

4th Quarter 2016, 1/13/2017

A CASE FOR IRRATIONAL EXUBERANCE

We try not to bring politics into our newsletter but after the last election, we feel it is necessary to discuss the ramifications of the results.

January 2016 began with the U.S. stock market tumbling 10% in the first two weeks—the worst start to a year since 1930. The U.S. loss was recouped by the end of the first quarter. The U.S. started gaining ground just before the election but took off after Trump was elected. International stocks finished 2016 down.

Some of the factors offered to explain this change include:

- ◆ Gridlock in Washington will be gone, with Congress and the President from one party
- ◆ Pro-business agenda (i.e., reduced regulation, reduced corporate taxes, etc.)
- ◆ Fiscal spending on infrastructure
- ◆ Investors holding cash now wanting to invest in the stock market

Investors, who usually dislike uncertainty, are selectively choosing what they want to believe. The next president is a wild card. He has no track record legislating or governing. And, while the press seems to revel in responding to his Tweets, it has not focused on the issues and their ramifications, only his rhetoric.

Potential negative issues

Global markets react to more than just economics. Politics play a major role. The cabinet will be filled with business leaders but no one with diplomatic experience. Negotiations in a business format is not the same as negotiating for peace, war, or human life.

- ◆ Lack of discussion on how to fund the spending that Trump promises. It will lead to increased deficit spending (when government spends more than it receives in tax revenue). Higher deficits usually result in higher interest rates and inflation.

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Please welcome Lauren Patterson, our new Associate Financial Planner. Lauren has one more class in the Financial Planning program and then will take her exam to become a Certified Financial Planner Certificant. Previously, Lauren worked as an assistant to a stockbroker and as a residential mortgage specialist.



CHARITABLE CONTRIBUTIONS ON BEHALF OF OUR CLIENTS

Each year the Financial Connections' staff selects five charities for clients to choose. We include the postcard along with our Thanksgiving card. We are always pleased with the large response—72% this year! We make donations to the charities based on your selection. Here are the rankings from high to low for 2016.

- ◆ SF Bay Area Food Bank
- ◆ Doctors Without Borders
- ◆ Natural Resource Defense Council
- ◆ UN Trust Fund to End Violence Against Women and Children
- ◆ The Carter Center

Thank you for your participation – let's try for 100% response rate in 2017!

ADDITIONAL FINANCIAL CONNECTIONS LOCATION—SAN FRANCISCO

Brian and Jenny felt that our business would be enhanced with a San Francisco location. We decided that renting office space through a corporate office enterprise would allow us to try something economically viable for a six-month's trial period. Initially, since we work in pairs, it was thought Brian and Jenny would be the primary users of this location.

The best space available is at 201 Spear Street, Suite 1100, the corner of Howard and Spear. Taking the Larkspur Ferry is faster for Jill than the other two's taking Muni from the Sunset district. So at this time, Jill and Jenny are handling most SF meetings.

If you know of people who would like financial planning and/or investment management in San Francisco, please give them our number, 415.924.1091.

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A CASE FOR IRRATIONAL EXUBERANCE *(continued from first page)*

- ◆ Protectionism—which will potentially hurt the U.S. more than it helps. Country-specific tariffs will most likely result in China's and Mexico's redistributing the sale of their goods. But it will harm us since we count on the dollars going to China and Mexico returning to the U.S. through investment in stocks, bonds, real estate, etc. After all, our deficit is being financed by foreign investment coming into the U.S. (as countries convert their currency into dollars). These capital inflows from abroad have risen to \$8 Trillion compared to \$2.5 Trillion in 2010.
- ◆ Tariffs—if, as he claims, Trump plans to add a 5% tax on foreign incoming goods, doesn't it invite a trade war; tit for tat? How is that going to help U.S. multinational firms?
- ◆ Return to a nuclear arms race—how has that ever helped anyone?
- ◆ Potential Italian banking crisis that could force Italy to leave the Eurozone. Same potential for Greece.
- ◆ Stall in China's economic growth, for the second year.
- ◆ Terrorism
- ◆ Russian sponsored hackers' potential intrusion of the Internet in the U.S and other countries.

Our expectation

We expect a high degree of market volatility in the coming year. We are likely to see an increase in inflation and subsequently increased interest rates. This process already started (increased interest rates result in decreased bond prices). Our diversified portfolios include stocks, bonds, alternative investments (with low correlation to the markets) and cash set aside for upcoming distributions.

We urge you to contact us if you would like to review your portfolio, create, or update your financial plan. As Bette Davis said, "Fasten your seatbelts it's going to be a bumpy ride."

HAPPY 40TH ANNIVERSARY

Jill and Bonnie will celebrate their 40th year together on January 22nd. To mark this special occasion, they decided to visit Epcot Center at Disneyworld and the Kennedy Space Center! Weather permitting, they may see a shuttle launch on January 19th at 7:46 PM.

OPINION

It will not be a surprise to our clients that we at Financial Connections have a socially progressive bent. The election results are painful, not only from a governing viewpoint but also from a social, equality standpoint. As is true with many of you, we were appalled at the rhetoric coming from Trump.

It is hard to continue to support a Democratic party whose consultants' strategy totally failed, resulting in the electoral college loss but the popular vote win. Further, Jill, being a journalism major in college, is appalled at the press for reacting to the rhetoric as opposed to the issues.

Unfortunately, we think the white working class in the rust belt that helped elevate Trump to the presidency is in for a rude awakening. Republicans have tried for eight years to repeal the Affordable Care Act yet after all this time they have yet to recommend a replacement.

Uninsured Americans dropped by 13 million; those same people electing Trump accounted for eight of the 13 million. If the Affordable Care Act is repealed, aren't these supporters hurt?

The manufacturing jobs Trump thinks he is going to bring back are gone due to technological changes. Retraining and education would go a long way to solving this problem but we see no plans for it.

Human capital is a key ingredient to success. The U.S. doesn't have enough people to fulfill the jobs of a growing economy. According to the American Society/Council of Americas:

- ◆ *"In the U.S., 49 percent of employers find it difficult to fill mission-critical positions—15 percentage points higher than the global average*
- ◆ *In 2018 more than 230,000 science, technology, engineering, and mathematics (STEM) jobs requiring an advanced degree will not be filled even if every U.S.-born STEM grad finds a job.*
- ◆ *Immigrants will be critical to filling future labor gaps, with 76 million baby boomers retiring and only 46 million U.S.-born workers entering the workforce by 2030."*

We know this will be a difficult period for all us. We are here to assist you if we can.



Jill D. Hollander



Brian Pon

