

1st Quarter 2019, 4/12/2019

MORAL OF THE STORY – DON'T TIME THE MARKET

Fourth quarter 2018 was the first major downturn seen in a decade. Many assumed it would continue into 2019. Surprise! It was just the opposite. The S&P 500 had its best first quarter since the first quarter 1998.

Compared to the fourth quarter 2018 when the S&P 500 declined 13.8%, it gained it back this quarter for a net loss over the six months of 0.2%.

In Q4 2018, technology led the correction and reversed it in Q1 2019. If you hadn't looked at the markets from September 30, 2018 to March 31, 2019, you would not have seen a difference. This is a reminder for all of us that short-term fluctuations, as super investor Benjamin Graham said, are voting machines.

Tariffs and trade wars continue to weigh on the markets gyrating from one direction to another depending upon the headlines.

As we've written previously, the economy is moving slowly but surely, a tortoise instead of a hare. Most experts rate the chance of a recession as low. Corporate profitability continues though the initial impact of the tax cuts has already occurred.

There are a number of initial public offerings (IPOs) scheduled for this year. Lyft, Uber, Pinterest, Slack, Airbnb to name a few. The number of companies going public is being compared to the number of IPOs to hit the market during the dot.com bubble.

Buyer beware. The first company to go to market was Lyft. While its first day on the market the stock rose 8%, it is now down almost 12% after its second day of trading. By the way, they have yet to make profit. Sound familiar?

The IPO market tends to generate frantic activity. We expect continued volatility.

If you would like to discuss your portfolio strategy, please contact us.

Inside Financial Connections Newsletter

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Included with your reports is our 2019 ADV (disclosure statement). Please let us know if you have any questions.

USING YOUR IRA FOR CHARITABLE CONTRIBUTIONS AT AGE 70-1/2

We wanted to remind you that Congress confirmed the option of using your IRA Required Minimum Distribution (RMD) as a donation to qualified charities. This may be tax advantageous. (Consult your tax advisor.) Usually, the RMD is taxed as ordinary income (recall this is pre-tax money). However, by donating to qualified charities, it counts as your RMD but is NOT taxed – up to \$100,000.

You do not have to use the entire amount. It is up to you how much you want to donate to a qualified charity.

Word of warning in the year you turn 70-1/2.

While you may take your RMD in the tax year you turn 70-1/2, you CANNOT write a check to a qualified charity until you are actually 70-1/2. In Jill's case, she will turn 70 on June 13, 2020. While she can take her RMD at any time in 2020, she cannot write checks to qualified charities and have it count as part of her RMD until December 13, 2020.

CHILDREN AND THE POTENTIAL IMPACT ON RETIREMENT

It is a phenomenon we see more frequently – parents contributing to children's support. Nearly 80% of parents provide some financial support for adult children. According to a joint survey by Bank of America/Merrill Lynch and Age Wave:

- ◆ Parents spent over \$500 billion on their adult children
- ◆ Parents spent less than half that amount contributing to their retirement accounts
- ◆ 75% of parents acknowledged they were putting the financial needs of their adult children before their own retirement savings

In a study conducted by T. Rowe Price, almost 70% of parents said they would work longer in order to help pay their children's student loans.

Education debt is up six-fold from 2001 – 2016 with the largest increase in those over age 40. According to the Employee Benefit Research Institute, 70% of adults between 66 – 74 have debt – twice the amount for the same age group in 1992.

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CANNABIS SALES, PAYMENTS AND TAX REVENUE

While 10 states and Washington, D.C. approved recreational marijuana, the federal government maintains cannabis as a Schedule One drug classification. It means on a federal level, it is illegal. Yet, you have states approving its use.

Much of cannabis sales are transacted in cash because of the Schedule One classification. This classification means federally regulated commerce systems (think banking, credit cards, etc.) cannot work with dispensaries or risk being indicted for money laundering. Sounds silly doesn't it? The most obvious work around we've seen is dispensaries offering other services such as gardening supplies (grow marijuana), yoga classes, etc., as a way to obtain the use of credit cards and access to banks.

In the meantime, the states have no such qualms. In fact, seven of the 10 states tax cannabis. It has been a boon for governments. Below is list of 2018 revenue collected by state.

Washington	\$319 million
California	\$300 million
Colorado	\$267 million
Oregon	\$ 94 million
Nevada	\$ 70 million
Alaska	\$ 11 million
Massachusetts	\$ 5 million

Washington, D.C., Maine, Michigan, and Vermont did not collect tax revenue.

According to Leafly, (leafly.com) over 300,000 direct and indirect jobs have been created because of the legalization of recreational marijuana.

CHILDREN AND THE POTENTIAL IMPACT ON RETIREMENT

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If you consider the trend to marry and have children later, it is easy to understand how you might reach age 60+ and incur student debt helping your children. This assistance frequently results on less money saved for retirement.

If you still have time before your children enter college, we suggest visiting a financial planner to assist in funding college education. Did you know:

Financial aid

- ◆ Retirement accounts are excluded from the calculation for many universities
- ◆ 529 plans – only 5.64% of the balance is part of the calculation. Each parent can contribute \$15,000 per year. The money grows tax-free and is distributed tax-free so long as it used for approved activities. Grandparents may also contribute to 529 plans

Look into college expenses early to have a realistic estimate of costs versus what you can afford. Many families compromise with the child attending a junior college for two years and transferring to a four-year college as a way to control expenses.

After College

Many parents find it difficult to stop contributing to their adult child's support. Experts discuss whether this assistance helps or hinders the young adult's ability to become financially independent and make wise choices feeling the Bank of Mom and Dad will always be there.

COHABITATING AND MARRIAGE TRENDS

The statistics are now substantiating the trend we observe with our financial planning clients. Below is some interesting information from an analysis by Karen Benjamin Guzzo of Bowling Green State University, Department of Sociology.

- ◆ Marriages 1980-1984 – 41% preceded by cohabitation
- ◆ Marriages 1990-1994 – 56% preceded by cohabitation
- ◆ Marriages 2005-2009 – 66% preceded by cohabitation
- ◆ Guzzo's conclusion– cohabitation is institutionalized as a pre-step to marriage

According to studies by Manning & Smock 2002 and Kennedy & Bumpass 2008, cohabitation plays a larger role in a progression to marriage but marriage is not necessarily the outcome to cohabitation.

- ◆ 60% people age 19-44 have cohabitated – almost double the 33% in 1987
- ◆ Young adults tend to have multiple cohabitations but fewer result in marriage

This is not just a young adult phenomenon. According to a study by Brown & Lee in the Journal of Gerontology, older adults also cohabitate. Based on the 2001 census (when the study was conducted), the number of cohabitating couples increased from 500,000 to 5 million between 1970 and 2000! This trend continues.

One of Jill's pet peeves is the lack of training offered as part of financial planning education for people who live together and are not married as well as for people who decide to remain single.

The initial reason Financial Connections' specialized in these types of "families" was its application to LGBT couples. Before gay couples could marry, in the eyes of the law they were two strangers. Planning is different for this type of couple/family. While LGBT members can marry, they don't necessarily. Adults of all ages cohabitate and/or stay single. The knowledge we acquired previously continues to apply today – just to a mixed segment of people.

If you know someone who could use our planning expertise in this specialty, please don't hesitate to pass along our contact information.



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