

For Clients and Friends of Financial Connections

Doesn't it seem that every time you pick up the paper or listen to the news, one crisis follows another? Whether it is an act of nature or by human beings, we have to admit that our reaction is to acknowledge how lucky we are on a personal level.

Next we put our professional hat on and say, does the latest news necessitate a change in our all-weather portfolio design? In the last 5-1/2 years, we experienced a technology bust, 9/11, a war on terrorism, combat in Afghanistan and Iraq, and finally devastating hurricanes. The human toll of Hurricanes Katrina and Rita defies description. And most guesses are that as the rebuilding gets under way, economic growth will overcome the short-term financial losses.

Commentary on economic issues

Debt

Debt is a major concern not only for individual consumers but for the government as well. The government deficit will increase because of the natural disasters this year.

Savings Rate

The savings rate for individuals was less than 1% earlier this year (whereas it was over 10% in 1984). But, the savings rate does not include what people contribute to their retirement plans at work.

**Quarterly Newsletter,
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ATTENTION KAISER SENIOR ADVANTAGE MEMBERS

The new Medicare drug benefit (Part D) is very confusing. We are trying to sort through it as well. However, according to an article by Victoria Colliver of the *San Francisco Chronicle*, October 2, 2005, Kaiser members will automatically be switched to a Medicare Advantage Plan. It will still be called Senior Advantage. More details at this writing aren't available.

WARNING: According to the article, "Members of Kaiser or any other Medicare Advantage plan should not sign up for a freestanding drug policy or they will be dropped from their plan."

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THE DIFFICULTY WITH POWERS OF ATTORNEY

Sometimes exercising a power of attorney is a tricky affair. More and more institutions require specific language or the use of their own form. Some institutions insist that your document is too old if you haven't updated it in the past few years.

"Our experience is that powers of attorney are rejected at least half the time," notes attorney Michael Collins. "People who think that because they have a power of attorney they are covered are probably deluding themselves."

Sarah Bulgatz, a spokeswoman for Charles Schwab & Co., notes that financial institutions are very concerned about fraud. Schwab prefers to use its own form but will accept an outside power of attorney if its legal department has reviewed the other power. TD Waterhouse will take an outside power of attorney along with some additional forms that need to be notarized by the agent receiving the power. They require that:

- ◆ The power of attorney must allow for financial powers such as opening and closing accounts, etc.
- ◆ It should survive the incapacity of the maker or principal.

We would suggest you contact your major financial institutions and ask about their requirements and about time frames for valid powers of attorney (i.e., if yours is more than five years old, do you need to update it?).

Source: Kiplinger's *Retirement Report*, August 2005

FOR CLIENTS AND FRIENDS...

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Energy

The price of oil and natural gas is on the rise. No surprises here. It is anticipated this winter that their price will increase approximately 30% for the average household. Not only are oil and gas scarce resources, but shortages following the hurricanes compound the problem.

Enclosed are your quarterly reports. Please give us a call if you'd like to get together for a review or if changes in your life suggest a need to adjust your investments.

FINANCIAL CONNECTIONS

This newsletter is written quarterly by Financial Connections. Please contact Financial Connections if there are any changes in your financial situation or investment objective(s). Remember, past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this newsletter, will be profitable, equal any corresponding indicated historical performance level(s), or be suitable for your portfolio. Information herein should not be construed as legal advice.

Jill D. Hollander, MBA, CFP®, Financial Advisor

Brian Pon, EA, CFP®, Financial Advisor

Financial Connections
2608 Ninth Street, Suite 302
Berkeley, CA 94710
510.849.4667

San Rafael office:
790 Mission Ave.
San Rafael, CA 94901
415.456.9600

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

THE LATEST ON THE HOUSING MARKET

Many people keep refinancing and withdrawing money from their homes. One mutual fund manager calls the practice “turning their homes into an ATM machine.” But it is unlikely to continue. As adjustable-rate mortgages start rising and monthly payments become difficult to meet, and as people need a larger percentage of their income to pay the mortgage, they will spend less. We don’t know how Bay Area housing will react if/when the bubble bursts, but houses are already staying on the market longer and attracting fewer bids.

Nationally, the housing market dominates economic activity, according to David Rosenberg, Merrill Lynch’s economist. He offers the following facts and figures:

- ◆ Since 2001, real estate accounted for 70% of the rise in household net worth.
- ◆ Since 2001, 40% of private-sector jobs created are housing-related.
- ◆ An estimated 42% of first-time home buyers did not use a down payment.
- ◆ Over 50% of new mortgages are adjustable rate mortgages (ARMs).
- ◆ Over 60% of new mortgages in California are interest-only or option ARMs.
- ◆ According to the FDIC, 38 of 50 states say home price increases outpaced individuals’ personal incomes.
- ◆ From 1955-1995 home prices increased basically 0% in real terms. (Real terms equal the percentage increase minus the inflation rate). Since 1996, home values rose 45% in real terms.
- ◆ Approximately 33% of homeowners devote 33% of their income to monthly mortgage payments; 12% use half their income to pay the mortgage.
- ◆ Homeowner affordability is at a 13-year low.
- ◆ National Association of Realtors survey shows 23% of home sales in the last year were “investors,” in other words, speculative purchases. Another 13% were second homes.

Little Known Facts of Interest

FUN FACTS:

The Greeks and Romans stored wine in terracotta jars and used a cork to stopper the jars. With the collapse of the Roman Empire, the knowledge about cork’s usefulness was lost. During medieval times cloth or plugs of wood were used as stoppers for barrels or skins to hold wine. With no airtight seal, the containers’ contents often turned to vinegar.

By the 17th century, glass-blowing skills were sophisticated enough to make bottles with long necks. The rediscovery of cork as an airtight stopper revived its use to store wine in bottles.

FINANCIAL FACTS:

50% of the world’s investments are outside the U.S.

45 of the world’s largest 100 companies are headquartered outside the U.S.

38% of equity market capitalization was domiciled overseas in 1980; in 2004, it increased to 50%.

Rosenberg’s statistics point to the danger of the heated housing market and the fact that its decline would have a major impact on the economy.

GETTING INFORMATION ONLINE INSTEAD OF THE MAILBOX

If your mailbox overflows with annual reports, prospectuses, and other communications from your investments, you can receive e-mail notification instead!

Submit your account number, e-mail address, and the last four digits of your Social Security Number at <https://www.icsdelivery.com/tdwaterhouse>. Usually, InvestorDelivery sends an e-mail acknowledgement shortly thereafter. You must acknowledge the e-mail, and that's it!

Within weeks, almost all of your investments will switch from mailing documents to providing links via e-mail. There is no charge for this service.

THE TITANIC REVISITED—or WHAT JILL DIDN'T DO ON HER VACATION

Many of you know Jill was scheduled to leave in early August for a cruise to Greenland and Iceland. Thirty-six hours before departure, the trip was canceled. Apparently the propeller of the ship hit an iceberg and broke—the first time in the history of Clipper Cruise line. The ship limped back to Iceland. Fortunately, no one was hurt and Jill wasn't on board!

So, the papers and mail are stopped, work schedules arranged, etc. What to do? The second choice was the Scandinavian capitals and St. Petersburg. In one day a marvelous travel agent (I highly recommend her) put together a new vacation. Instead of departure on Wednesday, August 11, for Reykjavik, it was Thursday and Stockholm. An impromptu change in vacation plans but lots of fun.