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Financial Outlook

DECEMBER 2002

Managing Your Portfolio

In the 1990s, investing seemed easy — just put money in stocks and watch their values grow. But the past couple of years have proven that investing is not as easy as it sometimes looks. Approaching the end of the third consecutive year of negative returns, many investors aren't sure what to do with their portfolios. Is it time for you to turn your portfolio over to a professional?

Once used exclusively by wealthy investors and pension plans, professional money managers are now available to a much broader range of investors, with minimum portfolio requirements of as little as $50,000 to $100,000. There are thousands of money managers available, so you'll probably need assistance in selecting one suitable for your portfolio. Consider the following steps:

1. Define your financial goals. Before you can decide who should manage your investments, you need to clearly state your goals. You should consider several factors:

- **Investment objectives** — Are you interested in growth, income, preservation of capital, or some combination thereof?
- **Risk** — How comfortable are you with risk? What types of risk are you willing to assume?
- **Return** — What rate of return do you expect to earn?
- **Time horizon** — How long are you investing for? Do you know of any circumstances that will require immediate access to large sums of money, such as a child's college education?
- **Investment alternatives** — Are there any investments, for personal or other reasons, that you would prefer not to invest in?

2. Select a few possible money managers based on your investment objectives. At this point, you want to narrow your choices from the thousands of possible ones to a few compatible with your goals. Financial advisers often monitor hundreds of different money managers, maintaining information on investment styles, performance figures, personnel changes, methods of selecting investments, and many other factors.

3. Carefully evaluate those investment managers. Some factors to consider include:

- **Research the manager's background.** Ask to see a copy of the ADV form filed with the Securities and Exchange Commission. This statement will provide information about the manager's education, investing experience, investment

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How Much Can You Withdraw?

One of the toughest decisions you'll have to make when you retire is how much to withdraw from your retirement assets on an annual basis. Your withdrawal amount can be calculated based on your life expectancy, your expected long-term rate of return, the expected inflation rate, and how much principal you want remaining at the end of your life. Guess wrong on any of those variables and you run the risk of depleting your assets too soon. But these factors are difficult to predict over such a long time period. Keep these points in mind:

- **Your life expectancy.** While it is easy enough to find out your actuarial life expectancy, those life expectancies are only averages. Many people live longer than those tables indicate. How long close relatives have lived and how healthy you are can help you gauge your life expectancy. Just to be safe, you might want to add five or 10 years to your life expectancy.
- **Your rate of return.** Expected rates of return are often derived from historical rates of return and your current investment allocation. Historical rates of return are an average of returns over a period of time. Returns may be better than that in some years and worse than that in other years. Even if you get

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Follow These Retirement Planning Tips

- **Calculate how much you need to save by retirement.** It's tempting to avoid this calculation if you fear the amount will be overwhelming or if you think retirement is too far away. Yet, without a clearly defined goal, it will be difficult to gauge your progress over the years.

- **Don't rely on rules of thumb when estimating your retirement expenses.** Every individual's plans for retirement are unique. Some of your pre-retirement expenses will probably decrease, while others may increase. Don't just assume that you'll need a certain percentage of your income for retirement. Carefully review your expenses, deciding how you'll spend your retirement years.

- **Plan on financing a retirement that could last decades.** With increased life expectancies, it's not unusual for a retirement to last 25 or 30 years. This reality will significantly impact how much you need to save.

- **Don't count on Social Security and pension plan benefits to fund all your retirement expenses.** These two benefits are funding a smaller percentage of retirement income and are likely to continue to decrease in the future. A significant portion of your retirement income will probably come from personal savings and investments.

- **Start an investment program immediately.** If you can't save the entire amount needed to reach your goals, at least get started saving something. Make a commitment to increase that amount every year.

- **Decide how to allocate your retirement savings.** How you allocate your savings among different investments will depend on your risk tolerance and how long you have to invest.

- **Contribute to retirement plans.** Invest in your company's 401(k), 403(b), or other defined-contribution plan as soon as you're eligible. Also consider individual retirement accounts.

- **Consider working after retirement.** Although retirement is typically viewed as a time for rest and leisure, many years of this can be overwhelming and expensive. Instead, you might want to ease into retirement by starting a business or working part time.

- **Don't touch your retirement savings for anything other than retirement.** Don't borrow from your 401(k) plan or spend part of a lump-sum distribution. ❍❍❍

How Much?

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the average return right, the pattern of those returns can have a dramatic impact on your portfolio. For instance, individuals who retired at the beginning of 2000 with most of their portfolio in stocks may have difficulty overcoming recent declines.

