

2020 IN THE REARVIEW MIRROR

The stock market and economy seemed disconnected in 2020. It also reflected the fastest bear market on record. In 33 days, starting February 19th, the S&P 500 lost 33% only to rebound the rest of the year.

In a year that is taking a toll on individuals and families, the stock market ignored the pandemic looking instead past the pandemic. Below are some of the reasons that may be in play.

Many of the jobs lost are low-paying service jobs. While it increases the unemployment rate, it has a lessor effect on payroll. Add the money received from fiscal stimulus and the numbers are skewed. Income, in aggregate, was down .5% even while employers reported a 6% decline of employees on their payroll.

Spending, while increasing in areas such as computers, streaming services, etc. doesn't offset what *would have been spent* on restaurants, vacations, hotels, cruises, sports events, etc.

With the additional income and lower spending, the money went into savings. From March – November, savings rose 173% over the same period in 2019. Some of that money also was put into the stock market.

The Fed played a major role in stabilizing the stock markets by reducing interest rates to almost zero as well as purchasing bonds to put more money into the economy and keep bond markets stable.

If you would like to discuss your portfolio, please don't hesitate to contact us. Here's to a better 2021!

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BEST SELLING BOOKS AND BOOK SERIES

With many of us staying at home, the opportunity to take the time to read increased. Did you end up reading some of the all-time best sellers? Below are the top five best sellers in each category.

Individual Book:

1. Don Quixote by Miguel de Cervantes (500 million copies sold)
2. A Tale of Two Cities by Charles Dickens (200 million copies sold)
3. The Lord of the Rings by J.R. R. Tolkien (150 million copies sold)
4. The Little Prince by Antoine de Saint-Exupery (142 million copies sold)
5. Harry Potter and the Sorcerer's Stone by J.K. Rowling (107 million copies sold)

Bestselling Series:

1. Harry Potter series by J.K. Rowling (450 million copies sold)
2. Goosebumps series by R.L. Stein (300 million copies sold)
3. Perry Mason series by Erle Stanley Gardner (300 million copies sold)
4. Berenstain Bears series by Stan and Jan Berenstain (260 million copies)
5. Choose Your Own Adventure series by various authors (250 million copies sold)

WHAT ABOUT INFLATION?

There have been predictions of inflation rates rising going back to those of the Great Recession. One of the starting points to look for higher inflation is the increase in money supply. This can occur when the Fed:

- ◆ Increases the ratio by which institutions are allowed to lend money. The Fed requires lenders to hold a certain percentage in deposit for each dollar loaned. For instance, \$100 of deposits may permit \$700 to be loaned out. A 7:1 ratio. If the Fed increases the ratio to 10:1 then that same \$100 could generate \$1,000 in loans. (Numbers picked at random for simplicity.)
- ◆ Can lower interest rates making it cheaper to borrow.
- ◆ Buys bonds (treasury, corporate, muni, etc.) – in the Great Recession it was called Quantitative Easing (QE).

The Fed is doing all three of the above strategies. It has increased the money supply. With this increase, classical economic theory says we should incur inflation. Have we? Not so far. Inquiring minds ask why?

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STATE TAXES AND HOW THEY DIFFER

When you think of expensive states to live in, California income tax (13.6% on high income earners) is usually at the top of the list followed by Hawaii (11.0%), New Jersey (10.8%), Oregon (9.9%) and New York (8.8%).

Yet every state needs to pay for services for their citizens. So how are other states collecting taxes to pay their bills?

Many people move to Texas. While it is true, they don't have state income tax, they do have the highest property taxes in the country (median 1.81%).

Louisiana has a state sales tax of 10.02% on purchases – the highest in the country. Tennessee, Arkansas, Washington and New York follow Louisiana in leading the country on sales tax on purchases. The lowest? Oregon, Montana and New Hampshire have no sales tax. This does not include local sales tax added to the state rate.

WalletHub attempted to equalize what they call the tax burden among the various states by looking at property taxes, individual income taxes, and sales and excise taxes as a share of personal income. They found:

Overall Rank	State	Total Tax Burden
1	New York	12.28%
2	Hawaii	11.48%
3	Vermont	10.73%
4	Maine	10.57%
5	Minnesota	10.19%
6	Connecticut	9.99%
7	New Jersey	9.88%
8	Rhode Island	9.84%
9	Illinois	9.62%
10	Iowa	9.53%
2020's Tax Burden by State (wallethub.com)		

California is 13th with 9.27% tax burden.

THANKSGIVING CARD DONATION TALLY

70% of the donation cards were returned.

Below are the results.

ACLU Foundation	13%
CA Fire Foundation	15%
RRRcomputer.org	15%
Chronicle Season of Sharing COVID	5%
SF Bay Area Food Banks	52%

Thank you for responding.

MAKING LEMONADE FROM LEMONS

We all know people who are furloughed or lost their jobs because of COVID. Some workers have taken this opportunity to become self-employed. While it is difficult to measure on what scale new self-employment is taking place, there are some signs.

According to the Census Bureau, some of those becoming self-employed apply for tax identification numbers. Their data shows a 32% increase the first nine months of 2020 compared to 2019. Looking at only July – September, the increase was a startling 77% compared to the same period a year early.

In some ways it is easier than ever before. With Social Media and such platforms as Etsy Inc., individual businesses can thrive. Jill has bought numerous times off of Etsy and found the service and attention to detail top notch.

Some examples of the new entrepreneurs are:

- ◆ Personal trainer coming to you
- ◆ Traveling hair stylist with her own wagon and collapsible salon chair
- ◆ Freelancing – U.S. freelance registrations with Fiverr International Ltd. (Israeli firm that connects freelancers with customers) increased 48% from July – September 2020 over the same period 2019
- ◆ Home restaurants
- ◆ Mobile car washer



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However, being self-employed also presents issues an employee may not have had previously. No sick leave or employer health coverage, additional taxes that need to be paid for unemployment insurance, Social Security tax, etc.

If you plan to start a business, we suggest you speak with your tax professional so you don't have any surprises at tax time.

WHAT ABOUT INFLATION?

(Continued)

So far, what we've learned is:

- ◆ Banks may lend money but demand is low
- ◆ Banks are holding a large amount of money in reserve instead of lending
- ◆ Companies are hoarding cash so they may not need loans
- ◆ Large companies issued their own bonds because of the low rate so they don't need to borrow from lending institutions

Until the money actually makes its way into the economy as part of spending by consumers and companies alike, it is possible inflation remains subdued even though theoretically, with the increase in money supply we *should* have inflation but don't – yet.

