule is effectively putting any firm out of business who practices mainly public business and violates the regulations.

The spirit of this new law is to insure the hiring of the investment advisor for the benefit of plan participants, not a vig or a kickback for favors or special deals. We've got too much of that nonsense going on in government today. As painful as it can be sometimes, we're blessed to live in America. The levels of such dirty deals in other places, such as China and Greece, make our system look like a shining example of ethics and honesty. I would like to see a lot more shining examples of that in politics today. ☺

Optimism is defined as looking at a more favorable side of events and simply anticipating the best possible outcome in any situation. You get to choose what your view of the world will be. I choose an optimistic view of the world in general. Specifically, I'm very skeptical of everything and I always play through various scenarios in my mind about every possible outcome in everything that I do, and many of those scenarios aren't optimistic at all, but very pessimistic. I use these scenarios because they're important worst case scenarios for any decision that I may make and I want to avoid such imagined scenarios like the plague. I also tend to look at everything with caution, until my data is verified with several outside sources, so I cannot get hoodwinked by anyone on anything. This isn't a perfect system but at least it minimizes the chances of loss in our portfolios and in decision making in general. I've found life to be a long string of decisions. Put together a string of well made decisions and you've got a pretty amazing life. Put just one or two bad decisions in a life full of good ones and life can suddenly take a turn for the worse. It really pays to think things through thoroughly prior to doing anything in order to avoid painful mistakes.

Research shows it pays off to be a glass-half-full type of person. I'm of the opinion that the glass is totally full, partially of water and partially of air. Some are sadly of the viewpoint that the glass is half empty. Studies show that people who are optimistic live longer, have a lower risk of developing diseases such as cancer, and have lower blood pressure and incidence of heart disease. Stress is also a factor for those who aren't looking at the world through an optimistic lens. Sir Winston Churchill states that, "A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty." What do you see?

What are we limited by in this world? Mostly our own mind is the limiting factor in what we do or do not do. The world is our oyster and how far we run with it is total up to us, nobody else. If you have a clear view of the world, ample confidence and a realistic game plan, one can accomplish almost anything. We're all going to make mistakes and have failures along the way; each bump in the road is both a learning experience as well as a step closer to the ultimate goal.

A view of the world alone can cause superior health, greater achievement, persistence and longevity. So if you have a choice, and you clearly do, why would anyone choose to be a pessimist? I suspect it is a learned reaction to a series of life experiences that lead people to view the world through such a lens. I'm blessed to have the lens that I do and hope to give it to the princesses so they can carry on through their lives with as much happiness and as little grief as possible. They will have plenty of challenges, failures and opportunities as the rest of us do, but an optimistic viewpoint will make the ride a lot more fun. ☺

Inspirational Quotes

- Unless you try to do something beyond what you're already mastered, you will never grow. ~ Ronald E. Osborn
- The world is a dangerous place, not because of those who do evil, but because of those who look on and do nothing. ~ Albert Einstein
- Nobody made a greater mistake than he who did nothing because he could only do a little. ~ Edmund Burke
- If you want to feel rich, just count all the things you have that money can't buy. ~ anonymous
- The best things in life aren't things. ~ Art Buchwald
- After a visit to the beach, it's hard to believe that we live in a material world. ~ Pam Shaw
- Opportunity may knock once, but temptation leans on the doorbell. ~ anonymous



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



What's Important?

What are the kids focused on today? Cup & I spend a lot of time trying to make sure they're focused on what is truly important in life and not a lot of social nonsense. Of course, they're going to listen to music and want the latest in fashion, but what about the big picture? Can your children and grandchildren really see the bigger picture of the world today? At a grocery store the other night we're walking out after getting some food and Hannah noticed a lottery sign placed alongside the cash register pushing the lotto and asked, "Dad, who actually buys these things?" I was elated that my constant rants on the foolishness of lottery and luck have indeed penetrated the ¼" of her thick skull! ☺ Do your children realize just how hard they will need to work to build self-confidence and a good life in the world today? One thing I see too much of that scares me to death is that kids don't see our world as it truly is. Parents are too busy fighting their kids' battles for them, enabling them to avoid building these skills, which aren't an option today. These kids need skills to cope in the world on a bigger level. Do anything possible to challenge your kids and build their self-confidence. It's not built in winning; it's built in never giving up and making progress, pushing through failures.

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

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

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.

Name _____ Email _____

Address _____

City _____ State _____ Zip Code _____

Name _____ Email _____

Address _____

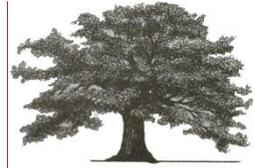
City _____ State _____ Zip Code _____

Registered Representative, securities offered through Cambridge Investment Research, Inc. a Broker/Dealer, member FINRA/SIPC. Investment Advisor Representative, Cambridge Investment Research Advisors, Inc., a Registered Investment Advisor. Chadwick Financial Advisors and Place Financial Advisors and Cambridge are not affiliated. Opinions expressed may not necessarily be those of Cambridge Investment Research, Inc.
 Disclosure: Indices mentioned are unmanaged and cannot be invested into directly. Past performance is not a guarantee of future results. This information is for educational purposes and should not be construed as individualized investment advice.



Visit us online at 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



PLACE
Financial Advisors

Please think of us whenever you or someone you care for needs the following:

- Stock option analysis, diversification
- Pensions - qualified and non qualified
- Family Protection Strategies
- Retirement Income Plans
- Investments & Investment Advice
- Business Protection & Succession
- Retirement Plans
- College Funding
- Tax Savings Strategies
- College Financial Aid Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Employment contract negotiations
- Settlement option analysis
- Financial Advice - hourly or annual retainer
- Fee based investment management
- In depth portfolio & risk analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or variable
- Income Replacement Techniques
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long-term Care Issues & Strategies
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

Mike Chadwick's Money Matters

15 New Britain Avenue. Unionville, CT 06085
860.673.1942
Torrington, CT . Manlius, NY

Chadwick Financial Advisors Place Financial Advisors

