

Social Media Antisocial

A former Facebook executive just had a very interesting interview where he stated that he feels “tremendous guilt” about Facebook. A talk recently given at Stanford Graduate School of Business by former executive Chamath Palihapitiya was impressive in that he really let out how he truly felt and there was absolutely nothing held back. He feels a real sense of guilt over how the short term “likes”, “hearts”, “thumbs up” and other dopamine fueled positive announcements through social media has caused people to ultimately be less social which is destroying how society works. It’s allowed people to surround themselves with those who only think the way they do, it removes constructive arguments and isolates people to a small box. The fact is as social media has gained momentum in our world, civil discourse has been decimated and we have less cooperation and far more misinformation and mistruth. We can see this very clearly in political circles. I don’t see this directly as I don’t use these mediums, except Twitter. I find that tool to be incredibly useful for gathering information instantaneously for sports scores, financial info, etc.

This isn’t a problem in America only, it’s a global issue and we need to think about how to use these phenomenal tools constructively and not allow them to do any damage to us or society. The interview talked about a situation in India where seven innocent men were lynched after a hoax about kidnappings spread through WhatsApp. This is a very bad situation and with people living with information so quickly distributed and not doing the proper research about the validity of such information we can very easily have a few bad actors manipulate large swaths of people to do terrible things. Reports issued show the terrorist organizations using social media to spread their message across the globe and that is very much in the same line as the very sad situation in India.

He’s encouraging the future leaders of the world not to “feed the beast” but to control it and put a hard brake on some of these social tools and the things they rely on. He’s convinced if this continues it’ll ruin society as we know it.

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Breakup Time

Is it time to break up the big tech giants? Many are calling for this and it may be a very fair dialogue to open up. We haven’t seen companies split up for a long time. Many of our baby boomers will remember when Ma Bell was broken up in January of 1982. The government’s Justice Department split up then giant AT&T into 13 smaller companies later known as the “Baby Bells.” Fast forward to today and of course many of those baby bells have been swallowed up again through mergers and acquisitions and AT&T is again a giant with a lion’s share of the market.

When the baby bells were created we had the following companies:

- AT&T
- Ameritech
- Bell Atlantic (renamed Verizon)
- Bellsouth
- Nynex
- Pacific Telesis
- Southwestern Bell
- US West
- Qwest
- CenturyLink
- Air Touch
- GTE
- Verizon

Fast forward to today and many of these have been swallowed again by AT&T and many by Verizon so we now have two monsters in the space.

Fast forward to the 2017 era and today we see Google and Facebook taking in about 75% of all online advertising revenue. We have fewer banks than ever before and the giant banks are now bigger than ever, despite the Dodd Frank rules following the 2008 financial scare that was supposed to make them smaller. Typical good intentioned activities that have led to unintended consequences.

The Google and Facebook dominance in the online ad space are often referred to as a duopoly, a situation in which two companies have a complete grasp on any given market. Often government gets involved when it’s a monopoly, just one company dominating a space. It’s by design these companies are trying to dominate as much of people’s time as possible. They call it a social validation feedback loop to exploit vulnerabilities in human psychology.

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We need to get back to the place where we can all speak about differences rather than hunker down and surround ourselves with people who will never share other ideas or differing opinions with us as it's just too uncomfortable. He comically says he will not allow his children to "use that \$hit"! Wow, the founder of Social Capital will not allow his children to use social media what does that say about the power and simultaneous danger of these tools.

The concept of curating our lives around perceived perception of our value based on our "friends" online which really leave us more vacant and empty inside. This is compounded by billions of people who are using these tools that have fallen into the trap of social media. He said that people are being programmed and they don't even know it. The continued use of these tools allows the companies to program people very much like they program computers. He sees a time bomb building within the walls of social media globally and although these tools do a lot of good, don't allow them to suck you or your family into the psychological game of looking online for a social life and not having an actual social life.

The main thrust of the message is to be a good actor on the global stage, master the face to face social interaction between people and if you're going to use social media, do not allow the dopamine fueled likes and thumbs up and other positive triggers to influence your behavior. He said all world views are just fine and everyone needs to sit down in a room and have a constructive dialogue around how to best move forward. We need all views out in the world, and he ironically joked with the smart Stanford business school students about how they're most likely apt to be programmed as they live their lives based on spreadsheets and check boxes and that's exactly how these systems work.

