FinancialConnections
A Bridge To Your Future

4th Quarter 2018, 1/15/2019

PERSPECTIVE

Volatility returned to the market with a vengeance in the fourth quarter. As we've mentioned before, the last 10 years were unusually calm. It was easy to be lulled into complacency.

- A market correction is over 10% but less than 20% from an index high to its low. One usually occurs, on average, every 16-17 months. Recovery from the correction averages four months.
- A bear market is a decline from an index high to low of over 20%. On average, one occurs every 3.5 years and lasts an average of 157 days.

Here, in an article by Dana Anspach of thebalance.com., are some statistics about the S&P upside/downside performance:

Time Frame	S&P 500 was up	S&P 500 was down
Days	53% of the time	47%
Months	58% of the time	42%
Quarters	63% of the time	37%
Years	72% of the time	28%
5-year rolling time periods	76% of the time	24%
10-year rolling time periods	88% of the time	12%

As you can see, by the table, the longer your money is invested, the more likely you are to have a positive outcome.

Within two days (at the time of this writing), we had a decline in the Dow Jones Industrial Average of over 1100 points and then a rise of over 1000 points. Was the value of any company different on one day to the next? No. What was different was the reaction to headlines. Over time, market valuations are the criterion for market returns.

Continued on page 3...

Inside Financial Connections Newsletter

Please join us in congratulating Kim Wohler. Officially, she is now a Certified Financial Planner™ Certificant.

When going to your portal or TD Ameritrade's portal, please connect through our Client Login at www.FinancialConnections.com instead of using a Bookmark. Sometimes the URL changes. We always have the most up-to-date address.

A BONUS FOR BUSINESSES – DIVERSITY OF WORKFORCE

Many companies are actively seeking to diversify their workforce, and create senior positions to spearhead this effort. Lesley Slaton Brown, HP's Chief Diversity Officer said, "We believe that diversity and inclusion drive new business."

Is there quantifiable evidence? YES!

Credit Suisse studied 3,000 global companies with 27,000 managers. When women occupied 25% of the decision-making positions, companies had a 4% higher rate on investment returns. Further, a 10% higher cash flow from investment returns benefited companies' finances when women represented 50% of senior managers, as compared to other companies in the MSCI All Country World Index.

McKinsey reviewed 1,000 companies, dividing them into performance quartiles. The top quartiles with diversity of gender, ethnicity, and culture resulted in 21% outperformance of profitability compared to industry averages. And in the bottom quartile, companies with less diversity were 29% less likely to show profitability above industry averages.

BCG and the Technical University of Munich conducted surveys in Austria, Germany, and Switzerland with similar results.

Based on article in *Barron's* by Cheryl Strauss Einhorn, January 4, 2019.

TO COMPARTMENTALIZE WHAT WE COULDN'T LIVE WITHOUT

As we combine more and more accessories and devices into fewer and fewer devices, we sometimes make holiday shopping more difficult than it used to be.

Some examples include:

- Cameras are part of your phone
- Film is now digital, with transfer to the cloud or to a computer
- Our phones replaced the Walkman (it replaced the Boombox)
- Songs can be downloaded instead of buying CDs or records
- Movies can be streamed instead of buying a DVD
- There are downloadable books, magazines, newspapers, etc.
- We use GPS instead of paper maps
- We may pay by phone, reducing or eliminating cash/credit cards
- Phones may replace watches

We're not saying this evolution is good, but it goes on whether or not we want it.

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PERSPECTIVE (continued from front)

There is no shortage of concerns on the horizon:

- ♦ Tariffs – there are conflicting views on the impact of this activity. Some are psychological (markets react positively to meetings even when nothing is resolved and negatively to no meetings). Others are over increases in prices for such items as TVs, washing machines, solar panels, electronics, and clothing. But China is importing fewer U.S. goods—a fact that is not good for our economy.

- ♦ According to JP Morgan, the continued tariff issues could set the positive effect of globalization back 50 years to WW II levels.

- ♦ Central Banks—For the first time in 20 years, the Fed and European Central Banks are no longer helping keep interest rates low and helping markets with "easy money." The idea is "economy, you are on your own." We anticipate more volatility as a result.
- ♦ There is a slowdown in global growth.
- ♦ Money markets—When money markets/cash were paying almost no interest, people invested in more risky assets to try to earn money. They might invest in stocks with dividends, using the dividend to increase cash flow, or buy bonds, trying to use the interest.
    - Yet both vehicles come with risk. Bonds can go down and equities might fall, as they did in 2018. A money market/cash does not rise or fall. A dollar is a dollar. Now, with money markets paying above 2%, many investors are selling stocks and bonds in favor of the less risky money market. All this adds to selling in the marketplace.
- ♦ Washington upheaval—According to JP Morgan, there has been more turnover in this president's appointments than in those of the last four presidents combined.
- ♦ The government shutdown—it decreases economic activity and consumer finances, not to mention the emotional toll.
- ♦ Immigration—More than 300,000 construction jobs are open; jobs frequently filled by immigrants. The unfulfilled construction jobs in California may hamper the speed of recovery to rebuild after the fires.

We anticipate continued market volatility. We urge you to take the long view. If you are withdrawing from your investments, we set aside the disbursement amounts in a money market and/or low volatility funds so the remainder of your portfolio may grow for the future.

We urge you to contact us to discuss your portfolio, risk, and financial plan so we can keep each other up-to-date as we move forward.

INVESTING FOR ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG), AND IMPACT REASONS (II)

We are having more and more discussions with clients about socially conscious investment (SCI). There are a multitude of acronyms such as Socially Responsible Investing (SRI), ESG, and II. Each term has its own nuance but the bottom line means investing in companies that coincide with your values.

There is an impression that millennials are the drivers behind increases in this investment style. A study by Advisor Perspectives says otherwise.

- Demand is not centered with millennials
- Across all ages, women desire impact investing
- Climate change is a key driver
- Performance is secondary to the mission

Financial Connections has invested in SCI funds for years, but only recently have the choices of investment vehicles exploded. There are now over 275 mutual funds and exchange-traded funds (ETFs) targeted to impact investing. Each fund may interpret impact investing differently. Few of the new funds have a performance track record.

We will track the performance of the new funds and ETFs to determine if any fit into our current stable of funds.

If you would like to speak with us about this type of investing in your portfolio, please don't hesitate to contact us.

THANKSGIVING CHARITY postcards' results are:

CHARITY	Replies
California Fire Foundation	110
ACLI Foundation	18
Golden Gate National Park Conservancy	4
Wildlife Conservation Network	8
Kiva	3
SF Bay Area Food Banks	20

This was an 81% response rate. THANK YOU.

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