

2nd Quarter 2017, 7/17/2017

THE JOB MARKET AND ARTIFICIAL INTELLIGENCE (AI)

You can't turn around without reading about jobs being replaced by robots. How much is hype and how much is an accurate forecast we will only know in hindsight. However, some AI is already in the testing mode. We hear the most about self-driving cars (already on the roads being tested) and self-driving trucks.

Research recently conducted by the Pew Research Center surveyed technologists, scholars, strategic thinkers, and education leaders asking for their insights into the future workplace. A significant 70% felt new educational and training programs would be developed and would adapt as new skills are required.

Already, Microsoft and IBM are working with non-profits to create programs to train people in technology to fit their needs. Some of the training is in computer programming while other skills taught concern computer hardware. Many of the students do not have college degrees but the desire to learn.

One of the interesting side notes to the study was the belief that the process of training and re-training would teach people to become lifelong learners. They would gain the ability to be flexible and keep adjusting to multi-career paths.

Perhaps the partnership between corporations and education will replace what had been vocational schools.

BE CAREFUL OF THE WORD "AVERAGE"

If in the midst of the Great Recession, the idea that unemployment would be 4.4% (as of June 30th) would have been hard to believe. However jobs are not spread evenly among states. According to the Bureau of Labor Statistics, the most highly employed state is Colorado (2.3% unemployment) compared to Alaska at the bottom with a 67% unemployment rate.

California ranks 36 with 4.7% unemployment.

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Brian took a real vacation this year. He just returned from 12 days in Alaska. Ask to see his pictures!



THE SHRINKING SUPPLY OF STOCKS

Twenty years ago, there were 7,355 stocks according to the Center for Research in Security Prices at the University of Chicago's Booth School of Business. Currently, there are 3,600.

Twenty years ago, there were over 4,000 very small companies (microcap) that did not qualify for the Russell 2000 – a commonly used index of small company stocks ranked 1,001 – 3,000 by total market value. Instead of 4,000, the number today has dwindled to less than 1,000.

Historically, small companies have offered greater returns than larger ones but with additional volatility. Perhaps this history is in jeopardy. With venture capital firms investing in start-ups and allowing them to stay private longer instead of going public, add the red tape to become a public company and buyouts from larger companies, the supply continues to decline.

There may be several consequences to the decline of small stocks:

- ◆ Speculation that one reason many active mutual funds managers (selecting specific stocks) have performed poorly is the absence of a larger pool of small companies. The companies left in the market are larger and information is readily available – not so with smaller firms.
- ◆ If indeed smaller companies no longer outperform larger ones, it will change the way investors design their asset allocation.

Approximately 10% of the US stock market is comprised of small stocks and our portfolios have an allocation to this asset class. Should the numbers start showing the risk/return ratio from past decades no longer exists, why allocate to this group? It is something we are watching.

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THE FUTURE OF MEDICAID and ACA – A CONCERN FOR YOUNG AND OLD

The Republican attempt to dismantle the Affordable Care Act (ACA) also known as Obamacare should be a worry for us all. According to the Congressional Budget Office, 23-24 million people would lose insurance coverage over the next decade.

According to a report by NPR:

- ◆ A current silver plan under ACA would cost an average of 74% more in 2020.
- ◆ Pre-existing condition - though preserved, states could request to opt-out of this feature.
- ◆ Age 55 – 64 - the GOP bill could allow premiums to cost up to five times as much as a younger person's premium along with a potential reduction in payment subsidies.
- ◆ Mental health benefit – still provided with a loophole for states to seek permission to opt-out.
- ◆ Contraceptives are mandatory under Medicaid BUT women might become ineligible under the new rules. If not on Medicaid, states have leeway to change what is mandatory and employers with religious or moral objections may decline to cover contraceptives.

Medicaid coverage expanded under ACA. The proposal reduces federal reimbursement drastically over the next 10 years, forcing states to try and shoulder a larger portion of the cost and/or reduce the number of citizens eligible, services, etc.

ABC7 News reported since ACA went into effect, bankruptcies due to medical costs are down 50%!

According to the *New York Times*, under the GOP proposal, increased cost of medical expenses per state will average 74% more than today.

If you are over 65, one in three people spend some time in a nursing facility. According to the Kaiser Foundation, 62% are unable to pay the bill themselves. We recommend reading Ron Lieber's article in the *New York Times* from June 30, 2017 "Plan on Growing Old? Then the Medicaid Debate Affects You."

We urge you to speak up against the GOP Health Care Bills.

FIRST HALF OF 2017 – STRONG STOCK MARKET CONTINUES

The third longest bull market since the Civil War continued the first half of the year with unusually low volatility. Looking deeper into the numbers, Amazon, Nvidia, Facebook, and Apple provided the majority of the gains posting 20-40% increase. The equity upswing this year has been largely due to the technology sector.

The S&P 500 is market cap weighted - the larger the market cap (number of shares outstanding times the share price), the larger representation in the index. Without the 20-40% increase in valuations of the four stocks, it is likely the S&P 500 would have turned in a negative performance.

Economic indicators improved overseas. International Indexes outperformed the U.S. Indexes. Some of the reasons include a declining dollar and growth potential. Europe hasn't reached valuations observed before the financial crisis.

Jill and Jenny attended the Financial Planning Association's (FPA) Northern California conference. Speaker after speaker forecasted a balanced portfolio (60% stock, 40% bonds) will only generate low single digit returns in the coming decade.

If you would like to review your portfolio, please contact us. If you would like to create or update your financial plan, please let us know.

MEDITATION TO BUILD BRAIN POWER

A study conducted by Harvard researchers found that patients who meditated for two months actually rebuilt the gray matter in the brain to improve mental capacity.

A different study showed clients with gastrointestinal disorders found relief after a period of deep rest and meditation.

Participants in the clinical trials engaged in meditation for 30 minutes daily. The process was not to "turn-off the brain" but rather adopt a non-judgmental awareness of sensations, feelings, and state of mind.



Jill D. Hollander



Brian Pon