Children in school like gold stars, adults like hearts and thumbs up and other positive reinforcements of behavior. It doesn't only impact adults, but perhaps more so teens. A recent study by the Centers for Disease Control and Prevention shows that between 2010 – 2015 suicide rates among teens rose substantially after two decades of declines. They point to social media use as a direct link to the suicide rate as the use of social media surged in that time frame. After hours of scrolling through feeds, many kids reported feeling worse about themselves and left out. Nobody tends to post the bad things they're going through, but they'll use these outlets to post all of their positive aspects of their life, portraying a "perfect life." We all know this is the furthest thing from the truth but it's easy to see how kids would view this as something they're missing out on and their life just isn't good or as good as those 1000 friends they have on social media.

The study was large, it looked at half a million teens between 13 – 18 and the results were a direct link between screen time and bad feelings and the opposite occurred when they were physically with friends in a room hanging out, there was a decrease in bad feelings and hope positive. How do you, your kids or your grandkids use these tools? Be careful here!

"Cryptocurrencies are hot" is an understatement. Bitcoin is by far the most popular and recently there was a high school kid on financial TV saying "never sell bitcoin" on the day it peaked to see the next few days it lost 50% of its value.

People are asking us what is a cryptocurrency and why do they exist? Great questions and these are cool and complex mechanisms. The cryptocurrencies are digital currencies that are not based in any country but are global, work through the coordinated use of many computers globally to "Mine" the currency. The popularity of these currencies is derived from the global government money printing that has gone on now for many years. People are concerned, and justifiably so, that the currency of their country will lose value because the governments just keep printing money so at some point inflation will go haywire and the purchasing power of the underlying currency will be eroded. That is a fair theory and likely to play out at some point in the near future in a theater near you.

The next thing we get a lot is why government is printing all of this money if it's going to cause inflation that is bad for consumers. The sad reality is if they can stoke inflation as they're so trying to do, the debt they have amassed becomes cheaper to pay off for them, but the daily living becomes harder for the average person. It's a direct conflict of interests in how this financial paradigm exists. If we had deflation, prices going down, it'd be wonderful for the people as their money would go further, but it would then cost the government more money to pay off the mountain of debt it has amassed.

There are many pros and cons to the cryptocurrency mania so it will be very interesting to see how this plays out. First we don't want to chase this nonsense today, it's up 7000% or some outrageous amount so let's be smart and buy low not high. Next the validity of it being something the weak political class cannot manipulate is very powerful, but will it be just a matter of time before that same political class crushes it just because of that reason. Many argue that if a virus were to hit the cryptocurrency system it would collapse as the value stored in them would be invalidated or at the very least disrupted, likely very badly. The current thinking is that money is being moved across country borders now at an alarming rate and the authorities cannot monitor or police these transactions.

The opportunity to commit fraud here is huge, if one were to try to move money to another country through normal channels they'd have to comply with a plethora of rules to do it. One can move billions anywhere via the crypto's with absolutely no government eyes supervising the activity. Many argue today that the terrorists are primarily responsible for the use of the crypto's as they can move money freely now anywhere in the world. Lots to think about, no clear answers yet so let's watch it play out, just don't chase it. What is for sure is once this mania ends the likely beneficiary will be the precious metals!

Noteworthy News!!!

- Congratulations to Corrine Tracy on her new job with Sunlife! 😊
- Our condolences to the Blondeau family on the passing of Joe, a wonderful man, husband, son, brother, uncle and friend.
- Congratulations to Kim Brunyansky on her recent retirement! 😊
- Our condolences to the Roy & Sylvester families on the passing of Gil, a wonderful man, husband, father, grandfather and friend!
- Congratulations to Dave Bristol on his new job! 😊

Question & Answer

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

Q: What are the prices being paid for stocks in relation to history?

They're just about at all time highs, in fact an article came out on December 19th saying that the mentality of valuing assets needs to change. This is nuts, and in times like this when pundits claim the old ways no longer work or we're in a new world order it's close to the end. I can clearly remember in 1999 when people were saying the same things, the "new normal" and countless other ways to justify sky high valuations. There is a plethora of data out there today showing we're at or near all time extremes in valuations for equities and cryptocurrencies.



The chart above from our friend Jessie Felder shows the number of companies today trading at 10 times revenues. Folks this is revenue, not earnings. Seldomly do companies trade at 10 times revenues, historically yet today we have about 30 of them. The prior peak of this lunacy was in early 2000 when 36 did. Dangerous times today, in my 25+ years in the business I've never seen a period of more reckless risk taking behavior. The prices being paid today are off the charts in any valuation metric available. The period today is far more extreme than 1929, 1971, 1987, 2007 and there are some toss ups between 1999 and today.

