the Investment ADVISOR

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Opening Doors

"When one door closes another door opens; but we often look so long and so regretfully upon the closed door that we do not see the ones which are open for us."

Alexander Graham Bell, 1847-1922.

The financial market's "irrational exuberance" was tremendous fun while it lasted. For a brief while, we believed we were all millionaires and would be able to retire at 50. But like all parties, it couldn't last forever. Now investors around the world are nursing a hangover that just won't quit.

Forecasts for the financial market's performance in 2003 vary widely, with many analysts and economists expecting the market to post a good recovery in 2003. But some arguments for the bull market resuming any time soon seem based more on nostalgia than sound fundamentals. While overly simplistic arguments such as "The market has never declined four years in a row," and "The third year of a Republican president's term is always good for the market," may have been true in recent history, they are not reasons to jump blindly back into the market. Forecasting the future based on historical patterns is a very complex undertaking that chal-

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Strategies for a Secular Bear Market

Bear markets are typically clas sified as one of two basic types – Secular or Cyclical. While there's no set definition of what constitutes a secular bear market, it is generally a long period (10-20 years) of below average returns. The last such market in the U.S. is considered to be the period from 1966 to 1982. Japan has been struggling through a secular bear market since 1990.

A cyclical bear market is a much shorter period of below average returns that takes place in the midst of a long-term (secular) bull market.

Only hindsight will answer the question of whether the U.S. is currently in a secular or cyclical bear market. If this is just a cyclical bear and the market picks back up in 2003 as many analysts anticipate, then the popular investing strategies of buy-and-hold, dollar-cost-averaging and fixed asset allocations with periodic rebalancing will begin to be touted again. And once again, their inherent flaws may be temporarily hidden… until the next bear market.

If, however, we are in the midst of a secular bear market, the popular investing strategies are going to prove very disillusioning for individuals, particularly individuals nearing retirement.

If you look at the 20-year period from 1962 to 1981, the S&P 500 Composite gained 6.76% compounded annually while inflation averaged 5.87%. After-inflation real growth for the period was .89%, less than 1%. Investors holding equities representative of the S&P 500 within a diversified portfolio, including corporate and government bonds, actually lost buying power over the 20-year period.

Throughout every bear market in history there have been opportunities to profit. Sometimes those opportuni-

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Can Consumers Afford to Fuel the Economy's Recovery?

Too many hopes for the recovery of the American economy are pinned on consumers continuing to spend at record rates. Low interest rates have fueled this consumer spending. But with the low U.S. savings rate and debt levels at record highs, there's not a lot of room for consumers to spend more. Complicating the issue even more are basic demographics. More and more Americans are thinking about retirement. And without a stock market inflating the value of their retirement plans and many corporate pension plans reporting deficits, retiring financially secure is going to take saving a lot more.

In Japan, where workers are graying even faster than the U.S., the stock market has offered minimal opportunities for gains for over a decade. As a result, older workers are the biggest savers. Adding to Japanese concerns is a shrinking base of young workers to contribute to government-funded retirement and health care funds. Some believe that the same pattern could begin to play out in the U.S.

Already, the U.S. savings rate is estimated to have increased 50% in 2002...from 2.3% of disposable income in January to 3.5% in November. Each percentage point equals about $70 billion. A rise in the savings rate to 6%, still lagging Japan, would take about $200 billion out of the consumer economy.

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When Death is Billable

When it comes to optimizing the value of your estate, the real threat might be probate fees, rather than taxes. Estate taxes impact less than 3% of all estates according to the IRS. Legal fees for probate, however, may snag as much as 3 to 5% of a small estate. Where do probate fees come in? If you die owning property titled in your name, the property normally goes through a judicial process. The probate department of the district court enters a decree stating who succeeds to the ownership of the property, changing the title to the property and allowing it to be sold or transferred.

There are three common estate-planning tools that can be used to avoid probate in the distribution of property at death: joint tenancy with rights of survivorship, beneficiary designations and revocable trusts. But it's important to understand that these tools move distribution of your property outside of the provisions of your will.

Joint tenancy is applicable to all property types except retirement plans and individual retirement accounts (IRAs). Under the law of joint tenancy, when a joint tenant dies, the surviving joint tenant automatically succeeds to full ownership of the property and needs only show a legal death certificate to have the title changed.

