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A Registered Investment Advisory Firm

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SERIOUS MONEY

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Stay Focused on Long-Term Goals

“In a recent survey by AARP of individuals between the ages of 50 and 70, 45% said they expect to work into their seventies and 18% into their eighties. Also, 54% said they would work because they need the health benefits.”

Source: AARP, 2004

THE LAST FOUR years have been difficult for investors, even before the terrorist attacks and the war in Iraq. And even though we know that the most significant losses are the loss of human life and our feeling of personal safety, we still can’t help but worry about what impact this will have on the stock market. The market hates uncertainty and the terrorist attacks have added many uncertainties to the equation. The future is likely to remain volatile.

What we do know is that now is not the time to abandon basic, fundamental investment principles. We have to remember why we are investing and stay focused on those objectives. To help you, keep these investment principles in mind:

MARKET DECLINES ARE NOT THE TIME FOR SELLING INVESTMENTS. While no one knows how much lower stocks may go, we do know that they have already declined substantially. To sell during market declines would only lock in those losses without providing an opportunity to participate in a market recovery. In addition, if you have gains on those investments, you would also owe either income taxes or capital gains taxes on those gains (depending on how long the investments were held).

RETURN EXPECTATIONS. To help assure that you meet your investment goals, you need to set realistic expectations about returns for various investments. While past performance is not a guarantee of future results, reviewing historical rates of return can help you assess whether your return expectations are reasonable. Keep in mind that higher returns are generally accompanied by higher risk.

TIME HORIZON. The longer your investment period, the more risk you can typically tolerate. Investing for long periods through different market cycles generally reduces the risk of receiving a lower return than expected, especially with investments that can fluctuate over the

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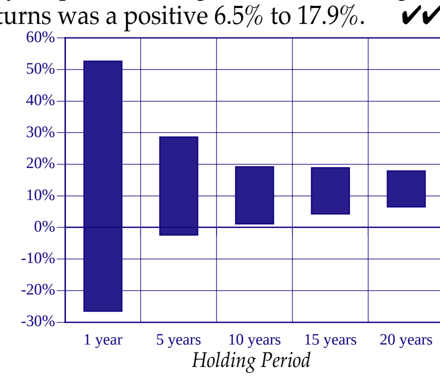
Time and Risk

ONE STRATEGY TO counter the impact of short-term return volatility is to hold your stock investment for the long term. To illustrate this concept, consider the chart below, which shows the range of total returns for the Standard & Poor’s 500 (S&P 500) for various holding periods during the 50-year period from 1951 to 2000. Holding the S&P 500 for a one-year period during this time produced returns ranging from 52.6% to -26.5%. The range of returns narrowed the longer the S&P 500 was held. If held for any 20-year period during that time, the range of returns was a positive 6.5% to 17.9%. ✔✔✔



The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future returns. Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment. Source: Stocks, Bonds, Bills, and Inflation 2001 Yearbook.

Selecting an Expected Rate of Return

To determine how much you need to save on an annual basis to reach a financial goal, you need to know when you'll need the money and how much you'll earn on your investments. The typical approach to determining an expected rate of return is to look at average annual returns for some historical period. However, the average annual return can vary substantially, depending on the period used.

For instance, let's assume you're looking for an average return for the stock market as measured by the Standard & Poor's 500 (S&P 500). From 1926 to 2003 (78 years), the S&P had an average return of 10.4%. That return was 11.7% for the period from 1954 to 2003 (50 years), 13.8% from 1979 to 2003 (25 years), and 11.1% from 1994 to 2003 (10 years).*

While you might not think that a percentage or two would make much difference, consider what happens over the long term. If you invested $5,000 per year on a tax-deferred basis for 30 years, what would your expected balance equal using each of the above returns? Your potential balance would be $979,632 at 10.4%, $1,271,835 at 11.7%, $1,951,739 at 13.8%, and $1,126,972 at 11.1%. There are significant differences among those balances, even though all are based on average returns over a 10-year or longer period.

Even if you manage to select an average return that is exactly right, your portfolio's ultimate balance will depend on the pattern of actual returns over that period. So how should you select an expected rate of return for your portfolio? Consider these tips:

✔ **Evaluate your expectations for future returns against historical averages.** Based on today's low inflation rate, it is prudent to assume lower returns in the future. It's easier to make portfolio adjustments due to higher returns (you'll just need to save less) than to compensate for lower actual returns (you'll need to save more).

