FINANCIAL CONNECTIONS
GROUP INCORPORATED

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LIVE LONG AND PROSPER

The original Star Trek Series started in September 1966. The Starship Enterprise stardate was 2260. Some of the technology that was featured 300 years into the future can actually be found today. Below are some of the devices mentioned and our current equivalent:

- *Communicators* – The crew spoke on flip phones. We used landlines in the 1960s. Today, we think a flip phone is "old fashioned" when compared to our smartphones. Kirk's device didn't use emails, text, music, web access, etc.
- *Computer* – You may recall Spock frequently saying, "Computer, what is…" Apple's Siri entered the market in 2011!
- *Tricorder* – Dr. McCoy's could quickly diagnose what was wrong with a patient. Today, doctors can point a device called GENE-Radar at a patient and identify such illnesses as AIDS, malaria, tuberculosis, and cancer.
- *Clothing sensors* – Space suits monitored a body's vital signs. Today smart clothing and smartphones are being developed to monitor our heart rate, temperature, oxygenation, etc., in real time. This technology will quickly be replaced by chips embedded unobtrusively in our bodies, which will monitor just about everything.
- *Video-Chat* – Star Trek had large, clumsy monitors. We already have Skype, Facetime, etc.
- *Universal Translator* – Captain Kirk used to speak with alien species with the translator. Google Translate does a competent job translating pages of text from one language to another. Microsoft recently demonstrated a real-time, voice based language interpreter that works on Skype. We don't know if we will need to communicate with aliens. ☺

Some of the items in development will be available in years – not centuries or decades.

We don't want to minimize Star Trek creator Gene Rodenberry. He was able to visualize potential future technologies in the 1960s that took us decades to actualize as opposed to 300 years. Perhaps his genius is what started our current scientists and geniuses along their path. Who knows what the next decades will bring!

Inside This Newsletter

If you haven't signed up for the new Financial Connections client web portal, please give us a call. We've had very positive feedback. You will also be able to view your TD Ameritrade statements on the portal.

THE CURRENT STOCK MARKET DRAMA

Have your long-term financial goals changed since the New Year began?

Are American companies less valuable since January because of the panic over China or the falling oil price?

You may ponder questions such as these while watching the U.S. stock market react after China's decline. In two of the first four trading days of the year, China closed its markets due to a rapid fall in share prices—a move that may have made the panic worse, since it made investors fear being trapped in stocks that are seen as dropping in value. The panic spread to global markets, with U.S. stocks setting a record for falling over 6%, the most first-of-the-year drop in history.

For long-term investors, the result is much the same as if you went to the grocery store and discovered that the prices had fallen roughly 5% across the board. At first, you might think this is a great bargain. But then you might wonder whether the prices will be even lower tomorrow or next week. One thing you probably WOULDN'T worry about is whether prices will eventually go back up; you know they always have in the past after these sale events expire.

Will they? The truth is, nobody knows—and if you see pundits on TV say with certainty that they know where the markets are going, your first impulse should be to laugh, and your second should be to check their track record for predicting the future. Actually, we'd prefer you switch the station. Without a working crystal ball, it's hard to know whether the markets are entering a correction phase which will make stocks even cheaper to buy, or whether people will wake up and realize that they don't have to share the panic of Chinese investors on this side of the ocean.

China

While there may be some impact to the slowing Chinese economy, the reality is their growth has been declining for some time. China's attempt to control the devaluation of their currency and place circuit breakers on the Shanghai Stock market may have actually made the situation worse. No one believes the Chinese Gross Domestic Product (GDP) is at 7% regardless of what the government reports. Their imports/exports don't bear that out.

Many economists agree the Chinese currency, the renminbi, is overvalued and needs to be devalued. The question is do you "rip the Band-Aid off" or pull it off

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THE CURRENT STOCK MARKET DRAMA
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slowly. The government is trying for slowly but it may be making the situation worse. How can the Chinese government control this effort? The Chinese stock market capitalization ratio to GDP is 97% versus the U.S. which is 13%. When you control 97% of the capitalization, you can control most of the activity. One of the reasons the US government only has partial control over our markets is that 13% is not enough to influence all the activity.