Your will may state you would like to have your children inherit the family mountain property, but if the property is held in joint tenancy with your spouse, our understanding is that your spouse will receive title to the property, regardless of any desires expressed in your will.

Beneficiary designations can be used for life insurance policies, retirement plans and individual retirement accounts. These are contractual or trust obligations specifying to whom proceeds should be paid at the death of the policy or account holder.

Revocable trusts can be used with all types of property. A revocable trust is a legal entity that can hold title to property in the name of the trustee, which has a fiduciary responsibility to distribute the trust properly to beneficiaries as provided in the provisions of the trust. The trust provisions are not a will and as such are not a matter of public record.

The foregoing information is from generally reliable sources, but its accuracy cannot be guaranteed. We are not attempting to offer legal or accounting advice by providing this information to you. We highly recommend that you discuss your estate with a qualified estate planner and understand the potential impact of taxes and probate costs and strategies to minimize these costs before you take action. While death and taxes may be the two certainties in life, there are ways to make their impact easier on your heirs.

Strategies for a Secular Bear Market

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ties occurred in sudden market rallies that later subsided. Other times, gains were there to be made in specific sectors of the market. Which leads to the following strategies for bear markets, both secular and cyclical:

1) Rethink your retirement plan and return expectations.

Too many retirement plans are based on expectations that annual returns will mirror those of the 1990s. If slow growth expectations for the market are correct and interest rates stay low, returns for the next ten years could be more in the range of 3-6%. You need to rethink how much you are saving and how much you will be able to withdraw from your retirement funds based on more conservative earnings estimates.

2) Use active management.

The most important aspect of active management is to limit losses. Decide how much you are willing to lose and get out when the value of your investment declines to that point. The risk of this approach is that the investment will recover and begin to move back up forcing you to buy in at a higher point than you sold. But without the discipline of an established "stop loss," the risk is much higher that you will ride an investment down hoping for a rebound only to sell when the value of the investment hits bottom and the pain is the greatest.

3) Diversify not only your assets but also how those assets are managed.

Every asset class goes through its own bull and bear cycles. If you focus just on the S&P 500 or the Dow Jones Industrials, you will miss opportunities to profit from other segments of the market. But keep your asset allocation dynamic. Allocations should be adjusted to reflect current market conditions and where opportunities for gains appear most probable.

Just as asset classes go through cycles, so too do investment strategies. There are periods when growth investing will outperform value investing, when momentum investing works and when volatility grows too great. The results of moving average approaches, relative strength and other tools of the active manager vary depending upon market conditions. There is not one right way to invest, so take advantage of different approaches. Better yet, look for an active manager that utilizes multiple non-correlated investment strategies.

4) Look for ways to optimize your returns by reducing the drag of taxes.

Take full advantage of tax-deferred accounts by optimizing contributions. If some of the current administration's proposals for tax-free savings accounts pass, individuals could put away up to $29,000 per year for retirement and general purposes. In the meanwhile, contributions limits have increased for many tax-deferred plans and individuals age 50 and older can make additional annual catch-up contributions of $500 to their IRAs in 2002 and 2003, increasing ultimately to $1,000 in 2006. See table on page 3 for contribution limits and catch-up provisions.

Opening Doors

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lenges even the most experienced professionals. It is usually a futile exercise for novice investors who are likely to be unduly influenced by the emotions of the market.

While we cannot control the market, we can put our own financial houses in order. A reality check is in order for investors, the media and corporations. Personal debt levels are at historic highs. Too many people have depended on the market to fund their retirement and are saving too little. Return expectations have been unrealistic. Corporations need to turn away from a mindset of "profit at any cost" and plan for long-term opportunities.

Regardless of the performance of the financial markets, new doors are opening not just in the U.S., but throughout the world. The next quarter century could well see even more changes than the last 25 years. And with those changes will come opportunities. We may not be able to see them now, but they are out there. It just takes opening the right doors.

"You may not realize it when it happens, but a kick in the teeth may be the best thing in the world for you."

Walt Disney, 1901-1966.

Can Consumers Afford to Fuel the Economy's Recovery?

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While increased savings are good for the long-term health of the economy, short term it's a catch 22. Without the consumer overspending, the near-term outlook for the economy is muted. But one lesson we have learned over and over. Despite the numbers, never underestimate the U.S. consumer.