One could call this the who's who period of awful times to be an investor as moving forward this simply doesn't hold up. Many think the tax cut is the reason for the big move and that's possible, but we need to be wary of the concept of buy the rumor and sell the news. This is a common market trap where people are excited about an event and things move up before the event, but once the event happens they go down from there. We'll see shortly! 😊

Breakup Time (cont'd from page 1)

In this duopoly situation the two giants took in 60% of all online ad revenue in America alone. We don't have global statistics but there is no question the two together are dominating the space. No other company has more than a 5% share of the space. Should the government force them to break up? It would certainly make rates go down as there would be equal competition between the vendors and if they did force a break up, in time the most successful companies would reacquire many of the smaller firms that result from the breakup just as the baby bells did back in the 80's.

Some of the most famous and popular companies in our world today are the result of monopolies way back in time. Andrew Carnegie went a long way in creating a monopoly in the steel industry and now he has one of the best universities in the country endowed by his fortune.

JP Morgan was also part of that process as he ultimately bought Carnegies Steel Company and folded it into US Steel. JP Morgan the bank now today is the largest financial company in the country. How a century will change companies, from steel to banking but a dominator in another industry a century later. Back in the day US Steel controlled about 70% of the industry, not too far off from where the duopoly sits today, but two companies instead of one are now in the mix.

Before the steel breakup we had American Tobacco broken up in the early 1900's because it was charging more than a fair price for cigarettes. Back then cigarettes were actually touted as the cure for everything from asthma to menstrual cramps and those claims ultimately ended with the legislator's wrath. The breakup concept isn't purely from a price control perspective but on the financial front it can be from a social security perspective. The banks have become so big today that they can influence the safety of our society if they go bad and they're too big for the government to bail them out. At this point we'll need someone or something to bail out the government and that's just not going to happen so it's a worthy dialogue.

The most famous monopoly is likely John Rockefellers Standard Oil where he was able to do it without the help of banks, he just took over an industry in its entirety. In 1890 he controlled 88% of the oil industry and not just production, but distribution, refining, transportation and marketing. This is a visionary and when broken up they ultimately gave birth to the likes of the following names most people know or remember:

- Amoco
- Texaco
- Exxon
- Chevron

I'm a fan of fiscal safety and we're on a path that isn't very safe, especially with the big banks. I'm less concerned about the duopoly situation but would be happy to see a more competitive landscape only for the consumers benefit, not for fiscal safety of the nation.

Money Quiz



This month's challenge is on Medicare, what % of senior citizens (those on Medicare) account for about 1/3 of our countries spending on prescription drugs? Last month's quiz wasn't won, China's economy is the 2nd largest in the world, producing \$9,377 GDP per person, while ours produced \$61,687 per person. They're large by volume, but about 15% as effective as us in Economic production. . Talk about moving slowly? Winner goes to Ruby Tuesday on us! 12/11/17: 12

Youth, Communism & Socialism

The youth today seem to think communism and socialism are good things and we'd be better off as a socialist or communist nation. I cannot fathom how this is considered a good thing but this is the consensus thinking from many young people today. As we've schlepped across the country looking at colleges the things I've witnessed are truly scary. The young people are somewhat brainwashed, thinking that everything being equal and having the government run everything would be a good thing. No incentives, just feel good about everything and nothing effort based.

Perhaps I'm a bit torn, but anything we see that is done by the government isn't done well or efficiently. We see people retiring from schools, towns, the states, the federal government, the FBI, ICE, Postal Service, DMV, virtually every government entity out there and they're all incredibly frustrated with how things are working. They work like robots, there is no common sense, they're just checking off boxes, there is no incentive, the guy next to me is doing nothing and getting the same money I am, they're looking for ways to do the least – these are all quotes we hear coming from those in government today and they all want out. The general tendency is for those who fail in the private sector to find a home in government, and many claim it's because they can hide there and they're protected.

I don't know if these claims are true but we hear them so often I suspect there is something to them. We also know from personal experience what a joy it is to deal with the government, have you gone to the DMV lately? The girls are now driving so we've had the joy of being there twice in the last year and it took 2 hours once and 3 the next time to register a car. If this were a private business they'd be long out of business. The kids today are not seeing the bigger picture of other countries and their socialist experiments, perhaps the ivy towers of higher education are not showing the good with the bad of the theory. I suggest the kids looks at countries such as Venezuela to see how that model works. They just had their biggest government owned electric utility announce a likely bankruptcy and the inflation rate there is 33.8% PER MONTH. Think things are pricy here, do some math on that one. Government pretty much sucks at most things, as well as the positive side of the theory sounds, it simply isn't economically feasible for it to work long term. Scary times!!

