

3rd Quarter 2014, 10/17/2014

## VOLATILITY IS BACK

In previous newsletters, we mentioned that the market has been unusually calm since starting its upward trend in 2009. We are in the fourth longest bull market since 1928, with no correction. But starting in September and through this writing, market swings have returned. Global markets generally fell in the third quarter.

Market slumps don't always reflect reality. They also register human emotions and a crowd mentality. Investors seem to be worried that stocks are overdue for a correction (minimum of 10% decline). September's unexpected and dramatic shift in U.S. consumer confidence hints maybe a self-fulfilling prophecy.

Once again, there are positive and negative signs. Below are some examples.

- ◆ Strong dollar – When the dollar is strong, our goods and services are more expensive globally. Forty percent of the companies in the S&P 500 earn revenue from overseas, which may influence their profitability.
- ◆ Europe – It seems to take two steps forward and one backward. Germany's economy is faltering and the government is considering a stimulus package, something it has not done in the past. The European Central Bank (ECB) cut rates but is buying bonds, as the Fed did in the past.
- ◆ Inflation – Continues below 2%
- ◆ Wages – The slight increase in hourly earnings is still below what the Fed chief, Janet Yellen, said a healthy economy needs.
- ◆ Employment – There is continued improvement over the last three months.
- ◆ Corporate Balance Sheets – Companies continue to hold lots of cash. Billions of dollars have been used to purchase a company's own stock. Some of the largest purchasers are Apple, IBM, Exxon Mobil, and Pfizer. Such purchases increase stock market returns.

If you would like to discuss your investments or update your financial plan, please don't hesitate to contact us.

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Social Security will resume mailing benefit statements, reversing a 2011 decision.

Workers will receive a statement every five years starting with their 25<sup>th</sup> birthday.

At age 60, workers will receive statements annually. The first statements have already been mailed.



## ESTATE PLANNING - PROVIDING FOR PETS

This summer, the entertainment world lost one of its most prominent and popular figures, Joan Rivers. When her estate planning documents were unveiled, one of the most interesting details of her estate plan was the careful provisions Rivers made for her pets.

The bulk of Rivers' estate was left to her daughter and her grandson—an estimated \$150 million in total value. The two rescue dogs who shared her New York residence, and two other dogs who lived at her home in California, were beneficiaries of pet trusts, which included an undisclosed amount of money set aside for their ongoing care, and carefully written provisions that described the standard of living that Rivers expected them to receive for the remainder of their lives.

Traditional pet trusts are honored in most U.S. states, as are statutory pet trusts, which are simpler. In a traditional trust, the owner lists the duties and responsibilities of the designated new owner of the pets, while the statutory trusts incorporate basic default provisions that give caregivers broad discretion to use their judgment to care for the animals. Typical provisions include the type of food the animal enjoys, taking the dog for daily walks, plus regular

veterinary visits and care if the pet becomes ill or injured. The most important provision in your pet trust, according to the American Society for the Prevention of Cruelty to Animals, is to select a person who loves animals and, ideally, loves your pets.

The trust document will often name a trustee who will oversee the level of care, and a different person will be named as the actual caregiver. In all cases, the trusts terminate upon the death of the last surviving animal beneficiary, and the owner should choose who will receive those residual assets.

A popular (and relatively simple) alternative is to set aside an amount of money in the will to go to the selected caregiver, with a request that the money be used on behalf of the pet's ongoing care.

When you are planning your estate, give some thought to your pets and include them in your overall plan.

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## A CASE FOR FINANCIAL REGULATION

There seems to be a constant debate in Congress that ranges from no regulation to stringent regulation and everything in between.

While we don't want to be political, we have strong opinions on this topic.

The Crash of 1929 and subsequent Great Depression reflected a total lack of regulation in the financial sector. The demise of the financial system affected every world economy. When FDR became President, part of the New Deal included oversight of the financial sector.

FDR created:

- ◆ The Securities and Exchange Commission
- ◆ The Federal Deposit Insurance Corporation (FDIC) with insurance on deposits
- ◆ The Glass-Steagall Banking Act that separated commercial banking from investment banking

Up until the Great Recession 2008, it has been a fairly smooth ride. While there have been financial problems (e.g. Savings and Loans Crisis – 1980s), Main Street has essentially been unharmed.

Even the crash in October 1987, with the Dow falling 22% in one day, the economy didn't collapse, unemployment didn't rise, and the stock market actually ended in positive territory that year.

Barry Ritholtz (author of *Bailout Nation: How Greed and Easy Money Corrupted Wall Street and Shook the World*) recently commented in a Podcast with Arthur Levitt, former SEC chairman, "One of the funny things about finance is we tend not to

learn from our mistakes. We keep making the same mistakes over again."

In 1999, the Glass-Steagall Act was repealed by the Graham-Leach Act and in 2000 the Commodities Future Modernization Act got rid of all limitations on derivatives.

What happened? We had the worst financial crisis since the Depression. We don't think it is a coincidence.

Whether the latest legislation (Dodd-Frank) is enough to ensure Main Street isn't harmed by what is done on Wall Street, we don't know. However, we do believe that a framework that provides a system and its corresponding businesses with guidelines for behavior is necessary in preventing the actions of a few from harming our country and the rest of the world. Let us not forget that Europe, for instance, has not recovered to the degree the U.S. has since the Great Recession.

## MEMORIES FOR FUTURE GENERATIONS

You may remember stories told to you by your grandparents. Have you ever thought of sharing your stories with your children or grandchildren?

If you've spent some time speaking with someone from an older generation (think grandparents and great-grandparents), they have wonderful stories to tell from their youth.

Jill recalls her surrogate mother, born in 1906, and the stories she told about her mother being unable to vote. Kim recorded her grandmother talking about her brothers who in the 1920's built their own boats and hunted for seals in Newfoundland.

With technology today, everyone has an opportunity to write a personal history for future generations to experience. There are video services and digital history companies that will preserve your stories.

You can even compose a book showing old photos, journals, memorabilia, etc. Experts caution that each story should have a beginning and end. Detail should include people and places. And, remember that 50 years from now, a person needs to be able to understand what you want to share, so make sure to be clear and avoid slang. The younger generation consumes information in short bursts, so shorter narratives may be better than longer ones.

Some websites to review are:

[www.legacystories.org](http://www.legacystories.org),  
[www.lulu.com](http://www.lulu.com)  
[www.foreverstudios.com](http://www.foreverstudios.com)  
[www.umentia.com](http://www.umentia.com)

[www.48HourBooks.com](http://www.48HourBooks.com)  
[www.personalhistorians.org](http://www.personalhistorians.org)  
[www.memloom.com](http://www.memloom.com)

## JILL FOLLOWS BRIAN'S FOOTSTEPS

As many of you know, Brian teaches Tax Planning in Golden Gate University's Masters Financial Planning Program.

Jill started teaching this fall in the same Master's Program but offers an Introduction to Financial Planning. She created a Jeopardy Game for each chapter to make the class more interesting and generate discussion. So far so good.



Jill D. Hollander



Brian Pon

