

For Clients and Friends of Financial Connections

Retirement is of interest to a large number of our clients. As we work together to define your financial situation in retirement, non-monetary issues can be relevant. We thought you might find the material below well worth reviewing.

DON'T UNDERESTIMATE THE BRAIN POWER OF SLIGHTLY OLDER FOLKS!

It is true that starting in middle age, we process complex information more slowly. We take longer to make decisions and, in multitasking, to switch from one task to another.

Yet scientists are reassessing previous assumptions. "It used to be thought that normal cognitive decline occurred because of loss of neurons throughout the brain," says Marilyn Albert of John Hopkins School of Medicine. But with new techniques, scientists find that 70-year-olds continue to produce new neurons.

Since old brains have been around longer than young brains, they necessarily differ, making comparisons between them difficult. And as people age, they may have fewer new experiences if:

- ◆ they are less physically active,
- ◆ they are less socially engaged, and
- ◆ they live in less complex environments.

All these factors reduce the production of new neurons and the maintenance of the existing neural circuitry.

"The trouble with retirement is, there are not a lot of social or intellectual demands," says Denise Park, a research psychologist of the University of Illinois at Urbana-Champaign. "Life becomes routinized, a recipe for cognitive decline."

If some of the decline reflects our lack of activity, this is a factor within our control.

Young adults sometimes only use one side of their brain for recall whereas older adults use both sides. In tasks that involve concentration, judgment, and multitasking, the double activation impairs older adults' performance – almost as if their brains are too scattered.

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**Quarterly Newsletter,
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ACCESS YOUR MEDICAL RECORDS

When, if ever, have you reviewed your medical records to check for accuracy? The Medical Information Bureau (MIB) is a central database that is available to health, disability, and long-term care insurers.

If you've ever applied for a life, health, disability, or long-term care policy, you have a file at the MIB. Sometimes a diagnosis can be miscoded or not updated. For instance, if you were a smoker at one time and quit, does your MIB record still reflect you as a smoker? Incorrect information can make insurance much harder to obtain and more expensive.

To see if you have a file, call 1-866-692-6901. A privacy policy is strictly enforced. You will see who reported what and the process to use if corrections are necessary.

EARTHQUAKE INSURANCE

KCBS-AM Radio ran a series of reports leading up to the 100-year anniversary of the 1906 San Francisco Earthquake. John Garamendi, California Insurance Commissioner, was interviewed on March 30.

The discussion centered on the impact to communities and to the state if homeowners don't buy earthquake insurance.

In a community hit by an earthquake, "the financial wealth of the community will be largely destroyed," said Garamendi. Since a large part of the local tax revenue comes from property taxes, government wouldn't have much revenue available to help.

"The fundamental financial infrastructure to rebuild our communities in California following an earthquake won't exist," Garamendi continued.

He would like to see a National Disaster Catastrophe Insurance Program to spread the risk.

Though Garamendi talked about macroeconomics, we're looking at the impact on a more personal level. What would you do if you lost your home? You're still responsible for the mortgage on it. Do you have enough funds to rebuild?

Is it worth while insure perhaps your largest asset? We think so.

DON'T UNDERESTIMATE THE BRAIN POWER OF SLIGHTLY OLDER FOLKS! (continued)

Volunteers watched a computer screen and were required to press a button when certain information appeared. The task required focus and decision making. Initially, older adults (age 55 to 80) showed the two-sided activation and made more mistakes than the young adults. But the older brains improved after practice and eventually showed only one-sided activity, as the young brains did.

"This suggests that the brains of older adults remain relatively flexible, able to alter brain circuits in response to training," says Dr. Erickson of the University of Illinois.

So when you retire, your plans might well include ways to stay active physically and mentally.

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MEDICARE PART D DRUG PLAN ALERT!

Even if you don't take prescription drugs now (but are eligible for Medicare), you should enroll in a Medicare Part D plan. Statistics suggest that a time will come when you do need prescriptions. If you wait to sign up, you face a penalty for the period that you were not in the plan. The deadline to sign up is May 15, 2006.

If you have questions, there are over 9,000 representatives available 24/7 at 1-800-Medicare.

On a Web site called "Drug Finder" you can enter the names of your current medications and get a list of plans that cover them.