- **Expected inflation.** While inflation has been relatively tame recently (2.51% over the past 10 years), that has not always been the case. Over the past 30 years, inflation has averaged 5.02% (Source: Bureau of Labor Statistics, 2002). Inflation can have a dramatic effect on the purchasing power of your investments. For instance, at 2.5% inflation, $1 is worth 78¢ after 10 years, 61¢ after 20 years, and 48¢ after 30 years.

So what can you do to help ensure that you don't run out of retirement assets? Consider these tips:

- **Use conservative estimates when making your withdrawal calculations.** Add a few years to your life expectancy, reduce your expected return by a couple percent, and increase your expectations for inflation. While that will result in lower withdrawal amounts, it will also help ensure that your funds last longer. Take a careful look at any answer that indicates you can take much more than 3% to 4% of your balance out each year. Several studies have indicated that is a reasonable amount to withdraw if you need your funds to last for several decades. That doesn't mean you can't take more out, but you should be very confident of your assumptions before doing so.

- **Review your calculations every couple of years.** This is especially important during the early years of your retirement. If you find that you're depleting your assets too rapidly, you may be able to go back to work on at least a part-time basis. If you find out late in life that you're running out of assets, you may not have the option of going back to work.

- **Consider placing three to five years of living expenses in cash or fixed-income investments.** That way, if you encounter a severe bear market, you won't have to touch your stock investments for at least three to five years, giving them time to recover.

Please call if you'd like help deciding how much to withdraw from your retirement assets. ❍❍❍

Your Portfolio

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style, and fee schedule. Review how much experience the firm has in portfolio management and research. Make sure the firm's investing style is compatible with yours.

❍ **Approach performance figures with caution.** While you want a money manager with consistent, superior results, return should not be your sole consideration. Be aware that performance figures can be reported many ways. Sometimes simply altering the reporting period by a month or two can produce dramatically different results. If possible, obtain performance figures for the same time period for all managers you are considering. Make sure the figures are for a portfolio that is similar to one you would invest in.

❍ **Call client references.** Current clients can provide valuable information, such as whether reported performance figures are realistic, how accessible the manager is, and whether performance reports are timely and easy to understand.

❍ **Make sure you are comfortable with the manager.** You are giving up significant control over your portfolio. Although you will set the parameters for investment decisions, you will not be consulted on day-to-day decisions. You must trust the manager in charge of your investments.

4. Monitor your money manager. Review quarterly statements carefully, making sure you understand and are comfortable with the activity in your account. Follow up immediately on any transactions you don't understand.

Please call if you'd like to discuss whether you should consider using a professional money manager to manage your investments. ❍❍❍

Remember the Basics

Especially during periods of market volatility, sticking with investment basics can be difficult. But following these basic concepts will help ensure that you reach your long-term financial goals:

Diversify, diversify, diversify. When one investment category is performing exceptionally well, such as stocks during the 1990s, it can seem counterproductive to invest in anything other than that one category. The wisdom of diversification only becomes apparent when that one category suffers a major decline. The principle of diversification is based on the concept that not all investment categories rise or fall at the same time — when one category is falling, another category may be rising or not falling as significantly. Various investments are affected differently by economic events and market factors. Thus, you should allocate your portfolio among a variety of investment categories.

Invest for the long term. Investing, especially in stocks, is not a short-term proposition. One of the most effective strategies for reducing risk is to invest over the long term through different market cycles. For instance, during the 76-year period from 1926 to 2001, the Standard & Poor's 500 (S&P 500) experienced a loss in 22 separate years, or 29% of the time. Yet, if you held the S&P 500 for any 15-year period during that time, you would not have lost money (Source: *Stocks, Bonds, Bills, and Inflation 2002 Yearbook*).*

Dollar cost average. Should you purchase now or wait to see if the market goes down further? Should you invest all your money or put it in a little at a time? The advantage of using a strategy like dollar cost averaging is that it removes the need to even consider these types of questions. Set your strategy and then follow it. Dollar cost averaging is a method of investing where you invest a certain sum of money in set amounts at regular intervals. This spreads your purchases over a period of time. Since you are investing a set amount of money, you purchase more shares when prices are lower and fewer shares when prices are higher. While a valuable investment strategy, dollar cost averaging does not ensure a profit or protect against losses in declining markets. Before starting a program, consider your ability to continue purchases during periods of low price levels.