✔ **Consider a range of possible returns for your portfolio.** What would happen to your portfolio's balance if you achieved your expected return, 1% less, 2% less, etc.? This analysis can help you decide what adjustments would need to be made to compensate for lower returns.

✔ **Review your progress every year.** Assessing your portfolio's progress every year will allow you to make adjustments along the way. ✔✔✔

* Source: *Stocks, Bonds, Bills, and Inflation 2004 Yearbook*, Ibbotson Associates. The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market. Investors cannot invest directly in an index. Past performance is not a guarantee of future results. Returns are presented for illustrative purposes only and are not intended to project the performance of a specific investment.

Stay Focused

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short term.

Invest in stocks only for the long term. The stock market's recent performance has proven that over the short term you can incur substantial losses in the stock market. However, staying in the market over the long term, through different market cycles, can help reduce the effects of market fluctuations. See the article "Time and Risk" for more details.

Keep investing. One of the most basic principles is to buy low and sell high. Yet, it can be difficult to invest additional money when stock prices are low, especially when you're not sure whether prices will go even lower. You may want to use a systematic investing method, such as dollar cost averaging, to continue investing. Dollar cost averaging involves investing a certain sum of money at regular intervals in the same investment. Since you are investing a set amount, you purchase more shares when prices are lower and fewer shares when prices are higher. However, dollar cost averaging does not ensure a profit or protect against loss in a declining market.

Save more. When returns are declining, you need other strategies to help increase your portfolio. One of those is simply to save more of your income. Even modest increases in the amount invested can dramatically affect the ultimate size of your portfolio.

Invest in a tax-efficient manner. Strategies that defer the payment of taxes can also make a substantial difference in your portfolio's ultimate size. There are several strategies to consider. You can utilize tax-deferred investment vehicles, such as 401(k) plans and individual retirement accounts, which defer the payment of taxes until sometime in the future. Emphasizing funds that generate capital gains rather than ordinary income can materially lower current taxes in today's environment. You can also minimize turnover in your portfolio, so unrealized capital gains grow for many years.

This volatile time has been difficult for investors. But don't use that as an excuse to abandon your investment strategy. Stay focused on your investment objectives and stick with your plan. If you'd like help reviewing your investment portfolio in light of the current situation, we'd be pleased to hear from you. ✔✔✔

Don't Sabotage Your Financial Goals

One of the surest ways to sabotage your financial goals is to take on an excessive amount of debt. Unfortunately, it's not difficult to get yourself into that situation. Just consistently spend a little more than you make over a period of time and you will eventually find yourself overburdened with debt. If debt is hampering your ability to work toward your financial goals, make some strict rules:

- ✔ Using a mortgage to purchase a home can be a good financial strategy, since you are using debt with a reasonable, tax-deductible interest rate to purchase an asset that will probably increase in value over time. Just make sure you can easily afford the home. Don't purchase the most expensive home your lender will allow, putting the least amount down. Instead, make a large down payment and purchase a home that won't stretch your budget.
- ✔ Be extremely cautious about taking equity out of your home in the form of a home-equity loan. You might want to set up a home-equity line of credit to use for emergencies, but then make sure it's only used for emergencies, not as a convenience. It may also make sense to use a home-equity loan to pay off higher interest rate consumer loans, but then make sure you don't run up those debts again.
- ✔ Control credit card debt. Credit card balances typically carry high interest rates that aren't tax deductible. If you have trouble controlling the use of credit cards, get rid of them.
- ✔ Come up with a plan to pay off all your credit card debt. Make a list of all your credit card debts, listing the balance and the interest rate. Are you able to transfer higher interest rate balances to lower rate alternatives? Once you've consolidated as much as possible, come up with a plan for paying off those debts. Start by paying extra on the card with the highest interest rate. Once that debt is paid in full, move on to the next highest interest rate, continuing until all your debt is paid in full.
- ✔ Work on your spending habits. Face it, you wouldn't be in this situation if you didn't have problems controlling your spending. ✔✔✔

Your Checklist for Retiring

When your retirement is a year or so away, follow this checklist to make sure all your financial arrangements are in place:

- ✔ **Review how much you'll be spending annually.** You probably estimated these numbers when preparing your retirement plan, but take one final look based on your current expenses and retirement expectations. Don't wait until after you retire, when your options may be more limited.
- ✔ **Calculate the value of your entire investment portfolio.** You may be saving through a variety of retirement vehicles, including 401(k) plans, individual retirement accounts (IRAs), annuities, and personal investments. Review your entire portfolio, estimating how much income you can reasonably withdraw annually. After retiring, you may need to make changes to your portfolio.
- ✔ **Check with your employer about your pension plan benefits.** Pension benefit choices are typically irrevocable, so evaluate those choices carefully, especially when choosing between an annuity and a lump-sum distribution. Start this process early, so you have plenty of time to review your options and to consult a professional.

