

For Clients and Friends of Financial Connections

The last several years produced good returns for your portfolios. Since 2000:

- ◆ Small companies outperformed large companies
- ◆ International companies outperformed U.S. companies
- ◆ Value style investing outperformed growth style
- ◆ Real estate investments continued to enjoy historically high returns

Interestingly enough, however, predictions for the last several years have been that large companies would outperform small companies, that international and real estate returns would slow, and that growth would outperform value.

2007 and Beyond

It's a good thing that we don't change portfolios based on predictions! Even so, as a result of these good years, some investments may have grown to become too large a percentage of your portfolio. While we hesitate to create taxable gains for you, we feel it may be more important to

realign your portfolios, to lock in some of the profits. We also want to do so while the capital gains income tax rate remains at its historical low. The 15% capital gains rate is due to expire after 2010.

Events to Watch

Oil started 2006 at \$60 per barrel, peaked near \$80, and is back down to the \$50s. Because 2006 was the warmest winter on record, some feel the current price per barrel is temporary, while others believe it will hover around \$50.

The housing market declined, but so far the magnitude of decline has not had a significant impact on the economy. Foreclosures, however, may pick up speed as a result of loose lending by financial institutions over the past several years. Subprime mortgages are expected to have a default rate of 20%, according to the Center for Responsible Housing. This subprime market accounts for 25% of the overall mortgage market.

Bill Gross, PIMCO's bond guru, argues that interest rates are too high based on Gross Domestic Product (GDP). He anticipates reductions in the rates by the end of 2007.

**Quarterly Newsletter,
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Jill's First Podcast

Ben Lewis, host of *30 Minutes of Personal Finance*, captured Jill in the hallway at a NAPFA conference to record an extemporaneous interview on the topic of financial planning for single and unmarried couples. It lasts about 12 minutes. If you'd like to listen, please read this newsletter on our web site or click <http://www.FinancialConnections.com/newsletters/podcast.htm>

continued on next page...

WILL THE U.S. PRINT DIFFERENT PAPER CURRENCY?

In a landmark decision, U.S. District Court Judge James Robertson ordered the government to develop new currency so blind people can tell the difference between various denominations. "Of the more than 180 countries that issue paper currency, only the United States prints bills that are identical in size and color in all their denominations," Judge Robertson wrote. "More than 100 of the other issuers vary their bills in size according to the denomination, and every other issuer includes at least some features that help the visually impaired."

The Rehabilitation Act, which prohibits discrimination on the basis of disability in government programs, was the law Judge Robertson cited the Treasury Department for violating.

He ordered the government to start work within 10 days of the ruling but we haven't seen any follow-up articles. Stay tuned!

FOR CLIENTS AND FRIENDS OF FINANCIAL CONNECTIONS (continued)

Under Review

As we've said many times, we try to build a diversified all-weather investment portfolio that can roll with the "ups and downs." Along the fringes of the portfolio we overlay issues based on the world as we see it. This led to investing in inflation-linked securities, commodities, and so on. One issue we are currently looking at is drinkable (potable) water (see accompanying article). We also seek investment options that have a low correlation to the traditional market.

Reports

Enclosed are your year-end reports. If applicable, we have also included a report on your taxable gains/losses. Please provide this to your tax preparer. If Brian prepares your tax returns, we will keep the document at our office.

Performance reports usually show the current calendar year and the last three years. For long-term Financial Connections clients, we've replaced the three years' history with five years'.

Please let us know if you would like to get together for a review or if changed circumstances suggest that we should update your financial plan or investment approach.

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WHAT IF WE RUN OUT OF DRINKING WATER?

Did you know that the amount of potable water available today is the same as it was 10 million years ago? What's different—six billion people. The International Food Policy Research Institute says by 2020, an additional two billion people will be in competition for the short supply of water.

- ◆ 97% of the world's water is non-potable salt water.
- ◆ In most areas of the world, water is a more precious commodity than oil.
- ◆ Nearly 40% of the world's population does not have access to clean water.
- ◆ The Dead Sea dropped more than 66 feet in the past 100 years; it is now losing 3 feet each year.
- ◆ Lake Chad in Africa is 1/20 the size it was 35 years ago.
- ◆ China has about the same amount of water as Canada, but with a population 40 times larger.
- ◆ Less than 15% of China's population has access to safe drinking water from the tap.
- ◆ Aquifers in India are drying out – research forecasts the groundwater supply may be exhausted in 5 to 10 years. Much of the farmland could become desert.
- ◆ "Water poses the greatest challenge...we are at risk here," said India's finance minister to delegates at the India Economic Summit organized by the Geneva-based World Economic Forum.
- ◆ India has 18% of the world's population but only 4% of the water resources.
- ◆ In Latin America, about 15% of the population doesn't have access to safe water.
- ◆ A gallon of crude oil is approximately \$1.45; a gallon of Evian water is \$11.91.
- ◆ 70% of water consumption is for inefficient agricultural purposes (World Health Organization and UNICEF).

Little Known Facts of Interest

The Egyptians levied the first documented tax, on cooking oil. They also had their own IRS! Audits were conducted to check the amount of cooking oil in a household.