Don't time the market. The concept of market timing is so alluring. Who wouldn't want to avoid all market losses while participating in all market gains? The problem is that so many factors affect the market that even professionals have difficulty timing the market with any degree of accuracy. How many people, including professionals, predicted the market high for technology stocks in 2000? During this market decline, is the main problem that you didn't get out of stocks in 2000 or that you had too much of your portfolio allocated to technology stocks? Instead of worrying about market timing, set an investment program that works well in all market environments.

Keep these four points in mind to help get through this volatile investment period. If you'd like to discuss your investment portfolio in more detail, please call. ❍❍❍

* The S&P 500 is an unmanaged, weighted index of 500 stocks 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.

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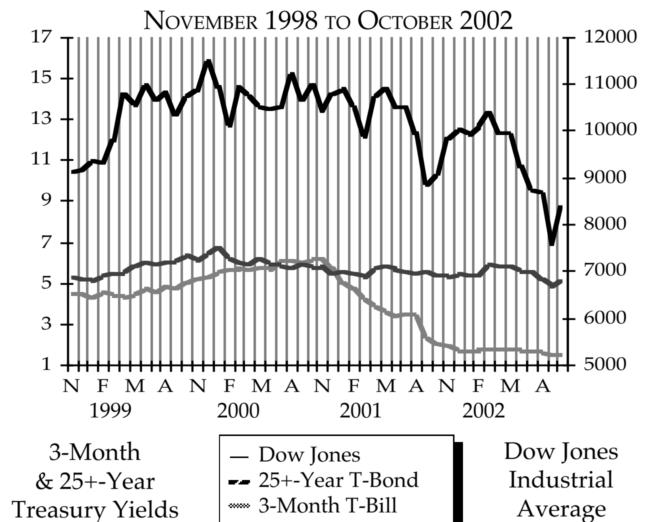
Financial Data

Indicator	Aug-02	Sep-02	Oct-02	Dec-01	Oct-01
	Month-end				
Prime rate	4.75	4.75	4.75	4.75	5.50
Money market rate	1.34	1.31	1.32	1.94	2.58
3-month T-bill yield	1.63	1.54	1.55	1.71	2.05
25+-year T-bond yield	5.19	4.87	5.19	5.49	5.35
30-year fixed mortgage	5.90	5.71	5.93	7.01	6.34
1-year adjustable mort.	3.75	3.65	3.75	3.85	5.42
GDP (adj. annual rate)#	+5.00	+1.30	+3.10	+1.70	-0.30

Indicator	Aug-02	Sep-02	Oct-02	YTD	12 Mon.
	Month-end			% Change	
Dow Jones Industrials	8663.50	7591.93	8397.03	-16.2%	-7.5%
Standard & Poor's 500	916.07	815.28	885.77	-22.8%	-16.4%
Nasdaq Composite	1314.85	1172.06	1329.75	-31.8%	-21.3%
Gold	312.80	323.70	316.90	14.6%	13.7%
Consumer price index@	179.90	180.10	180.70	2.3%	1.7%
Unemployment rate	5.70	5.60	5.70	-1.7%	5.6%
Index of leading ind.@	112.00	111.80	111.60	0.2%	2.0%

— 1st, 2nd, 3rd quarter @ — Jul, Aug, Sep Sources: *Barron's, Wall Street Journal*



Past performance is not a guarantee of future results.

News and Announcements

Simplifying Your Finances

After taking care of all the little details in your financial life, it can sometimes be difficult to find time to deal with the big issues. Therefore, simplify the routine matters as much as possible so you have more time to concentrate on larger issues. Some tips to consider include:

YOU CAN INCLUDE YOUR ARTICLE HERE!

❍ **Consolidate** ... have several ... accounts (IRAs), consider consolidating them. That will give you fewer accounts to review and reconcile.

❍ **Only carry one or two credit cards.** Many stores now offer discounts to sign up for their credit cards. Don't bite. Not only will you have fewer cards to monitor without them, but you will be less tempted to spend money.

❍ **Pay your bills automatically.** Look into paying as many bills as possible on-line. In addition to mortgage and car payments, you can set up utilities and other routine services for automatic bill paying.

❍ **Make savings automatic.** That way, you won't have to remember to transfer funds or write a check every month. Sign up for your 401(k) plan at work or increase your contribution amount if you are already participating. Another alternative is to set up an investment ... deduct funds ... d.

❍ **Simplify your portfolio.** Does your portfolio contain an assortment of investments accumulated over the years? While you want a diversified portfolio, too many investments can be difficult to monitor and track. Are you hanging on to stocks you know should be sold, but can't bear to recognize a loss to do so? Those stocks may take a long time to get back to your purchase price and, in the meantime, you may be missing opportunities in more promising areas. ❍❍❍

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