<https://www.medicare.gov/MPDPF/Public/Include/DataSection/Questions/Questions.asp>

And the National Consumers League, in collaboration with other organizations, has a Web site that helps you identify which plan might be best for your needs.

www.yourpharmacybenefit.org

You should check with your health care provider to determine your options. Kaiser members are automatically enrolled by their HMO (and would also be automatically dropped from Kaiser if they signed up for another plan).

ODDS & ENDS...

FREE CREDIT REPORTS

Don't forget to obtain your free credit report to check the accuracy of the information.

1. Order your free reports one by one, over several months, from Experian, Equifax, and TransUnion.
2. You can request reports on the web, by phone, or by mail.
 - a. www.annualcreditreport.com
 - b. 1-877-322-8228
 - c. P.O. Box 105281, Atlanta, GA 30348-5281

STOP JUNK MAIL

If you want to stop unwanted catalogs, credit card offers, etc. you can get a Stop Junk Mail Kit from the Stopwaste.org people. Call 1-877-stopwaste (786-7927) or www.StopJunkMail.org

Little Known Facts of Interest

ODD AND AMUSING FACTS:

To preserve bread, the ancient Egyptians toasted it over a fire or on hot stones. Toasting changes bread's chemical makeup, making it sweeter and crunchier.

Toward the end of the nineteenth century, electric toasters were slow to make their way to the marketplace because the filaments to heat them were unreliable. How to heat the filaments quickly without burning them out or burning the bread?

Not until 1905 was a filament developed from a mixture of nickel and chromium. The first successful electric toaster was made by General Electric in 1909. But the bread had to be turned over and watched so it didn't burn. In 1919 the Minnesota mechanic Charles Strite patented what became the first pop-up toaster, and it went on sale in 1926.

FINANCIAL FACTS:

- ◆ 81% of seniors plan to stay in their homes as they get older (Financial Freedom)
- ◆ 61% of seniors, as of late October 2005, did not understand the new Part D Medicare drug program (Kaiser Family Foundation/ Harvard School of Public Health)
- ◆ 15,000 new tax law changes have occurred since the 1986 tax act
- ◆ 69% of workers or their spouses saved for retirement in 2005 versus 74% in 2000 (Employee Benefit Research Institute)
- ◆ 85% of golfers knew the score from their last round of golf but only 52% of them knew the current value of their investments

FIRST QUARTER ECONOMY AND FINANCIAL MARKETS

The stock market had a good first quarter but commodities and bonds did not. Many pundits said small company stocks are overvalued; with rising interest rates, real estate mutual funds would decline; and large company growth stocks are undervalued. Apparently the stock market didn't agree because small companies and real estate performed better than large growth companies. International mutual funds continued their positive returns.

There so many variables that trying to predict the short term direction of the economy and stock market performance is impossible. Samplings of the issues are:

Factors Supporting Optimism:

- ◆ Attractive valuations by several measures
- ◆ General health of corporate balance sheets
- ◆ Low core inflation
- ◆ Below average trailing returns

Factors Suggesting Caution:

- ◆ Macro economic imbalances such as current account deficit and low savings
- ◆ Budget deficit
- ◆ Impact of a housing slowdown
- ◆ Likely deceleration in rate of earnings growth
- ◆ Energy and health care costs

As always, we build diversified portfolios for the long-run recognizing that trying to time short term styles is impractical.

Enclosed are your quarterly reports. Please give us a call if you'd like to get together to review them. Also, we've included our most recent disclosure statement (ADV Part II) and Privacy Statement.

HISTORICAL TAX RATES

We just completed the tax season. Though everyone complains about paying taxes, the rate is the lowest we've seen in decades. To put it in perspective, below is a table showing federal tax rates since World War II.

<u>Timeline</u>	<u>Income Tax Top Rates</u>	<u>Capital Gains Rates</u>
1945	94.0%	25.0%
1964	91.0%	25.0%
1967	70.0%	25.0%
1977	70.0%	39.9%
1982	50.0%	20.0%
1987	38.5%	28.0%
1990	33.0%	28.0%
2000	39.6%	20.0%
2006	35.0%	15.0%

The 15% capital gains rate reverts to 20% in 2010.

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