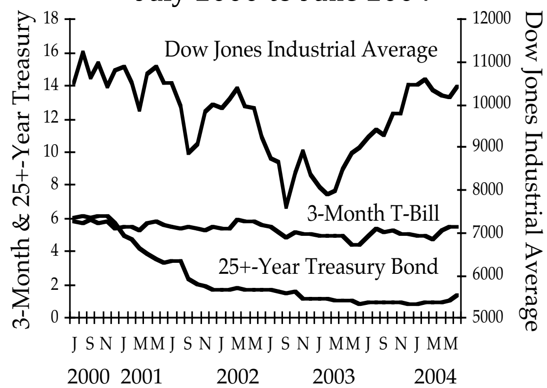
- ✔ **Decide when to start Social Security benefits.** Your annual statement from the Social Security Administration will estimate your Social Security benefits at age 62, full retirement age for Social Security purposes, and age 70. Several factors will impact your decision about when to start benefits, including your health, work income after retirement, other sources of retirement income, and your spouse's age and health. Apply for benefits at least three months before you expect to receive them.
- ✔ **Think about working after retirement.** Working, even part time, can help significantly in funding a long retirement. However, be aware that earnings exceeding certain limits can reduce your Social Security benefits if you are between the ages of 62 and full retirement age. In addition, once your income exceeds certain income levels, a portion of your Social Security benefits is subject to federal income taxes.
- ✔ **Make provisions for health insurance.** Find out what health insurance benefits your employer provides after retirement, if any, and how much you must pay. At age 65, you'll qualify for Medicare benefits, but you'll probably want medigap insurance so you aren't unprotected in key areas. Even if you qualify for Medicare benefits, your spouse may not if he/she is under age 65.
- ✔ **Review all financial matters.** Review your life insurance coverage and your need for long-term-care insurance. Make sure your estate plan still reflects your wishes for your estate's disposition. Retirement is a major change in your life, so it's a good idea to review all financial areas. ✔✔✔

Market Data

	Month End			% Change	
	Jun 04	May 04	Apr 04	YTD	12 Mon.
Dow Jones Ind.	10435.48	10188.45	10225.57	-0.2%	16.1%
S&P 500	1140.84	1120.68	1107.30	2.6	17.1
Nasdaq Comp.	2047.79	1986.74	1920.15	2.2	26.2
Wilshire 5000	11138.91	10926.36	10793.66	3.1	19.2
Gold	395.80	393.25	388.50	-5.0	14.4
Silver	5.96	6.12	6.07	—	30.4
				Dec 03	Jun 03
Prime rate	4.00	4.00	4.00	4.00	4.00
Money market rate	0.56	0.52	0.51	0.52	0.73
3-month T-bill rate	1.36	1.05	0.97	0.89	0.89
25+-yr. T-bond rate	5.46	5.51	5.28	5.10	4.42
Dow Jones Corp.	5.30	5.19	5.07	4.70	4.31
Bond Buyer Muni	5.20	5.20	5.10	4.91	4.86

Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 25+-Year Treasury Bond Yield
July 2000 to June 2004



Sources: *Barron's, Wall Street Journal*

"In a recent survey, 97% of the respondents indicated they should be better informed about investing and about half said they could have avoided a negative experience with more knowledge."

Source: NASD, 2003

The Big Picture

The purpose of a financial newsletter should be to inform, educate, and provide an overview of financial topics. Because each of my clients has different circumstances and needs, this newsletter will not discuss investment ideas pertaining to each individual's specific situation. Rather, my objective is to help you think about your plans for your money and how I can assist you with your goals.

I also use this newsletter to keep you informed about how I do my job. My background, philosophy on investing, and financial review process are all important topics. So, from time to time, I will add an article discussing these areas.

Please understand that I cannot predict the future or guarantee that you will have a certain amount of money down the road. What I can do is work with you to create an investment portfolio structured to help you meet your financial goals. I then monitor the portfolio, meeting with you periodically to discuss your performance and make adjustments as needed.

I want to help you see the big picture — not only with regard to your portfolio and tax situation, but also with regard to the market and how the economy functions. This newsletter is designed to help you learn about general financial topics and think about your portfolio in light of that information. Please feel free to call me at any time if you have any questions. ✔✔✔

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