Oil Prices

Usually oil prices are about supply and demand and the past are examples of demand greater than supply – remember the long lines at the gas pump in the 70s. Our current situation is just the opposite. OPEC and especially Saudi Arabia are keeping the supply of oil high. Some of the reasons are:

- The Saudis are trying to keep the oil prices low to cause a negative impact on Russia's and Iran's economy. Both countries are very dependent on higher oil prices for economic growth.
- The Saudis are also trying to put U.S. shale oil producers out of business (reduces competition for their oil).

To some degree they are being successful. U.S. shale production declined and many companies and the support industry (pipeline, transportation) are showing losses with the potential for bankruptcies possible.

The impact on our economy is twofold. Some industries improve their profit margins because their energy costs are lower. However, the energy sector's portion of the S&P 500 earnings is 12%. The sector's earnings was negative in 2015, also affecting GDP growth.

The best thing you can do is watch the markets for entertainment purposes—or just turn the channel.

2015 IN REVIEW

2015 was a poor year for financial markets across the globe and across investment asset classes (stocks, bonds, commodities, etc.). Among the major global stock markets, the United States was the best performer, but that's faint praise given the S&P 500's 1.4% return. What's more, it was a market in which a handful of large tech/ Internet companies (e.g., Facebook, Amazon.com, Netflix, and Google) generated huge gains and helped propel the index into positive territory, while the equal-weighted S&P 500 index (i.e., each company is weighted equally instead of by the size of each company's market capitalization) actually *fell* 2.2% for the year.

One striking feature of last year's investment environment was the difference in the direction of the U.S. economy and monetary policy versus other major global economies. In December, the US Federal Reserve raised interest rates – the first increase in nearly a decade. They felt our economy was on a positive trajectory.

Alternatively, other developed countries are lowering their interest rates. High unemployment remains though the trend is downward. International stocks of developed countries ended the year down 0.4% while emerging markets were down 15.8%.

As in 2014, the strength of the dollar exacerbated foreign markets' underperformance for dollar-based investors.

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2015 IN REVIEW
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Below is a table showing the stock returns in local currency and the impact of the strong dollar when local currency is converted to the US dollar.

	2015		2014	
Region/Broad Index	**Return in Local Currency**	**Return converted to US $**	**Return in Local Currency**	**Return converted to US $**
Developed (EAFE)	5.80%	-0.40%	6.40%	-4.50%
Europe ex-UK	9.10%	0.10%	7.40%	-5.80%
UK	-2.20%	-7.50%	0.50%	-5.40%
Pacific ex-Japan	-0.80%	-8.40%	5.80%	-0.30%
Japan	10.30%	9.90%	9.80%	-3.70%
Emerging Markets	-5.40%	-14.60%	5.60%	-1.80%

Source: JP Morgan 2016 Q1 Guide to the Market

The worst-performing areas of the markets were commodity-related asset classes. Commodity indexes were crushed, down on the order of 25%–30%. Oil prices hit an 11-year low in December and fell 30% for the year, after plunging 50% in 2014. (Oil prices have since declined further.)

Employment

The U.S. labor market continued to improve during 2015 – the unemployment rate fell from 5.8% to 5%. New job creation averaged a healthy monthly increase of 210,000 for non-farm payroll. Even better, after decades of wage stagnation, wage growth increased 2.3%.

Inflation

Wage growth should help inflation move upward. We view this as a positive sign since core inflation registered an anemic 1.3%, well below the Fed's target of 2%. While wage growth will increase corporate expenses, we still view this as a positive for Main Street.

If you would like to discuss your financial plan and/or portfolio, please don't hesitate to contact us. If you haven't already answered our Riskalyze questions to help us better identify your risk tolerance, please let us know. We'd be happy to sit with you while you answer questions or send you a link to respond on your computer, smartphone, or tablet.

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