

For Clients and Friends of Financial Connections

It is a pleasure to write the markets were up in the third quarter. In fact, this was the best third quarter since 1939 -15% for the Dow Jones Industrial Average.

It is nice to see the positive psychology by investors has carried over, so far, into October .

We continue to believe there will be volatility in the markets but we also do not believe we will revert back to the panic and fear of last year. Global economies are all making progress to improve growth.

Enclosed are your quarterly reports. Please contact us if you'd like a review or if your financial circumstances have changed.

G-20 SUMMIT

Members of the G-20 passed a resolution to improve global economic policymaking.

The vision is for a "strong and balanced growth" of the world's economies. The International Monetary Fund will provide technical assistance.

Main goals include:

- ◆ Coordinate members' economic policymaking
- ◆ Reduce reliance on spendthrift American consumers
- ◆ Increase domestic spending by Chinese
- ◆ Reduce overseas borrowing by the United States
- ◆ Encourage investing by Europeans

Of course the devil is in the details yet to be worked out. However, it is noteworthy that this group of diverse nations could agree to such a proposal in principle. We are indeed part of a global economy.

A YEAR AFTER THE LEHMAN BANKRUPTCY

The system was already faulty before Lehman failed. But Lehman's bankruptcy was the catalyst that brought the world financial system to the brink of ruin. Since then government intervention on a global scale will likely change the financial system for decades. But will the changes be appropriate?

Too-Big-to Fail

John Cochrane and Luigi Zingales, finance professors at the University of Chicago, write that "the big banks know the government will bail them out, and they are already bigger, more global, more integrated" than ever.

Why worry about taking risks when you know the government will bail you out?

Thomas M. Hoenig, president of the Kansas City, MO Federal Reserve Bank and the longest-serving member of the Fed's policy-making committee, accused the government of "regulatory malpractice." Hoenig is on a campaign saying that discussing bank supervision is putting the cart before the horse. Real reform, Koenig believes, is to find the means to deal with the too-big-to-fail policy.

A company's failure usually brings the penalty of receivership, bankruptcy, and disgrace. But the policy of using of taxpayer money to prevent banks from failing saves them from the consequences of their poor management. It should also be noted that these firms are some of the larger contributors to both political parties.

Hoenig says this strategy is "harmful to the infrastructure, and sends the wrong message, that influence is what really matters. If we fail to address too-big-to-fail, it will only get worse."

We hope those with authority are listening and willing to address this issue.

Where We Are Today

Major concerns about the economy's recovery and its sustainability remain.

- ◆ Consumers are still reducing debt and therefore not spending.
- ◆ The government will still need to prop up mortgages.
- ◆ Moody's reported credit card debt hit its highest default rate in August. Its expectation is that defaults will not peak until next summer.
- ◆ Companies went into emergency mode last year. The economic upturn results from inventory rebalancing but lower levels of active production.
- ◆ So far it looks like a jobless recovery.

We mentioned during our August conference call our concern for deflation. In order to offset this potential, the Fed needs to allow some inflation so that price levels will increase. If price levels increase, housing prices go up. By keeping mortgage rates low, the Fed encourages consumers to buy homes again.

**Quarterly Newsletter,
3rd Quarter 2009
10/19/09**

Chris Remedios completed her internship with Financial Connections and, effective September 1, joined us as an employee. Chris will be responsible for financial planning for our hourly and ongoing clients. Please join us in welcoming her to our firm.

Jill and her Marin financial planning study group were active in the Week of Caring sponsored by the United Way. On September 15, her group volunteered at two Head Start schools filling the sandbox with new sand, adding bark to the playground, and weeding.

Our next conference call will be on Tuesday, November 17. The call will be available at the usual times: either noon to 12:30 or 4:30 to 5:00 PM. What topics would you like us to discuss? So far the international situation is on the agenda.

CASH FOR CLUNKERS PROGRAM HURTS RETIREES

The US Bureau of Labor Statistics (BLS) will treat the \$4,500 rebate given to the 800,000 car buyers as a reduction in the price of a car. How does this hurt investors and, especially, retirees?

It decreases the inflation number used to adjust the gross domestic product

It impacts the consumer price index (CPI) by reducing it
The CPI is used to calculate Social Security increases (but no cost of living

The CPI is used to calculate interest paid on treasury inflation-protected

This action also increases deflation. Deflation is bad for the economy and very difficult to overcome once started. We think this BLS policy should be over-turned.

DO YOU HAVE U.S. SAVINGS BONDS?

Have you lost track of savings bonds given to you many years ago? Or did you give any to your children but forget about them?

We're available to help determine if you have any unclaimed savings bonds—just give us a call.

SEEING STORE SHELVES THROUGH SENIOR EYES

(FROM THE WALL STREET JOURNAL, SEPTEMBER 14, 2009)

"Before walking into a Walgreen's drugstore, Todd Vang donned glasses that blurred his vision, slipped un-popped popcorn into his shoes and adjusted tape that bound his thumbs to his palms."

As baby boomers begin turning 65, retailers are trying to learn of the difficulties that aging brings to adults' senses. A program run by Kimberly-Clark Corporation for such retailers as Rite Aid Corp. and Family Dollar Stores grew from developing its Depend brand.

Kimberly-Clark uses kits developed by Lee Memorial Healthy Systems that simulate the physical limitations, worsening eyesight, arthritis, and reduced balance of older adults in order to improve product design and shelf placement.

Walgreen's plans to revamp its stores in order to make them more elderly-friendly.

Kimberly-Clark is revamping its Kleenex tissue using text and images because distinguishing colors on packaging can be difficult.

LOOKING INTO CLEAN TECHNOLOGY

Global investment in clean technology was \$27 billion from 2001 through 2008. Most of the investment money came from venture capitalists. It is anticipated that \$150 billion will be spent over the next ten years on clean technology.

A confluence of events leads many to believe that clean technology will be a growth industry for decades to come.

- ◆ The change in the political environment since Obama became president
- ◆ The plan for a reduction in dependence on oil
- ◆ The anticipated job creation for this expanding industry

As governments and private industry support research into more sustainable, renewable sources of energy, this industry is likely to provide positive returns over the next several decades. But like any other new industry, it will experience periods of volatility.

A recent white paper, "The Green New Deal" (Wurts & Associates), suggests that carbon emissions will become the world's third currency. The first is capital itself (the cost to borrow it or the expected return to invest it) and the second is oil.

Global population is anticipated to grow by 50% in the next thirty years. It is not difficult to imagine the increased demand for electricity, energy, oil, and all other commodities. Many alternative sources of energy become viable when the price of oil is over \$60 barrel. It is currently over \$70 a barrel and, given the scarcity of new oil coupled with population demographics, will probably rise.

If you would be interested in investing some of your assets in a global clean technology fund, please let us know.

INSURANCE COVERAGE AND BENEFICIARY REVIEW

Insurance

When did you last have your homeowner's coverage reviewed? When was the last time you reviewed your auto coverage? Do you have umbrella liability coverage? Has it been reviewed recently?

If more than five years have gone by since you looked at these issues, we would urge you to review your coverage. While we are not insurance agents, we would be happy to help you in this process. Please give us a call.

Retirement Account beneficiaries

As our lives and those of our loved ones change, we may want to update the beneficiary designation on our retirement accounts.

We would be happy to let you know the names of your primary and contingent beneficiaries on your TD Ameritrade accounts.

For accounts outside Financial Connections, such as your employer plan, we would be happy to help with the process of checking on your beneficiary. Please give us a call.