



2nd Quarter 2015, 7/17/2015

## REASONS TO BE CAUTIOUS

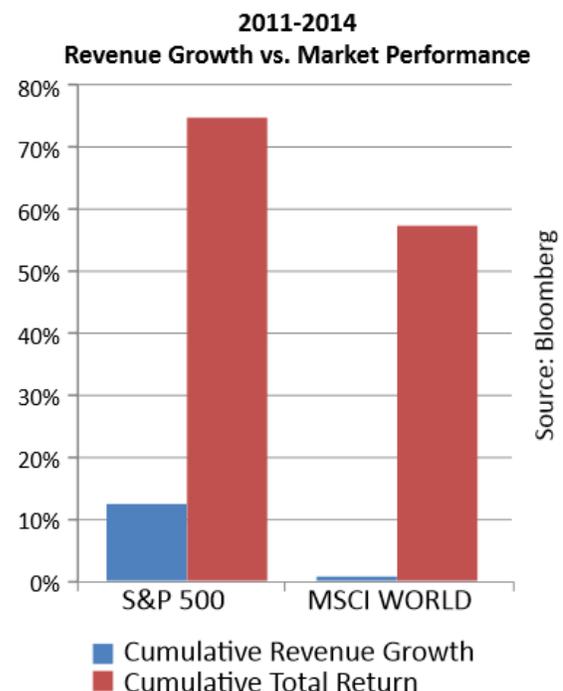
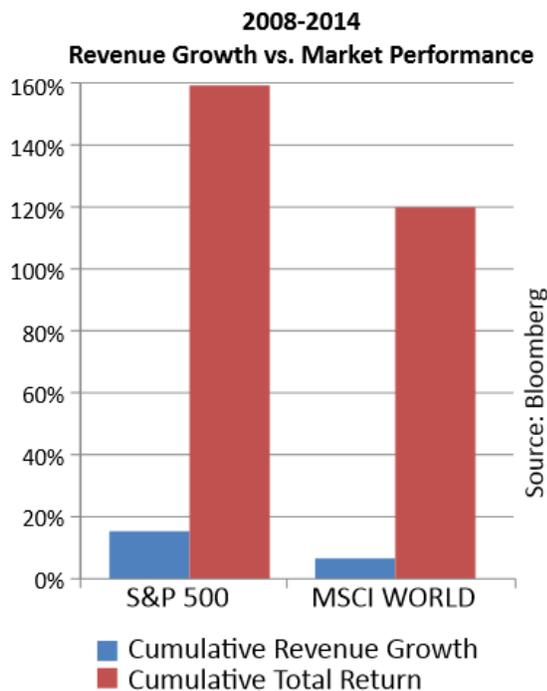
In our portfolio design, we try for diversity not only with the type of mutual fund but also with investment outlook. A good example is funds we think of as "defensive." These funds do not perform well when the market goes straight up, as it has been over the past years, but serve as a ballast when the market declines, as it did in 2008.

Not surprisingly, their philosophy is cautious. Below are some excerpts from a recent commentary.

- ◆ Global economic and revenue growth have not met expectations since 2011.
- ◆ Investors continue to pay more in higher asset prices (asset inflation). This attitude is fueled by the Federal Reserve and other central banks with their zero interest rates.

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## REASONS TO BE CAUTIOUS

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While initially the markets were making up for the depressed prices from 2008, many observers feel they were at full value in 2011. You can see from the 2011-2014 chart that global equity revenue has grown less than 1% in three years and US real (net of inflation) GDP has only averaged 2.1%. Yet the S&P 500 is up 74.5% on total revenue growth of 12.3%. Some fund managers believe we are in an asset bubble—again.

According to the Bank of International Settlements, dollar-denominated corporate debt is up 250% since 2008. The strong dollar is partially responsible but not to this degree. The worst of the junk bond market represents 67% of the total debt issued, up from 25-30% at the 2007 peak.

Margin debt (money you borrow using your existing stock for collateral, a.k.a. leverage) is higher than it was in 2000.

While this analysis is very negative, other investment managers have a more positive outlook, believing that other metrics point to a more positive outlook. Some feel that there are growth opportunities, especially outside the United States, especially Europe. Also, with low energy prices, it reduces corporate expenses which will lead to higher profits worldwide.

Only in hindsight will we know who is right and to what degree. However, bringing together different philosophies is part of our view of diversification.

## PORTFOLIOS AND RISK

Individual risk is very difficult to quantify when we design portfolios. As technology has improved, tools to help us identify risk have become available. We found a software platform that will help us assess your investment risk thus offering more guidance in designing your portfolio.

