

## ***For Clients and Friends of Financial Connections***

The Federal Reserve has been a major force driving market performance for several years. On May 22, Chairman Bernanke discussed the potential of reducing Quantitative Easing (buying of bonds) sooner than expected. How did the market respond—with irrational panic?

*From May 1–June 30*

- ◆ Core bonds: -3.3%  
*(worst two-month loss in the benchmark's 37-year history)*
- ◆ 20-Year Treasury bonds: -9.8%
- ◆ Emerging market local currency bonds: -10.4%  
*(from May 8–June 30)*
- ◆ Emerging market stock: -11.4%
- ◆ Developed International stock: -6.5%
- ◆ U.S. large company stock: -.1%
- ◆ Gold: -15%

Having experienced the above volatility, through June 30, the U.S. stock markets are doing well, but the rest of the world's are not. Emerging markets are down 11% for the year and the Eurozone is down 1.5%.

### Some Perspective

Since 2008, many people have continued to put their money into bonds even though the yields were very low. Some, reaching for higher yields, invested in riskier bonds but did not make the leap to stocks. As stocks continued to rise and the Fed continued its easy money policies, the economy very slowly started to grow, and confidence increased. Now bond mutual funds experienced large outflows and this money moved into the stock market, driving prices higher. The higher the market, the more money moved to equities. This is frequently referred to as momentum investing.

At the most fundamental level, the price of stocks is based on the current and future earnings of a company. When market value drops precipitously based on a single speech about a hypothetical Fed action of "tapering off its program of buying bonds later this year," you have a good example of emotions moving markets.

### Fed Statement

Some analysts believe the Fed's statement is a positive. They interpret it to mean that the U.S. economy is on the road to recovery and that the government influence of monetary policy can begin to dissipate and let the economy stand on its own "two feet."

Others view it as the end of the easy money era and the Fed's slowly leaving the marketplace will work against a growing economy. They feel the rise in mortgage rates will hamper the housing recovery and car markets and push us back into recession.

*Continued inside...*

### **Quarterly Newsletter, 2nd Quarter 2013 7/18/2013**

Financial Connections Group, Inc. was named a Bay Area Premier Wealth Advisor in June by the *San Francisco Business Times*. Wealth Advisor is today's buzz term. We view ourselves as financial advisors to a variety of people. Still, it is a nice recognition.



## Clients of Financial Connections

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Additionally, sequestration effects are still rippling through the economy. For example, on July 10 Jill heard a broadcast announcement that the new patent office scheduled to be built in Silicon Valley has been postponed indefinitely due to sequestration.

Only hindsight will show which view is correct.

### Portfolios and Diversification

It can be disconcerting when the S&P 500 is up 14% through June 30, and you have a portfolio holding various bonds, domestic and international stocks, and defensive funds that earn only modest gains. The defensive funds helped when the market declined in June.

As we've said in the past, we strive to develop an all-weather portfolio that bends with the varying returns in the various asset classes with the objective of losing less when the markets drop and participating when the markets rise. With this objective, we hope the volatility is also muted.

Please feel free to contact us to discuss your investments or update your financial plan.

## DEFEAT OF DOMA AND PROP 8

On June 26, the Supreme Court held that Section 3 of the Defense of Marriage Act (DOMA), which denied federal benefits and protections to married same-sex couples in states recognizing these marriages, is unconstitutional.

California's Prop 8 was remanded back to the 9<sup>th</sup> Circuit effectively stating same-sex marriages as legal in our state.

A big constituency that will feel the effect of the rulings is gays in the military. Military commanders supported the defeat of DOMA. They were put in the difficult position of having to treat personnel differently. Legally married gay couples were unable to have spousal housing, receive spousal benefits, survivor benefits, access to the stores and services on the military base, etc.

There are over 1,000 laws that married gay couples have been denied. After the decision, President Obama ordered the following:

*...I've directed the Attorney General to work with other members of my Cabinet to review all relevant federal statutes to ensure this decision, including its implications for Federal benefits and obligations, is implemented swiftly and smoothly.*

There are many issues yet to be decided. It will take time. We include a list of some of the issues that need to be considered in this new world.