Greece imposed taxes on everyone during wartime. However, they stopped the taxes when the war was over and, with resources gained from the campaign, refunded the taxes to citizens.

Health Care spending in 2005 (the most recent statistics) rose more slowly than in 2004. However, costs still rose 6.9%. Prescription drugs accounted for 20% of out-of-pocket spending for health care.

At a recent estate planning seminar, an attorney said that actuaries now predict that healthy 50-year-olds have a 50/50 chance of living until age 110!

As you can see from the limited items listed, water shortage has the potential to create global tensions. Some experts predict cartels for water instead of oil.

Investment Opportunity

Brian and Jill try to look at the world to identify potential long-term investment opportunities. Despite the gloom and doom potential listed above, there are also opportunities for the private sector. The global water industry is alive and growing. We are researching a vehicle that can capitalize on this trend.

ANNIVERSARY CRUISE

Jill and Bonnie have their 30th anniversary in January. They are celebrating by taking a cruise to Antarctica. They leave for Buenos Aires February 7; on February 10 they board a charter plane for Ushuaia, Argentina. Upon arrival, they transfer to the *Corinthian II* to sail through Drake's Passage towards the Antarctic Peninsula. Depending on the weather, they plan to participate in two or three zodiac excursions each day to commune with seals, penguins, whales, and seabirds. They return February 21.

RETIREMENT SAVINGS

If you are a single-owner business, an individual 401(k) is available. Based on your income, the available maximum contribution is \$49,000 in 2006 and \$50,000 in 2007 (the total includes employer and employee contributions and also assumes you are over 50 years of age).

Below are contribution limits for the primary retirement plans.

Contribution Limits	2006	Over Age 50	2007	Over Age 50
IRA	\$4,000	\$5,000	\$4,000	\$5,000
Roth IRA*	4,000	5,000	4,000	5,000
SEP-IRA	44,000	44,000	45,000	45,000
SIMPLE IRA	10,000	12,500	10,500	13,000
401(k) & 403(b)	15,000	20,000	15,500	20,500

**Subject to income limitations*

With so many plans available, self-employed people have various opportunities for increasing retirement savings and reducing taxable income. Please check with Brian and Jill to make sure you have the right type of retirement account for your circumstances.

COMPREHENSIVE INVESTMENT REVIEW

If you are an employee, we would like to review your investment selections in your employer's plan. If you forward the year-end statement(s) to us, we will combine it with your Financial Connections' account for a comprehensive review.

Also, if you have other accounts outside TD Ameritrade, please forward the year-end statements so we can conduct a comprehensive investment review.

Jill D. Hollander

Brian Pon

Year 2006

FINANCIAL CONNECTIONS LARGEST EQUITY AND BOND MUTUAL FUND HOLDINGS (listed alphabetically)

Equity Funds

	<i>2006 Return</i>
Artisan International Small Cap	33%
Dodge & Cox Balanced	14
Dodge & Cox International	28
Gateway	10
Julius Bear International Equity	32
Leuthold Core Investment	12
Merger	11
Selected American	16
T. Rowe Price Capital Appreciation	15
Third Avenue Value	15

Bond Funds

	<i>2006 Return</i>
Loomis Sayles Institutional	11%
PIMCO Total Return Institutional	4
Yield Quest Total Return	8

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.

Index returns for 2006

S & P 500	16% (large companies, market-weighted)
S & P MidCap 400	10% (midsize companies, market-weighted)
Russell 2000 Index	18% (smallest 2,000 companies of the Russell 3000 index—benchmark for small cap)
NASDAQ Index	10% (over-the-counter stocks; technology stocks)
DJ Wilshire 5000 Index	16% (index of all stocks)
Lehman Bros Aggregate Bond Index	4% (Total Bond Index)
MSCI EAFE IL	14% (international stock index dollar denominated)
MSCI EAFE IL	14% (international stock index local currency denominated)

Over

A LITTLE SENIOR HUMOR FOR AGING

There is a rumor that Julie Andrews sang an old folks' parody of "My Favorite Things" from the *Sound of Music* to celebrate her 69th birthday. It's not true but that doesn't detract from the humor of the revised song. We don't know who actually wrote this but it is good for a laugh. ☺

Hum the tune "My Favorite Things"

Maalox and nose drops and needles for knitting,
Walkers and handrails and new dental fittings,
Bundles of magazines tied up in string,
These are a few of my favorite things.

Cadillacs and cataracts and hearing aids and glasses,
Polident and Fixodent and false teeth in glasses,
Pacemakers, golf carts and porches with swings,
These are a few of my favorite things...

When the pipes leak,
When the bones creak,
When the knees go bad,
I simply remember my favorite things,
And then I don't feel so bad.

Hot tea and crumpets and corn pads for bunions,
No spicy hot food or food cooked with onions,
Bathrobes and heating pads and hot meals they bring,
These are a few of my favorite things.

Back pains, confused brains, and no fear of sinnin',
Thin bones and fractures and hair that is thinnin',
And we won't mention our short shrunken frames,
When we remember our favorite things...

When the joints ache,
When the hips break,
When the eyes grow dim,
Then I remember the great life I've had,
And then I don't feel so bad.