



For Clients and Friends of Financial Connections

A year ago we saw the beginning of a stock market rebound after the worst bear market in over 70 years. Each of the last five quarters generated positive returns. Now one question is on everyone's mind: Is this recovery sustainable?

Our crystal ball is no less murky than anyone else's, and we will know the answer only in hindsight. While we all watch how the economy recovers, please remember the health of the economy does NOT translate into stock and bond market performance.

However, below are some of the issues for the near future recovery.

- ◆ In March there was an unexpected increase in spending by consumers with jobs
- ◆ State and local governments are cash poor
- ◆ Corporations have more cash on hand now than at any time in 54 years
- ◆ In March, export orders for U.S. manufacturers were up 59%
- ◆ Actual exports are at their highest level in 10 years
- ◆ In the first quarter, U.S. exports to China were up at an annualized rate of 157%
- ◆ U.S. manufacturing labor costs are lower than almost all of western Europe, Canada, and Australia (in dollar terms)
- ◆ In contrast, in 2002 only four countries had higher labor costs than the U.S. By 2007, 15 countries out of the 33 surveyed had higher labor costs.
- ◆ Consumers continue to have significant debt
- ◆ 25% of all homeowners have a mortgage higher than the current value of their house
- ◆ Almost 50% of the commercial loans coming due between 2010-2014 are estimated to have debt exceeding the value of the property
- ◆ Government deficits continue to expand while tax revenues decline

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HAPPY ANNIVERSARY

For Jill and Brian, May 1 marks 10 years of working together. As you know, being in each other's company at the office and at conferences is like having a *daytime marriage*. We haven't decided how to celebrate this anniversary, but we continue our commitment to our clients, to each other, and to Financial Connections.

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BERKSHIRE HATHAWAY BUYS A RAILROAD

As investors with a bias towards a value style of investing, we watch what Warren Buffet of Berkshire Hathaway buys. He is considered the premiere value investor. He recently made the largest purchase of his career—Burlington Northern Santa Fe Corporation (BNSF), for \$26.3 billion.

In order to fund the purchase, Berkshire bought the 77% of BNSF it did not own at a 31% premium. While 60% of the purchase was cash, the balance came from the Class B shares (which were over \$3,000 per share last November), by splitting them 50-for-1 (each share before the split becomes 50 shares).

Nothing has changed for the Class A shares, with a price in excess of \$100,000. But for the B shares—before the split, at over \$3,000 with a low trading volume—the price per share after the split is about \$67.

The lower price has attracted a lot of interest, and the trade volume since the split is up almost fivefold. This new activity increases the volatility of the stock from the pre-split days.

We find this added dimension to holding Berkshire's Class B stock disconcerting. We prefer to hold securities that don't have a lot of fluctuations. We are watching how the shares perform over the next few months. It is possible that once the "newness" of the split B shares wears off, the volatility will settle down.

FINANCIAL CONNECTIONS GROUP, INC. IS A GREEN BUSINESS

Marin County's Green Business Program "creates opportunities for businesses to embrace solutions that will protect the economic and environmental resources of our community," stated Dana Armanino, county planner and Sustainability Team member.

We had taken steps to become more "green" by installing an electronic imaging system instead of creating paper files; printing on two-sides, post-its and half sheets; and reducing our commute. To participate in the program, we completed the 11-page application, adjusted our processes, and were audited by PG&E, the Marin Water District, and Ms. Armanino. We are pleased to announce that the county has certified us as part of their Green Business Program.

Our new updated Web site will proudly display our new "green logo."

FINANCIAL CONNECTIONS GROUP, INC.

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Jill D. Hollander, CFP®, CRPCSM, CDFATM, Financial Advisor

Brian Pon, EA, CFP®, Financial Advisor

Financial Connections Group, Inc.
21 Tamal Vista Blvd., Suite 105
Corte Madera, CA 94925
415.924.1091

Berkeley Office:
2608 Ninth Street, Suite 302
Berkeley, CA 94710
510.849.4667

EMAIL: client@FinancialConnections.com
WEBSITE: <http://www.FinancialConnections.com>



Clients of Financial Connections

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Global Recovery

The forecast for 2010 U.S. growth is now at 3%, up from 2%. The World Bank forecasts China's growth rate at 9.5% and Singapore's, often an indicator for Asia (excluding Japan), is between 7% and 9%.

Europe's rate is forecasted to grow about 1% this year. Higher wages in many of the countries make prices of their products less competitive. And the European consumers aren't spending because they are worried their government pensions might decline.

With the U.S. consumer no longer providing fuel for global growth, it's up to other parts of the world. The Chinese consumer usually saves instead of buys. For the first time in many years, the consumer actually spent more than the Chinese economy grew—this is a positive development for global growth.

Developed countries continue to have large government debt while the developing/emerging countries have little debt and a new middle class consumer willing to spend.

Getting together

We welcome the opportunity to meet or talk with you to find out your plans for the future. Based on our discussion, we can adjust your portfolio as needed. Please contact us at your convenience.

Enclosed in the package are your usual reports plus the annual updated Disclosure (Form ADV) and Privacy Statement.

We anticipate sending a client survey this quarter to get your opinion on a number of topics. We would appreciate your response.

IN THE MEDIA

- ◆ The Financial Planning Association (FPA) asked Jill to prepare an online seminar (PowerPoint presentation, telephone for the audio and computer for the visual) on financial planning for lesbian and gay couples from the federal perspective.

The webinar was offered to all FPA members throughout the country on April 14, 2010. In the next few weeks, we will have a replay available on our Web site.

- ◆ Jill was quoted by *U.S. News & World Report* in an article titled "21 Ways to Cut Expenses in Retirement." It was posted on March 15 in the online magazine.

PROTECTING YOUR COMPUTER

According to Javelin Strategy and Research, approximately 1 million identity-fraud cases in 2009 were a result of online activity.

The Internet also has a lot of scam artists that look legitimate to the unsuspecting. Below are some hints to help protect you. This is a compilation from Kiplinger's Personal Finance Magazine (May 2010) and Kiplinger's Retirement Report (April 2010).

Passwords: Sometime the old-fashioned way is still the best. Keep a list on paper of user names and passwords for your various online accounts. Keep it in a safe deposit box, fire-proof safe, etc. If you keep the list online and someone breaks into your computer, they will find all the passwords!

Backup files: Important files should be backed up. You can use an external hard drive or flash drive. They are inexpensive. Put it in the fireproof safe or safe deposit box. There are a number of free online services; Kiplinger recommends Windows Live SkyDrive: <http://skydrive.live.com>.

Shopping websites: Make sure the company is reputable. If you aren't sure, try to do a Google search and look for reviews of the company. Other tips can be found on www.safeshopping.org.

Social media: Online profiles should not list your addresses or phone numbers. Make sure you have privacy settings so only friends can visit your page. Don't mention when you are going out of town.

Medicine purchase online: Some drug sites sell counterfeit or even expired drugs. Check online pharmacies through the National Association of Boards of Pharmacy – www.nabp.net. For additional information you can also go to www.fda.gov/ForConsumers/ProtectYourself.

CalPERS LONG-TERM CARE INSURANCE POLICY

If you have a CalPERS policy, you probably received a notice of a substantial premium increase, with mention of an additional 5% or more per year.

If you have such a policy, please give us a call. We can initiate communication between you and our long-term care consultant, Allen Hamm. We think it would be beneficial for you to get his input on each option and its ramifications.


Jill D. Hollander


Brian Pon

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