The technology is built on academic framework that won the Nobel Prize for Economics in 2002. It is a questionnaire that for most will take 5-7 minutes. We can sit with you while you answer the questions or you can respond in the comfort of your own home using your computer, smartphone or tablet.

*Please contact us to set up a session to answer the questions. Thank you.*

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## A MORE PEACEFUL TIME?

What was the most peaceful era of human history as defined by deaths? The 200-year-long *Pax Romana* during the Roman Empire? The peaceful period in Asia following the Mongol conquests? The Ming dynasty in China?

You probably haven't considered our present time, since we're constantly reading about the spread of ISIS, incursions by the Taliban in Afghanistan, and what appears to be an escalating conquest of Ukraine by neighboring Russia. Every day you read about the threat of terrorist attacks.

Evolutionary psychologist Steven Pinker, author of *The Better Angels of Our Nature*, has compiled statistics to make a compelling case that fewer people die as a result of violence in today's world than at any time in history. The wars we hear about are relatively contained—the populations of Syria, Iraq, Afghanistan, and eastern Ukraine (some only indirectly affected by war) come to just 1.37% of the world population. And the peaceful zones in between are much greater in this century now that we've given up the habit of waging world wars.

Within the category of violence Pinker includes armed conflicts as well as rates of murder and civilian violence in countries around the world. For instance, the murder rate during the gold rush in California was among the highest in recorded history; today, California is hardly a bastion of violence. In Europe, torture and public executions were common.

Pinker concludes that ours is not only the most peaceful time in world history but that this may be the least-appreciated development in the history of our species.

His conclusions should not be used to trivialize the suffering of the many victims of violence. For example, according to the United Nation's agency, Global Trends, there are more refugees in the world today than ever before.

Which countries are the most and least peaceful? For that information, you turn to the Global Peace Index, which the *Economist* magazine drew from data compiled by the Institute for Economics and Peace. The methodology is detailed; each country is ranked based on its relations with neighboring countries (a state of war earns a low score; the U.S./Canadian border earns the highest); level of internal conflict (countries embroiled in civil wars receive low scores); political instability; terrorist activity; number of homicides per 100,000 people; level of violent crime; number of jailed persons per 100,000 citizens; military expenditure as a percentage of GDP; and citizen access to small arms and light weapons.

In general, the Institute found that peace tends to be found in countries with higher income, schooling, high levels of government transparency, and low corruption. You also find greater measures of peace in stable countries that are part of regional blocks (think: Eurozone).

The most recent ranking, completed in 2014, lists Iceland, New Zealand, Switzerland, Finland, Austria, Norway, Belgium, Japan, Canada, and Denmark as the top ten most peaceful countries, and their overall rankings are pretty similar. To find the United States, you have to go all the way down to number 101, where the high homicide rate, highest per-capita number of people in jails, huge military expenditures, and high number of external conflicts that the military is engaged in all pull the ranking down. Not surprisingly, the bottom of

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## A MORE PEACEFUL TIME?

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the scale includes Iraq, Afghanistan, the Democratic Republic of the Congo, Syria, Sudan, and Somalia—the most well publicized war zones.

## TAKE PROACTIVE STEPS ABOUT IDENTITY THEFT

Jill was invited to the TD Ameritrade Elite Forum in San Diego this year. One of the speakers was Lou Steinberg, Chief Technology Officer for TD Ameritrade. He said his wife's identity was compromised when someone walked into a bank that "shall remain nameless but has the initials Bank of America," and presented identification. The ID had an incorrect Social Security number but the correct driver's license information. The bank proceeded to open another account and moved the money from her checking account into the fraudulent account.

It took the couple nine months to convince the bank that they were not intentionally trying to scam the bank and to get their money back. Steinberg said they learned the following lessons.

- ◆ Don't have all your bank accounts in one bank. He had no access to that account for nine months and, if he hadn't had accounts at a different institution, would have had no access to any money.
- ◆ Unless you are anticipating needing credit approval, contact the three agencies and freeze your credit (for instance, [www.experian.com/freeze](http://www.experian.com/freeze)). One of the first things thieves do after stealing someone's identify is to open new credit cards and charge merchandise.
- ◆ Check your bank and credit card statements frequently. There is a time limit on requesting a refund.

Please join us in congratulating Kai. She passed her exam to become a Registered Paraplanner <sup>SM</sup>. She will be assisting us with developing financial plans.



Jill D. Hollander



Brian Pon

