FINANCIAL CONNECTIONS
GROUP INCORPORATED

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Inside This Newsletter

Financial Connections was highlighted by the *San Francisco Business Times* in their Bay Area Wealth Management edition.

66 YEARS YOUNG

Jill reached her 66th birthday in June. It was a bit shocking to realize she has been working with many of you since she was 43!

Brian reminded her that when she turned 50, we included in this newsletter an article about price differences between 1950 and 2000. He suggested we do it again. So, for your wince or laugh, below are some of the 1950 prices of items.

From the menu of F.W. Woolworth-1950:
(think of Rite Aid/CVS with a food counter)

Grilled Cheese Sandwich	30 cents
Ham and Cheese (toasted three decker sandwich)	60 cents
Milk Shake (made with 2 Dippers of ice cream)	25 cents
King Size Coke	10 cents

1950 Description	Average Cost
Hamburger meat-1 lb.	$0.30
Kraft Mayonnaise-1 QT.	$0.62
Milk	$0.82
Loaf of Bread	$0.12
Wage	$3,210.00
New car	$1,510.00
Gallon of gas	$0.18

$10 in 1950 equals $100.22 in 2016
Average Annual Inflation 3.6%
Total Inflation 902.2%

As we live year to year, it is easy to overlook inflation's subtle impact on everything we do in life. Only when we add together years do we realize its influence on our income and expenses.

LEAVING AN IRA TO YOUR YOUNG CHILDREN OR GRANDCHILDREN

We meet many people who would like to leave their IRA for children to inherit. A problem arises when the children are under 18. At an IRA holder's death, the IRA is retitled. In the case of a surviving spouse, the money can be rolled over from the deceased's account into the survivor's IRA.

However when it concerns children under 18, the situation becomes tricky. Minors don't have legal standing. They are unable to sign IRA agreements, manage investments or arrange for distributions. According to IRA guru Ed Slott, you will need to appoint a guardian or create a trust with a trustee to handle the IRA until the children reach their age of majority.

If you just list the child without the guardian or trust, it is possible a court will be required to appoint a guardian (a costly affair). If a guardian is assigned to handle the IRA, it is possible the child will gain full access to the IRA at 18 or 21. The concern: Is the child mature enough to handle the money?

A trust offers more flexibility. You can set forth how fast the money may be withdrawn and what it can be spent on (e.g. education). Think of it as setting up a Guidebook for the trustee to administer for the child.

NEED TO SAVE MONEY QUICKLY?

Columnist Simon Constable of *US News & World Report* took an inventory of average living costs and came up with an interesting conclusion. It is possible for some people to save money quickly. Below are some of the ways.

- You might stop cable in favor of Netflix. Potential savings: average of $91/ month
- Delay purchasing a new car once you finish paying off your current loan. Potential savings: $300/month - $3,600/ year
- Avoiding Starbuck's – Potential savings: $900/year
- Packing your lunch instead of buying it at the downstairs deli – Potential savings: $900/year
- Stopping a gym membership you seldom use – Potential savings: $348 over six months

You might come up with alternative ways to cut back and increase your savings quickly but first you have to track your expenses. Let us know if you would like a spending form. We can help you get started.

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IS IT WORTH THE COST TO GO TO COLLEGE?

There is a lot of discussion in the presidential race about college loan debt. It leads one to wonder if it is worth it. The Federal Reserve Bank of New York published a report on the labor market for college graduates.

Unemployment

- Younger workers without a college education experienced higher unemployment than recent college graduates—9.5% versus 4.2%.
- Overall, the current unemployment rate for people who graduated from a 4-year degree program is 2.6%.
- During the Great Recession, unemployed college graduates did not exceed 5%.

Income

- Average worker with a bachelor's degree earns $43,000 versus $25,000 with only a high school diploma.
- Professions with highest average incomes: pharmacy degrees, computer, electrical, chemical, mechanical, and aerospace engineering.

We see many young adults with college loans. Our hope is that there will be debt relief forthcoming to ease graduates' debt burden as they start their career.

KEEPING YOUR EMOTIONS LOOKING FORWARD

We just experienced some large market swings as a result of Brexit. The year also started out with a downward trajectory regarding China only to recoup losses in time for another downturn and upturn.

These are all short-term market swings reacting to headline news. If you have your financial plan in place then you are invested to meet future goals. In between "now and then" when you need to withdraw money, we should remember not to react to short-term turbulence.

We thought it would be interesting to reflect on events since 2000 that tried our emotions.

2000: Tech bubble

2001: 9/11

2002: Market bottom on 10/9

2003: Beginning of U.S. war on Iraq

2004: Tsunami in Asia Pacific kills over 200,000 people

2005: Hurricane Katrina

2006: Respite ☺

2007: First mention of "subprime"

2008: Bear Stearns bankruptcy

2009: Lehman bankruptcy

2010: Flash crash

2011: Euro debt crisis

2012: Hurricane Sandy

2013: Republic of Cyprus financial debt crisis

2014: Geopolitics Russia/Ukraine

Thanks to JP Morgan for this list.

If you want to update/create a financial plan, please call us.

A VOLATILE FIRST SIX MONTHS IN 2016

There are many economists who feel the Fed is waiting too long to increase interest rates. Among them is a favorite of ours, David Kelly, Ph.D, Chief Strategist for JP Morgan. He has a way of drawing parallels that resonate with us.

His most recent comment about the Fed is that they are waiting to get the perfect picture of a kindergarten class—trying to get them to all stay still and smile at the same time. Kelly likens this to the Fed's stance before raising interest rates. Of course there is no such thing as a perfect picture.

The Fed will not get growth, jobs, profits, and inflation working "perfectly" all at the same time.

The Good

Consumers' financial position in the U.S. is excellent. Total assets are seven times that of total liabilities (debt).

Two-thirds of the liability is in mortgages, and refinancing continues with mortgages at their lowest rates.

Debt service (how much of spending is dedicated to paying down debt) is below 10%, the second best period ever.

Consumers are more credit worthy and banks are responding by lending more.

Unemployment is reduced to 4.7% from 10% October 2009. Unemployment claims are the lowest since 2000.

Consumer spending is now 69% of Gross Domestic Product.

Europe (excluding U.K.) is growing at 2.2% per year. Unemployment is down from 12.1% to 10.1% and thus is moving in the right direction. It is falling at the same rate as in the U.S., 0.7%/year. Europeans are paying lower gas prices creating more money to spend, and exports are increasing due to the lower Euro. All good news for their economies.

The Not So Good

Business is not investing in growth even though it is supposed to be one of the benefits of low interest rates—lower costs to finance projects for future growth.

Inventories are growing slowly, which creates a drag on the economy.

Instead of investing to build future capacity and improve productivity, companies are using their cash to either pay dividends or buy back their stock—neither act as an investment for the future.

Brexit —the immediate reaction appears to be overblown. The U.K. only accounts for 0.5% of total U.S. exports. Confusion about the future creates the volatility. Realistically, separation from the European Union will take years to unwind.

Please don't hesitate to contact us to review your portfolio(s).

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