(See related article – *Issues Post-DOMA*)

### **FINANCIAL CONNECTIONS GROUP, INC.**

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## NEW ESTATE RULES AND REVIEW OF YOUR ESTATE DOCUMENTS

The estate and gift tax rules changed the beginning of this year. Each person has a \$5.25 million federal unified gift and estate tax exclusion. As part of the American Taxpayer Relief Act, there is also a 3.8% Medicare surtax that may affect some trusts and estates.

Since relatively few people have more than \$5.25 million of assets, the tax itself might not be a problem. The structure of trusts, however, is a different matter.

### In the old days

Many estate plans for couples written over the last 20 years require the estate to be divided into two or more trusts at the first death. Under the new tax laws, this might be unnecessary and, in some cases, not advisable. Please see your estate attorney.

### Portability

Another provision of the new law allows a surviving spouse to use the deceased spouse's remaining exemption in the surviving spouse's estate.

When one spouse dies, let's assume an exemption of \$3 million is used. There is still \$2.5 million unused. This can be added to the surviving spouse's estate so the new total would be \$8 million (5.25 plus 2.5). There is an important caveat. If the surviving spouse remarries but outlives a new spouse, the added exemption is lost.

### Annual Exclusion

As of 2013 you may give anyone \$14,000 without having this amount count against the \$5.25 million exemption. If you were to give \$15,000 in tax year 2013, \$1,000 would count against your lifetime gift exclusion.

### Update your documents

If you have not updated your estate documents in the past few years, we suggest you visit with your attorney to see if an amendment is necessary to take advantage of the new rules. One part of your estate documents is the Advance Directive and Durable Power of Attorney for Finances (DPOA).

It never hurts to renew your Advance Directive and Durable Power of Attorney. Remember that while your trust governs your taxable money, should a successor trustee be necessary, the DPOA is implemented when it pertains to non-trust accounts (i.e. IRAs, individual and joint accounts).

You might also consider obtaining the DPOA forms required by your bank or other financial institutions to make sure your documents are accepted by them, because a variety of forms exist.

While we are not attorneys, we are happy to provide the names of those attorneys that other clients have been happy with.

## INVESTMENT VERSUS SAVINGS

Some people confuse the two terms.

- ◆ Savings are money you accumulate. Saving money for an emergency fund is something we all should do. You save for a vacation or a car.
- ◆ Investing requires spending the saved money, with the objective of a return on your investment at a later date.

Individuals invest money for retirement. The value fluctuates and includes risk, but the return over a long period offers more than just savings.

The idea of investing in order to grow also applies to countries. Europe has been on a steady diet of austerity (i.e. cutting of services and benefits) with nothing being invested for growth. Germany has been one of the drivers forcing austerity. Yet interestingly, Germany offers a prime example of spending money by investing for a return.

A *NY Times* article on July 7, 2013, "Austerity Won't Work If the Roof is Leaking" by Robert H. Frank, economics professor at Cornell University, takes to task the U.S. propensity to cut without regard to public investing. As a contrasting example, he cites Germany's investments.

Germany borrows money to invest in infrastructure because of the payoff in the future. With this investment, its unemployment rate was reduced to 5.3% and is still falling (during the financial crisis unemployment was 9.2%).

It is one thing, Frank explains, to inject stimulus to build such things as houses, but an entirely different matter to invest in overdue repairs of infrastructure.

Is repairing a small leak not easier than waiting until you have to replace the roof? Is this not a parallel for our infrastructure? When's the last time you drove down a road without potholes?

We would offer another example. Remember when East and West Germany were re-unified? Germany had a 10-year plan to invest in East Germany's infrastructure, education system, etc. The dividends of this investment took over a decade to reap but the return made the united Germany one of the strongest economies in Europe.

