FINANCIAL CONNECTIONS
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WELCOME JENNY

Jennifer Coffey Smith joined Financial Connections in November. She is a Certified Financial Planner™ Professional and holds the Masters of Security Analysis and Portfolio Management Designation from Creighton University. She has a BS in Economics from Arizona State University.

Jenny joins Financial Connections after nine years with the Vanguard Group. Her various positions included Client Relationship Manager, Retirement Advisor, and Investment Consultant for Ultra High Net Worth clients. Jenny was also an employee of Nestwise, a venture offering financial advice for the mass market.

Jenny will be working with us on investments and financial plans. Please join us in welcoming her to the team.

Inside This Newsletter

IT'S BAAAACK – THE VOLCKER RULE

In our last newsletter, we told you the Volcker rule was not being implemented. However, sentiment shifted with JP Morgan's "London Whale", which ended up costing the firm $6 billion.

The Volcker rule was approved by the Federal Deposit Insurance Corp., the Federal Reserve Board, the Securities and Exchange Commission, the Commodity Futures Trading Commission, and the Office of the Comptroller of the Currency. We think it is remarkable that all five agencies agreed to the same version (almost 1,000 pages!).

The Volcker rule was a centerpiece of the Dodd-Frank Bill, with a goal of restricting trading activities by banks with depositors' money. The Volcker rule bans "portfolio hedging." Hedging will still be allowed if tied to a specific risk such as currency or interest rate.

It also places new benchmarks for banks to buy/sell securities on behalf of clients (known as market making). Compensation structures will be restricted to discourage risky trading.

Other changes mostly bar a bank from trading its own account or owning significant percentages in hedge funds or private-equity firms.

"The Volcker rule will make it illegal for firms to use government-insured funds to make speculative bets that threaten the entire

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NEW RULES IMPACTING CAREGIVERS, HOUSEHOLD WORKERS AND CHILD CAREGIVERS

A new law (AB 241) went into effect January 1, 2014. It removes exemptions that had been in place for the category of workers known as Domestic Workers. They are now treated like any other hourly worker.

- ♦ **Overtime pay**: Time and a half after nine hours in a day and more than 45 hours a week
- ♦ **Meal and rest breaks**: Workers are entitled to a 30 minute meal break after five hours of work and a 10 minute break after four hours of work
- ♦ **Worker's Compensation**: Domestic workers no longer need to work 52 hours and earn more than $100 in the previous 90 days to be eligible for worker's compensation (that is, they are eligible for and start paying into worker's compensation immediately).
- ♦ **Uninterrupted Sleep Provisions**: Live-in workers or those on 24 hour shifts have the right to eight hours of uninterrupted sleep.
- ♦ **Use of Kitchen Facilities**: Domestic workers who work more than five hours may use kitchen facilities at no cost to cook their own food.
- ♦ **Paid Days of Rest**: After one year of employment, workers are entitled to up to three days of paid rest, based on the number of hours worked each week.

To make this more complicated, the Department of Labor also issued new rules regarding personal attendants that do not become effective until January 1, 2015.

These regulations may require families and companies employing home health care workers to revamp care arrangements, because provisions for overtime and for the number of people who take care of a person over 24 hours will likely increase costs.

We are reviewing ways to account for the cost changes in long-term care scenarios within our financial plans. If you'd like to discuss this further, please contact us.

Jill D. Hollander, CFP®, CRPC ℠, ADPA™, 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

IT'S BAAAACK – THE VOLCKER RULE *(continued from front page)*

financial system, and demand a new era of accountability from CEOs who must sign off on their firms' practices," President Obama said in a statement.

Jacob Lew, Treasury Secretary, stated that "approval of the Volcker rule will help change behavior on Wall Street and protect taxpayers against the risk of another financial crisis".

For most of us non-bankers, these details aren't meaningful, but the context of the rule is critical to changing the corporate culture in banks about taking risk with taxpayers' money. It also begins to define the activities a bank should undertake with insured deposits.

Some feel the rule goes too far but many feel it does not go far enough. From our perspective, having the rule in place is a first step, and—as they always say—the first step is the hardest.

NECESSITY, THE MOTHER OF INVENTION

In past years the estimate for usage of various commodities, especially metals, centered on China's growth. At one time, China purchased 40% of the cement manufactured.

Nickel, used to make stainless steel and such obvious products as cookware, and the less obvious items such as guitar strings, is largely sold through Western companies. The price of a metric ton reached $50,000 in 2007, whereas it was just over $10,000 in 2004.

As China's economy grew, the need for nickel to make steel prompted China's steel producers to create what is called "nickel pig iron," unlocking what the *Wall Street Journal* called the "mother lode of cheap supply."

China now produces 400,000 metric tons of nickel pig iron, supplying a fifth of worldwide demand.

All commodity prices tripled from 2000 to 2011. Though economists have long warned about demand for natural resources outstripping supply, the global supply picture has changed to the best in years. Mine production for every major metal has doubled or tripled over the last decade, in part because of better tracking to find resources (according to the U.S. Geological Survey). "It's kind of basic Econ 101: Scarcity induces some sort of innovation," said David Jacks, an associate professor at Simon Fraser University in Canada, and an expert on commodity cycles over the centuries.

Other examples of innovation creating increased supply include:

- Hydraulic fracturing (fracking) increasing oil and natural gas supply
- Use of higher-yielding seeds in new patches of arable land
- New drilling techniques to push farther below the earth to access resources
- New formulas to mix chemicals and minerals to produce more supply

Precious metals' prices dropped 28% in 2013!

2013 - ECONOMY AND FINANCIAL MARKETS

The U.S. stock market ended the year with many of the American indexes reaching record highs on the final trading day for only the sixth time in its history. The market chose to ignore such uncertainties as:

- Government shutdown
- Boston bombings
- Ongoing Syrian uprisings
- Debt ceiling debates
- Federal budget debates
- NSA revelations
- Lingering economic aftershocks of Superstorm Sandy
- Nuclear standoff with Iran

The S&P gains were the highest since 1997 and the third highest since 1970. The small cap returns are the third highest since 1980, and the NASDAQ returns were the seventh highest ever.

Is this a bull market? Commentators, investment strategists and economists don't agree on whether we are experiencing a temporary rise in the midst of a long-term bear market, like that during the Great Depression, or the strong early stirrings of a long-term bull market, like the one that started in 1982. The truth is, nobody knows, just as nobody knew that the U.S. stock markets would reel off such strong returns after the near-collapse of the global economic system.

Many feel the strong performance was a result of the easy money policy of the Fed. New variables introduced in late 2013 were the Fed's reduction of bond purchases (which may result in higher interest rates) and the question of how Janet Yellen makes her mark as the new Fed Chair.

Long-term investors are frequently compared to farmers, who plant seeds with no foreknowledge of the weather during their growing season, or any sense that what happened this year has an impact on what will happen in the next one. There will be bad years and good years, but over time the good years tend to outnumber bad ones, which is why it makes economic sense to continue planting the seeds each spring—or to stay invested in the stock market when each coming year is a mystery.

We encourage you to make an appointment with us to discuss:

- Your current financial circumstances
- Any changes you anticipate that might impact your investment strategy
- Updating/creating your financial plan
- Your portfolio

Jill D. Hollander

Brian Pon

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21 Tamal Vista Blvd.#105 . Corte Madera, CA . 415.924.1091 ◆ 2608 Ninth Street #302 . Berkeley, CA 94710 . 510.849.4667