For Clients and Friends of Financial Connections

Quarterly Newsletter, 1st Quarter 2013 4/17/2013

As we do annually in the first quarter, included is our Disclosure Statement (ADV) and Privacy Notice along with your reports. We welcome the opportunity to meet with you at your convenience.

The U.S. stock market started 2013 with a bang ignoring all negative news. All indexes were up and the S&P 500 set a record closing last seen in 2007. The Wilshire 5000 Index was up over 10%. Volatility is at record lows.

When you look at global returns, the picture is decidedly different. Larger developed countries as measured in dollar terms by the EAFE Index rose 4%; across the Eurozone they were up less than 1%; and the Emerging Markets were down 2%.

It appears the best and only game in town is the U.S. stock market.

Bonds are another story. If you loan the government money for two years, your return is 0.2% per year and the five-year Treasury Bond returns 0.8% per year. Not attractive investments.

<u>The Sequester</u>

There was a lot of saber rattling when the mandatory cuts went into effect. But little impact has been noticed – yet. We have a complex economy. It takes time for changes to filter down through the economy, be they positive or negative.

For example, it isn't summer yet so we aren't seeing the effect of park cutbacks, lower maintenance, and lack of hiring seasonal workers or the furloughs. The Golden Gate National Recreation Area includes such locations as Crissy Fields and Muir Woods. They are unable to fill the 30 openings and the 10-15 seasonal positions. More attractions will be closed or have reduced hours. Many employees will be required to take two furlough days per month.

Multiply this impact into the various sectors of the economy and we'll see what the actual economic impact will be.

Will private sector spending offset government cutbacks? It is too early to tell.

<u>The Economic Numbers</u>

February is the most recent month of data available. Consumer spending rose to 0.7% - the highest in five months. Income rose 1.1% in February and the U.S. savings rate rose to 2.6%. All good news.

Home property values are still on the rise. According to the Case-Schiller Index, home

Continued inside...

Clients of Financial Connections
(Continued from front page)

prices nationally are up 8% over last year. San Francisco housing values rose 18% over the same time last year.

Inflation is modest, well below the Fed's target rate of about 2-3%.

Don't Worry, Be Happy (Bobbie McFarrin)

The stock market is ignoring the potential fiscal drag of spending cuts, the inevitable rise in interest rates, the uncertain outlook in Europe and its potential disintegration post Cyprus, China's economic issues and higher taxes to name a few.

STARTLING FACTS ABOUT U.S. LIFE EXPECTANCY

The National Research Council and Institute of Medicine reported that compared to other developed countries, Americans:

- Die younger
- Have more illnesses
- Have more accidents
- Have higher infant mortality

Even if you are wealthy, college educated, and insured, people in 17 affluent countries have longer life expectancies.

Japanese women live the longest. American women are close to the bottom of the list (dying more than five years earlier than the Japanese).

Part of the lower life expectancy resulted from American men younger than 50 dying in crashes, accidents, and violence.

The study also reported the U.S. health care system was "fragmented, lacking sufficient primary-care physicians and posing financial barriers" for those who couldn't afford "insurance and out of pocket expenses."

Switzerland was on top with the longest life expectancy.

FINANCIAL CONNECTIONS GROUP, INC.

Jill D. Hollander, CFP®, CRPC℠, ADPA™, Financial Advisor
Brian Pon, EA, CFP®, Financial Advisor

Financial Connections Group, Inc.
21 Tamal Vista Blvd., Suite 105
Corte Madera, CA 94925
415.924.1091

Berkeley Office:
2608 Ninth Street, Suite 302
Berkeley, CA 94710
510.849.4667

EMAIL: client@FinancialConnections.com
WEBSITE: http://www.FinancialConnections.com

CYPRUS – THE STRAW THAT BREAKS THE CAMEL'S BACK?

While Cyprus is small in terms of size within the European Union (population of just over one million), it was significant because it had a large banking center concentrated in their two banks (Bank of Cyprus and Laiki Bank). Right now the banks are broke for a variety of reasons. For example, the small island nation held a significant amount of their neighbor's(Greece) private and public debt. These investments lost 76% of their value.

<u>Original Proposal for Bailout</u>

This proposal included a tax on <u>all deposits</u> to the tune of about 6.5%. A $1,000 deposit would lose $65. It violates all banking standards for having deposits within the insurance limits (for us it would be like having a loss on your savings even though it was FDIC insured.)

Even though this option was changed because of a revolt by the Cypriot Parliament, the fact that it was even brought up is a precedent. Experts looking at the impact to the European Union feel the mere suggestion that depositors could lose money because of bank problems destabilizes the entire system.

Would you trust putting your money in a bank that has problems if you might lose some of your savings (think Italy, Spain, Portugal)? Many analysts believe depositors in other European nations will start withdrawing money from banks, further crippling the financial system of the European Union.

<u>Revised Bailout</u>

Unbelievably, what they ultimately did was to "tax" (loss of money) deposits of over €100,000 to the tune of approximately 40% at the Bank of Cyprus and 80% at the Laiki Bank! The value of the stocks for the banks declined to zero. Shareholders lost their entire investment.

Capital controls are also in effect. Money is frozen from being taken out of the banks. Thousands of small firms are unable to access their operating funds.

One Cypriot said he had a trading account of €400,000 at Leiki and it was frozen. He is unable to pay for the consignment of Egyptian shoes.

Checks may not be cashed; credit card use abroad is limited. This creates a two-tier Euro. Would you take a check written on a Cypress bank even though it is a "Euro," the same as one from Germany?

According to the chief economist of High Frequency Economics, Carl Weinberg, the European banks are undercapitalized with no way to recapitalize. In the U.S., we had TARP as a public policy to prevent our banks from undercapitalization. There is no such approach available to Europe. Needless to say, he is bearish on Europe believing they are headed for a depression.

PAY SPECIAL ATTENTION TO THESE BIRTH DATES

Age 50: You are allowed to save extra money in many retirement plans (i.e. IRA, 401(k)) when you turn 50. The term used is catch-up provision.

Age 55: Health Savings Accounts catch-up provision starts. Under certain circumstances, penalty-free distributions may be taken from certain retirement plans if you are retired.

Age 59-1/2: Distributions may be taken without penalty from IRAs and other qualified retirement plans, Roth IRAs need to be opened at least five years.

Age 60: If you are a widow or widower, you may claim early Social Security benefits under your spouse's earnings record.

Age 62: Early Social Security benefits may be received under your earnings record. However, there is a significant penalty for not waiting until your full retirement age; we recommend waiting until your full retirement age (FRA or later if possible).

Age 65: Age to file for Medicare benefits unless covered by a qualified group plan. If you need help, our long-term care consultant is available to speak with you.

Age 66/67: Full retirement age (FRA) to receive Social Security benefits.

Age 70: If you are able to wait until age 70 to apply for Social Security, your benefits are enhanced by 6-8% for every year you delayed applying from your FRA. A nice no-risk return on your investment!

Age 70-1/2: Required minimum distributions begin (RMD). The government says they have waited long enough to be paid the taxes on your retirement savings and earnings. Remember you saved this money pre-tax. Now you must begin withdrawals annually taxed as ordinary income. There is a significant penalty for not withdrawing annually (an additional 50% of the taxes due). We send you a letter for accounts we manage held at TD Ameritrade with the amount of your RMD (does not include Roth IRAs since those contributions are after-tax).

If you would like to discuss any of these issues as you approach these important birthdates, please don't hesitate to contact us.

Jill D. Hollander

Brian Pon

FINANCIAL CONNECTIONS
GROUP INCORPORATED