For Clients and Friends of Financial Connections

Quarterly Newsletter,
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BRIAN TO BECOME
A DADDY!

Brian and his wife Jennifer are expecting their first child in July. Please join us in congratulating them. Brian will be taking some time off once Baby Pon is born.

In January, we wrote that market declines and recessions are a normal part of the economic cycle. That doesn't make it any easier to live with when we are in the middle of it.

The Good, The Bad and The Ugly

Perception is such a fluid emotion and influences the market in a big way.

<u>Bear Stearns</u>

Yes, this investment bank made poor decisions in the sub-prime mortgage market and other structured debt. But Bear Stearns had a lot of other profitable businesses (energy trading, fixed income and equity trading, clearing operations, etc.). Other institutions were afraid and refused to do business with them even when the collateral was of the highest quality. Many large accounts became scared and moved their money to other firms.

The Fed had no alternative but to intervene to keep the integrity of our financial system. Will the government lose money on the deal? Perhaps not. According to John Mauldin, an analyst we respect, "*The Fed is taking $30 billion dollars in a variety of assets. They may ultimately take a loss of a few billion dollars over time, although they may actually make a profit. When you look at the assets, much of it is in paper that will likely get close to par...The problem is...no one is prepared to take that risk today.*"

<u>Credit Crunch</u>

Much of the market volatility is the uncertainty of how to price assets. As a result, institutions are unwilling to loan money, even for a short period of time because they don't know how to measure the quality of the assets being used as collateral. Consequently, credit markets that normally provide liquidity to run a business dried up.

<u>Market Decline</u>

This type of downturn is especially difficult if you are close to retirement or recently retired. We usually advocate keeping several years of distributions in money markets and short-term investments not subject to market volatility.

With several years of distributions in money market type investments, the balance of your portfolio can ebb and flow. The remaining money has to last for decades so a growth component is essential to stay ahead of inflation.

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TEACHING CHILDREN FINANCIAL RESPONSIBILITY IN STAGES

There are various resources available that discuss how to teach children about finances and financial responsibility. The December issue of *Money Magazine* offered a brief recommendation.

Age 8	**Set up a piggy bank** – set the stage for the habit of saving. Laura Levine from JumpStart Coalition believes this is a good time to start an allowance. She recommends using a transparent piggy bank so your child can watch the accumulation.
Age 10	**Open a savings account** – Carrie Schwab Pomerantz runs the Financial Literacy Program for Charles Schwab. She said with children learning their multiplication table, this is a good opportunity to teach them about interest. She recommends saving 10% of birthday, holiday and allowance money.
Age 13	**Introduce Budgeting** – children can understand the difference between need and want and limitations on money supply.
Age 16	**Open up a Roth IRA** – 20% of children work part-time or at a summer job. A parent can offer to match a child's contributions to a Roth. Also, showing how $1,000 can grow over time reinforces how compounding works.
Age 17	**Apply for a credit card** - before going to college. It is important to teach your children what happens if they don't pay off their credit card each month. By co-signing for a low credit limit ($250), your child can "practice" paying amounts charged with their budget process.

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For Clients and Friends ...
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Recession

We won't know whether or not we are in a recession until it is behind us. But, recessions historically become a positive for stock markets. While the past is no guarantee of the future, it is helpful to know what happened in previous recessions.

Time frame and number of recessions	Average number of months for a recession	Average S&P 500 performance 12 months after market low during recession
1892-1945 (14)	18	48%
Post WW II (10)	11	37%
1892-Present (24)	15	44%

Source: The Leuthold Group, March 2008

Declining Dollar, Oil and the Trade Deficit – it's not all bad

The record for high crude oil futures was in April 1980. Its inflation adjusted equivalent is $103.76 a barrel. We have surpassed this high but for a different reason. Previously there was more demand than supply. Today, the major issue is the declining dollar.

Like many commodities, oil is priced on the international market in dollars. When the dollar declines, the price goes up to compensate for the loss of purchasing power.

One benefit to the declining dollar is the reduction in the trade deficit. Between 2006 and 2007, our deficit declined 6.2%. U.S. exports increased 27% over 2005 levels. The cheaper dollar also makes it less expensive for foreign companies to open a branch here. BMW, for instance, is opening a plant in South Carolina and thereby creating new jobs in the area.

Little Known Facts of Interest

40% of Americans plan on filing their federal income tax return online this year, up from 34% three years ago

$3,783 the *average* annual out-of-pocket Medicare expenses for a retired individual in 2007

Years of long-term care service required if you are over 65

20%	5 or more years
20%	2-5 years
12%	1-2 years
17%	1 year or less
31%	No care

Stagflation

You may see articles on this topic in the financial press but what is it? Stagflation is slow economic growth and relatively high unemployment accompanied by inflation.

Robert Brusca, an independent economist states, "You get stagflation false signals in most recessions." He further states that inflation increased before or during every recession since 1961 but recedes as demand declines.

Quarterly reports and disclosure statement

Included with the quarterly reports is our most recent ADV (disclosure statement) and Privacy Statement. Please let us know if you have any questions or would like to get together for a review of your financial circumstances and portfolio.

STOP THOSE UNWANTED CATALOGS!

Many of us receive catalogs we don't want. Yet to stop all catalogs robs us of our Land's End and L.L. Bean!

There is a Web site **www.catalogchoice.org** that offers you the opportunity to stop unwanted catalogs. It works as follows:

- Set up an account
- If you receive an unwanted catalog, sign in to your account
- Find the catalog, listed alphabetically (not all catalog companies participate)
- Decline receipt

Top 10 Opt Outs

The World Privacy Forum developed a list of what they felt were the most important opt outs and how to do it. Below is the URL.

http://www.worldprivacyforum.org/toptenoptout.html

Another site offers you the ability to opt in or opt out of a mailing list. Go to www.dmachoice.org

Another source of unwanted mail is the pre-screened credit cards and insurance offers. You can opt out by going to www.optoutprescreen.com or calling 888-567-8688.

RED FLAG – IRS CHANGES ITS RULE ON NON-SPOUSAL 401(k) INHERITANCE

We wrote in previous newsletters about the Congressional bill permitting non-spouse beneficiaries to rollover money from a 401(k) or 403(b) to an IRA after the death of the account owner. This permitted a domestic partner, child, sibling, etc. to withdraw money from the IRA and pay income tax on the withdrawal over the beneficiary's lifetime.

Before this legislation, non-spouse beneficiaries were required to withdraw all the money within 5 years and pay income tax on potentially large amounts.

Congress was on the brink of approving legislation to make it mandatory for an employer to permit this type of rollover. But, it did not pass.

Now the IRS says it is back to its earlier position that it is up to the employer whether it will allow such rollovers.

So once again we recommend that you check with your employer to see if this rollover is possible. If it is not, you should request it. If you have a 401(k) or 403(b) from a previous employer and your heir is not a spouse, roll it over into an IRA. It can save your heir thousands of dollars in taxes.

Jill will be taking a "grand tour" of Italy in April. It is a combination land and sea excursion. The itinerary starts with 3 day visits to Florence and Rome by land; board a ship in Civitavecchia and head for Corsica, Portofino, La Spezia, Pisa/Livorno, Amalfi, Sorrento/Capri, Sicily, Corfu (Greece), Kotor (Montenegro), Dubrovnik (Croatia) and Venice for a finale!

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