Contribution Limits and Catch-up Provisions

Effective Year	Elective deferral limits for 403(b) and 401(k) plans; dollar limits for 457(b) plans:
2003	$12,000
2004	$13,000
2005	$14,000
2006 or thereafter	$15,000 (indexed in $500 increments)
Effective Year	**Catch-up contributions for deductible 403(b), 401(k) (non-SIMPLE only); 457(b) and SAR-SEP plans for individuals over age 50**
2003	$2,000
2004	$3,000
2005	$4,000
2006 and thereafter	$5,000 (indexed in $500 increments)
Effective Year	**Elective deferral limits for SIMPLE plans**
2003	$8,000
2004	$9,000
2005 or thereafter	$10,000 (indexed in $500 increments)
Effective Year	**Catch-up contributions for SIMPLE-IRA and SIMPLE 401(k) plans**
2003	$1,000
2004	$1,500
2005	$2,000
2006 and thereafter	$2,500 (indexed in $500 increments)
Effective Year	**IRA contribution limits (both deductible and non-deductible)**
2002-2004	$3,000
2005-2007	$4,000
2008 and thereafter	$5,000 (indexed in $500 increments)
Effective Year	**Catch-up contributions for deductible IRAs**
2003	$500
2004	$500
2005	$500
2006 and thereafter	$1,000 (not iendexed)

Tips to Prevent Credit Fraud

If your credit cards and other forms of identification are ever stolen, or you believe someone is using your identity to obtain credit, go beyond reporting the fact to credit card issuers and others that your wallet has been stolen. File a police report immediately in the jurisdiction where your wallet was stolen or where you live in the case of identity theft. This proves to credit providers you were diligent, and is a first step toward an investigation (if there ever is one). In the case of identity theft, filing a report is required to trigger legislative protections in some states.

Call the three national credit reporting organizations and the Social Security Administration immediately to place a fraud alert on your name and Social Security number. The alert means any company that checks your credit knows your information was stolen and they have to contact you by phone to authorize new credit.

The numbers are Equifax: 1-800-525-6285
Experian (formerly TRW): 1-888-397-3742
Trans Union: 1-800-680-7289
Social Security Administration (fraud line): 1-800-269-0271

To make it easier to report and replace stolen cards and information, know what you carry in your wallet. Make a photo copy of the contents of your wallet and put it somewhere safe yet accessible.

Why Investors Need Advisors

Bad news may sell newspapers, but when it comes to our personal lives, we typically have little interest in hearing negative information. In fact, most people hear only what they want to hear — that which makes them happy. An optimist is happiest filtering out the bad, readily grabbing at excuses to explain failings and looking for the silver lining. The pessimist listens for cautions, warnings and information that proves a negative view is true.

This tendency to filter makes it very difficult to be objective. There's a natural inclination to hope that everything will work out for the best. We want to believe market forecasters who claim the market will be roaring back and portfolios recovering in the near future. And we also tend to have a higher opinion of ourselves than statistics might warrant. How else to explain that 70% of individuals surveyed report they are safer drivers than most of the population.

And, studies show overall individuals are poor investors. In 1964, the state of Nebraska began offering employees a choice of staying with the state's traditional defined benefit pension plan or joining a new self-directed 401(k). When the state studied the results of its 401(k) investors 25 years later, it found the average annual return was 6-7% compared to about 11% for the state's traditional pension fund managers. Effective January 2003, the Nebraska 401(k) plan is no longer an option for new employees.

The advantage of working with a full-time advisor who believes in taking an active approach to the markets is that the advisor strives to avoid the cheerleaders and lets current market conditions, not hopes for the future or patterns of the past, determine how client portfolios are invested.

Successful investing is a lot harder than it looks. It takes objectivity, a good understanding of the markets, discipline and time. Without all four working for you, your odds for consistent success diminish rapidly.

I would like more information about:

- ❒ Retirement planning
- ❒ Investing lump sum distributions from retirement plans
- ❒ Risk management of mutual funds
- ❒ Investment options offered by your firm
- ❒ Past performance for your investment programs
- ❒ Tactics used by your firm to avoid market declines
- ❒ Information on your firm's history
- ❒ The following topics discussed in the newsletter ________________________

NAME ____

ADDRESS ____

CITY ________________________ STATE ______________ ZIP ____________________

PHONE ________________________ BEST TIME TO CALL ________________________