Cutting spending just to reduce the deficit offers little return to the taxpayer. Why not invest in infrastructure, education, etc.? The increased employment reduces the need for a social net; more money pours into Social Security coffers, a better educated work force can only help us. This is what we try to do on an individual basis when we invest instead of saving. Perhaps Washington should take note.



Jill D. Hollander



Brian Pon





## ISSUES POST-DEFENSE OF MARRIAGE ACT (DOMA)

Federal benefits and responsibilities available to different-gender couples will now be available to same-sex married couples *in states where gay marriage is recognized*. There are currently 14 states including the District of Columbia that permit same-sex marriages.

It will take time for federal agencies to make such changes as form revisions, updating procedures, training of personnel, etc., to include same-sex married couples.

California Registered Domestic Partners (RDPs): We have been advised by an estate attorney that RDPs will not qualify for federal benefits—they must marry. We have also seen statements that RDPs (and other states' RDPs and those in civil unions) are considered married if they are allowed to inherit property under intestacy laws. Various organizations have various definitions. If you are RDPs and not married we suggest you consult an attorney for advice.

Federal and civilian employees and their spouses: Spouses of current and former employees should now be eligible for protections and benefits extended to different-gender married couples. They may include health and survivor benefits, retirement benefits, etc. Check with Office of Personnel Management ([www.opm.gov](http://www.opm.gov)).

Family and Medical Leave Act (FMLA): This act allows eligible workers to take time off to care for a spouse with a serious injury, for the birth or adoption of child, etc. It is unclear how corporations may implement FMLA. If you live in a state that respects your marriage you should be eligible for FMLA. Check with an employment law attorney with questions.

Immigration: What the impact of marriage is on green cards, visas, etc., isn't clear. We suggest you check with an immigration attorney. Also see, [www.immigrationequality.org](http://www.immigrationequality.org).

Medicare and Social Security: It is anticipated that the eligibility and benefits are the same as identified by the Social Security Administration. These include spousal benefits, survivor benefits, etc. <http://www.socialsecurity.gov/>.

Employer Benefits: Spousal health insurance benefits should not be taxable income. COBRA rights should also apply. Pensions and retirement account should now view you as a spouse. We suggest you immediately check your designations. You may need to re-file your paperwork to list your beneficiary as your spouse in the relationship box. It is presumed that allocations for Cafeteria Plans, Health Saving Plans, Health Flexible Spending plans, etc., will qualify both spouses to benefit. Check with your tax professional.

Divorce: The ability to divide assets, including a retirement plan, should not generate taxes.

Federal Taxes: Your filing status will now be married. Yes, you may be hit with the marriage penalty. We get the good with the not so good. 😊



Estate Tax Implications: Same-sex married couples will now have the same gifting and unlimited marital deductions as different-gender married couples. While this may sound simple, it is not. For California, there are issues of what is separate property and what is community property in the relationship.

Using Jill and Bonnie as an example, here are some of the concepts that obviously require the assistance of an attorney.

- ◆ Jill and Bonnie became a couple in 1977
- ◆ They became Registered Domestic Partners in 2005
- ◆ How are the assets treated between 1977 and 2005?
- ◆ What legal activity is required to convert separate property to community property (assuming that is the intent)?
- ◆ How does this fold in with designing a new joint trust since their existing ones are individual?
- ◆ Assuming they had distinct secondary beneficiaries (after each other), how do they coordinate who gets what after they both die?
- ◆ How do they title their property?

Now that they are recognized as married, they need to re-do the Advance Directive and Durable Power of Attorney (DPOA) for Finance.

Many of the changes and the implementation of federal benefits for married same-sex couples will take time to implement. Many gray areas still need to be worked out. In order to view the impact to your circumstances, we suggest:

- ◆ Make a list of each issue that involves federal benefits (i.e., employer plans, Social Security, Medicare, estate documents, etc.)
- ◆ Next to each item, see if it is an activity you can handle (such as filling out new IRA designation forms)
- ◆ Place question marks on the items you don't know how to handle
- ◆ Contact your tax professional and estate attorney to make an appointment
- ◆ Call Financial Connections if you want a sounding board or a review of the issues you believe are involved