

For Clients and Friends of Financial Connections

The S&P 500 eked out a gain of less than 1% for the first quarter 2007. A large decline in the Chinese stock market triggered the sell-off in the international and U.S. stock markets. For the week of February 26, the U.S. indexes had their worst loss since 2003. Since then, the volatility of the markets increased.

Investor concern about the China stock market decline was its impact on the growth of the global economy. Concern about the problems in the subprime lending market added to the uncertainty (see related article).

Stock markets do not go straight up. As we all know, there is risk involved with investing. Sometimes investors get complacent and take on too much risk. However, markets do decline. This is one of the reasons we attempt to design all weather portfolios with risk being a major consideration.

In the last 20 years, we experienced the stock market collapse in 1987, fears of a major banking collapse, wars in the Persian Gulf, the Asian currency crisis, the near collapse of Long-Term Capital Management, panic over Y2K, the Internet bubble and 9/11. The market invariably goes down but rises again – just not in a predictable pattern.

Financial Planning

Included in our service to investment clients, Brian and Jill offer financial planning. From our perspective, financial planning offers the following:

Provides control: We believe you gain peace of mind moving towards your future with a game plan in place rather than handling events spontaneously

Reduces uncertainty: By planning for differing possibilities, we can attempt to anticipate various scenarios that occur

Vision for your future: How much time do you spend thinking about what you want your future to look like? As part of financial planning, we encourage you to take the time as part of this process

Plan your legacy: How do you want your estate distributed? Have you provided for those important to you? Is your favorite charity part of your plan? This is another part of the financial planning process

So, if these ideas appeal to you, please give us a call. We would like to start or update a plan for you.

**Quarterly Newsletter,
1st Quarter 2007,
4/17/2007**

Enclosed are your quarterly reports and newsletter. As we do each year, included is our disclosure statement (ADV) and Privacy Statement. Please let us know if you have any questions or want to meet to discuss your finances.

UPDATED COSTS FOR LONG-TERM CARE SERVICES

Genworth Financial (formerly GE Long-Term Care Insurance Co.) conducted a study on costs for the Bay Area. We use this type of information in our retirement plan scenarios.

	<u>San Francisco Avg.</u>	<u>Oakland Avg.</u>
Nursing Home (Semi-Private)	\$ 211/day	\$ 190/day
Assisted Living Facility 1 BR	\$ 3,400/month	\$ 2,890/month
Home Health Care (certified)	\$ 56/hour	\$ 30/hour
Homemaker Services (licensed)	\$ 22/hour	\$ 22/hour

When you look at the above costs in terms of a long-term care policy, you can see how an insurance benefit of \$150/day still means you will pay a portion of your care.

GET A LIVE PERSON ON THE PHONE

A new web site can help you get out of the phone menu tree of pressing numbers to contact a real person. GetHuman.com collected codes from over 400 large companies and government agencies. Examples:

Wells Fargo 800-869-3557 *Press 0 at each prompt, ignoring messages*

Washington Mutual 800-788-7000 *When prompted, press 1 to take survey or 2 to opt out; press # at each prompt thereafter ignoring messages*

Kudos to *Kiplinger's Retirement Report* for the tip.

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IRS SPOILS NEW RETIREMENT PLAN OPTION FOR NON-SPOUSAL BENEFICIARIES

Recap

In our October 2006 (third quarter) newsletter, we wrote of the new rule passed under the Pension Protection Act of 2006 regarding inheriting a 401(k) or 403(b) plan.

Previously, only a spouse could take this inheritance and roll it over to an IRA. The advantages of rolling the money into an IRA are:

- ◆ Distributions can stretch over the life expectancy of the spouse. While a small amount might have to be withdrawn annually, the remainder can continue to grow tax-deferred.
- ◆ Because the minimum withdrawal amount is usually small, the income tax paid on the withdrawal is less.

Non-spouses must withdraw the entire amount over 5 years or fewer—thus it is subject to a large income tax bill and has no opportunity to grow tax-deferred over the lifetime of the heir.

Effective 2007, the Act allows spouses and non-spouses to be treated the same. A domestic partner, child, grandchild, sibling or friend will be able to rollover the company retirement plan to an IRA and have the same stretch-out provisions as a spouse.

IRS Unexpected Interpretation

Unfortunately, the IRS in their interpretation of the Act potentially negates the above opportunity. It allows the employer's retirement plan to override the above rule.

Unless the retirement plan has specific language permitting lifetime distributions or rollovers for non-spouse beneficiaries, there continues to be a requirement for distribution over 5 years or less.

So, until all this gets straightened out, if you leave your employer, consider rolling over your retirement plan to an IRA to protect the stretch out provisions for a non-spouse beneficiary!

Little Known Facts of Interest

Before electricity, customers in hair salons would sit with their hair hanging out hoping to catch a breeze. Alexandre Godefroy invented a gas hair dryer in the late 1880s. The bonnet style device was connected by tube to a gas stove.

With the advent of electricity, vacuum cleaners were touted for their versatility: one end sucked up dirt while the other end dried your hair.

With a revolutionary plastic called Bakelite, the hair dryer developed into the hood style in the 1950s.

People over 60 with one parent living with them:

1900	7%	2006	25%
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People between 18 and 24 living with their parents:

1900	49%	2006	52%
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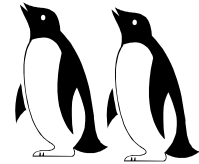
SUBPRIME LOANS AND THE REAL ESTATE MARKET

Many of the headlines this year are dedicated to the real estate market and its impact on the economy. We'll try to sift through the "noise" and present a synopsis of the issues.

We've all heard the radio commercials about money lenders willing to process loans without documentation or bad credit. These firms make subprime loans which are high-interest and usually offered to people who normally don't qualify for a traditional mortgage.

In 2006, 24% of loans fell into this category. Of those loans, over 13% are in default. The growth of the subprime market followed the decrease in the Federal Housing Authority loans (FHA) which typically lent to first-time home buyers. Since the beginning of the year, 36 subprime mortgage companies have failed.

The *Wall Street Journal* reported on April 12 that as a result of the subprime loan defaults, lenders have tightened their credit requirements. Fewer buyers will qualify for a first-time home purchase. The supply of homes on the market will increase because of the foreclosures and the impact will be a decline in home prices in many areas of the U.S.



NEWS AT FINANCIAL CONNECTIONS

Jill's vacation to Antarctica was wonderful. The weather never dipped to freezing, not good for global warming, but great for zodiac rides. We interacted with four types of penguins, four types of seals, numerous birds and two types of whales. It was also fascinating being in an environment not owned by any country and virtually uninhabited by humans.

Financial Advisor Magazine, a trade publication for the financial planning industry holds an annual symposium in Las Vegas. Jill agreed to participate in a panel about "Serving the Middle Market" on April 20.

Brian was asked by Golden Gate University to teach a graduate level class on taxes for their financial planning program. He begins teaching at their San Francisco campus for 16 weeks starting May 8.