Student Loan Explosion

There are 4.6 million people, or should I say kids, now behind on their student loans. This is a new phenomoen reached in the 3rd quarter of this year and it's a double from where we were four years ago. The default rate is defined as those who have not made a payment in a year, wow a year, not 30 days or 60 or 90 days but a year. Talk about some slack, if we don't pay our bills within 30 days it begins to rock our credit to the downside and it's okay to not pay the student loan for 364 days before you're considered behind. Sad stats on where we are with this today.

22% of kids are behind on their student loans, they were 17% behind 4 years ago, this isn't a good trend, in fact it's a somewhat scary trend that needs to be addressed. The whole problem with the cost of tuition today is that the money is being provided too easily by government and with easy money comes crazy price increases. If you're not there yet with young kids or grandkids the prices of college has gone parabolic, now most of the state schools are 25-30k in CT and we're a high priced place for sure but nobody is really cheap anymore. If we switch to the private sector prices pretty much go directly to 50-70k for those schools. There isn't much available in the 30-50k range, they just skip that whole section, I guess why bother with anything in the middle. This isn't like shopping for cars, although you could buy a really nice car, or perhaps a great car, for every year your child or grandchild goes to college if you're not getting any aid.

So the question we must ask is why this explosion in defaults if the labor market is so strong? Some argue that the labor market statistics are jaded because they keep pulling people out of the calculation and unemployment shouldn't be measured that way and true unemployment is measured by U6 is 8%, not the 4% as the U3 claims. The gaming of who is employed and who isn't an issue – do part time workers count? Are barista jobs really legit jobs for those with bachelors degrees?

Payment plans for student loans cannot get much more flexible, they offer options to reduce payments based on income and not a fixed amortization schedule, they offer options to not pay when unemployment hits, they offer forgiveness of loans for public service jobs, there are a host of ways to lower the payments. There may be payments for life but they're able to be managed down to a small monthly number in comparison to income. Wouldn't it be nice if we could do this for mortgages, cars and the rest of the things we live with day to day? It's too bad the kids don't get a better financial education going into this process, they have no idea the obligations they're entering when they choose a school and literally sign their life away. I often see families make the mistake of prioritizing college over reitrement as well, there are choices and options to make the cost of education less absurd than it has become. Call to discuss this anytime!

Inspirational Quotes

- If we see someone throwing money away, we call that person crazy. This bothers us, in part, because money has value. Wasting it seems nuts. And yet we see others and ourselves, throw away something far more valuable every day: Time Shane Parrish
- Be kind, for everyone you meet is fighting a hard battle, Plato
- To weep is to make less the depth of grief, William Shakespeare
- As long as one keeps searching, the answers come, Joan Baez
- Clorox is used to sanitize things, maybe they're using it now to sanitize the political class, John Person
- An open ear is the only believable sign of an open heart, David Augsburg
- Whatever you can do or dream you can, begin it. Boldness has genius, power and magic in it, Johann Von Goethe
- Everything that irritates us about others can lead us to an understanding of ourselves, Carl Jung



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

Kids Corner

Is the SAT test the end all be all to determine a kids success as in life? Of course not, but you'd think it were based on how the teenagers race to try and ace this test. Schools have come up with so many formulas for scholarship, admissions, perks, etc. all based at least partially on the outcome of this few hour exam its nuts. It's important, but not the end all be all. Balance is important here, don't ignore it and work hard, but don't obsess about it either. My two nuts are no exception, they're working diligently to try and ace the exam with a perfect score – good luck! When I was a kid it just wasn't that important and the "race to the top" wasn't the big deal it is today.

The athletes think they're exempt from having to score well on tests, even those being recruited by the high academic schools have expectations and rules to follow.

We've seen some pretty smart kids come through these doors with a big attitude about their athletic promise and lack of need to do well in the tests because they're being recruited in any given sport by a top notch school. Even the Ivy's have to stick to some rules, the Academic Index is something the Ivy League needs to stick to when looking at the athletes. This is a confidential internal tool that those 8 schools use to accept the athletes. It's clear the athletes don't have to cross the exact same academic hurdles that the rest of the applicants do, but it certainly isn't easy so no dopes are going to the great schools even if they're the best baseball player on the planet. Even the average big sports schools have certain minimums they need hit prior to accepting the big time athletes.

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Call Toll Free (800) 843-4513
info@fiscalwisdom.com



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Mike Chadwick's Money Matters

15 New Britain Avenue, Unionville, CT 06085
860.673.1942

Chadwick Financial Advisors Place Financial Advisors

