

The Sgroi Financial

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Planning for Today and Tomorrow

DIVERSIFICATION

The financial markets of the world are constantly changing. It's actually quite rare for an investment of any sort to be worth exactly the same from one day to the next. These fluctuations in value are even more pronounced when measured in terms of years and decades. The perceived value of most anything, what someone will pay for it, is based on information. Thus, the ever increasing speed of communication also accelerates the changes in an investment's price.

When the prices in a certain market, be it stocks or houses have been rising and are expected to continue a "**Bull Market**" is said to exist. It's called a bull because a bull attacks with it's horns pointed up. When prices are falling and are expected to continue down a "**Bear Market**" is said to exist. Not surprisingly, a bear attacks with it's paws moving downward. Wall Street, being what it is, has quantified a bear market by saying that a twenty percent drop in prices defines a bear. If the drop in values is between ten and twenty percent it is termed a "**Correction**". Trying to figure in advance which way the stock market is heading on a *short-term* basis is called "timing the market" or "a fools errand."

Diversification of Assets refers to having your money invested in different assets. Diversification is actually a matter of degree. The more different the assets the more diverse the portfolio. If, for example, all of your personal worth were in your home, you wouldn't be diversified. If you owned your home and other properties you would be more diversified within the asset class real estate. Mutual funds, stocks, bonds, money market and checking accounts, annuity accounts, limited partnerships and cash value life insurances are all different types of investments and all add to portfolio diversification. **Asset Allocation** simply refers to how the assets in any portfolio are divided amongst different types of assets. *The basic purpose of allocating assets into a diversified portfolio is to increase the level of safety by reducing the risk of any single investment or investment type losing value.*

Mutual Funds Increase Diversification. When one invests in a mutual fund, they receive two distinct advantages. First off, the assets are managed by a professional manager at a secure institution. Secondly, the

fund is, by law, invested in a diversified portfolio according to it's investment objectives. In today's market there are mutual funds which invest in most asset classes, be it stocks, bonds, money market securities, government bonds, real estate, utilities or precious metals. Finding the ones most suitable for your needs is our job.

There are a number of other asset types that may deserve consideration when designing a diversified portfolio.

ANNUITIES - An annuity is a contract between an insurance company and the investor. The individual contributes money to the plan and the insurance company invests it. For the purposes of this article we are referring to **Fixed Annuities**. A fixed annuity functions like a savings account. The insurance company holds and protects the principal and pays a fixed rate of interest. Contributions can be made in lump sum, called a *single premium* or with periodic payments called a *flexible premium*. Annuities may be invested in as part of a *qualified retirement plan* such as an IRA or TSA. They may also be invested in with ordinary after tax income. In either case, the interest earnings within the account accumulate tax deferred. This means the interest is earned by the annuity owner and compounds within the account but is not taxed until it is taken out. Annuities are referred to then as **Single Premium Deferred Annuities** or **Flexible Premium Deferred Annuities**. The interest on a fixed annuity is generally higher than a bank savings account and hence offers a safe, tax deferred investment alternative.

MONEY MARKET MUTUAL FUNDS - The money market is the financial market place where governments and corporations go to secure *short term* financing. Because the duration of these loans is short and the funds invest in a diverse portfolio, these are often referred to as "*cash equivalents*". The interest earned currently runs between 4.5% and 5%. Your investment is *fully liquid* which means you can access it at any time without fee or delay. The money market accounts offered through **H. Joseph Sgroi and Associates** include check

A personal letter from Joe

Dear Friend,

As the holiday season approaches I hope that all is well with you and your loved ones. It's a unique time of year, my very favorite, and I hope you are able to enjoy it.

Experience has shown over the years, and case study after case study supports this, that those clients who work closest with us are those who achieve the most success. For this reason it's important for you to schedule an appointment annually to review your financial plan. I also depend on you to keep us informed of major changes in your financial life throughout the year. On a related note, for the record & one more time, I have no plans to retire. That old line pops up every once in a while and nothing could be further from the truth. I enjoy my work too much. My family often teases me that my sons will retire before I do and they may just be right 😊😊😊.

The correction and rebound of the stock market that took place this past summer and fall were the most extreme market conditions I have experienced in my twenty-eight years in this business. Those same conditions illustrated, once again, the need for a balanced and diversified portfolio. Diversification is the topic of this issues main article and I hope you find it helpful. If you are willing to tolerate market fluctuations and a certain amount of risk, then the stock market is the place to be for long term investments, especially through the well managed mutual funds we recommend. If you are not willing to tolerate risk we have more suitable investment choices for you. Please remember that money invested in the market should only be there for the long term. If it is not a long term investment it simply does not belong there.



As your assets increase so does the need for diversification. This is when in depth fact finding and comprehensive planning become all the more important. Any investment your assets are placed in has been carefully researched by me personally as well as my associates. In most cases I have invested my own money in these investments and have often personally met with the management.

Staying on top of the markets is one of our most important jobs. Passing that information along to you helps us work together more effectively and that creates even more success. Towards that result, I have a special invitation for you. On Thursday, February 11th we will be hosting a special Valentine's dinner at Kotecki's Gardenview Grove. You and your valentine, or a guest or friend, are invited to attend. This dinner will be sponsored by some of our favorite investment companies. They will have booths and plenty of information and you will have the opportunity to meet the company representatives and hear them speak. Space will be limited so please call the office and reserve your spot as soon as you can.

Betsy and I along with our family here at Joe Sgroi and Associates would like to take this opportunity to wish you and yours the happiest of holidays and a prosperous, healthy and fun filled new year. 😊😊😊😊

DIVERSIFICATION

writing and phone transfer privileges. The interest rates are equivalent to some CD rates without having to tie up your money. This is where liquid money belongs.

REAL ESTATE - Basically one owns real estate for two different purposes; to live in or as an investment. However, in this firm's opinion, when you invest in income properties you are essentially buying a business. If you are interested in owning investment real estate without the everyday business responsibilities of directly owning investment properties, there are two recommended possibilities.

REAL ESTATE LIMITED PARTNERSHIPS -

A limited partnership is a commercial organization made up of a general partner, who manages the business, and the investors, called limited partners, who have put up the capital. *It is called a limited partnership because each investor's liability is limited to their investment only.* The general partner is responsible for acquisition and maintenance of the property, securing the leases, managing all the business affairs of the partnership, maintaining the books, tax reporting and various other duties. It is the general partner who is responsible for all legal issues and obligations. If anything goes wrong it is the general partner who is held accountable. The limited partners are the direct owners of the real estate. The net income and tax advantages that the properties produce transfer directly to the limited partners. Likewise, the depreciation allowances may also pass directly to the limited partners.

Of the thousands of real estate limited partnerships available on the market today, only one meets the standards set by H. Joseph Sgroi and Associates. The projects are financed without debt, the management is ethical and experienced and the tenants are only the top corporations in America, such as Lucent, IBM and GE. Currently, the income generated represents a seven to eight percent annual return not including any potential appreciation in the value of the properties.

REAL ESTATE INVESTMENT TRUSTS -

These are also known as **REITs**. A REIT is a company that manages a portfolio of real estate. One's investment is in the shares of the corporation as compared to direct ownership of the properties themselves as with a limited partnership. The net earnings of the corporation pass directly to the shareholders but there is no allowance for depreciation.

One of the main drawbacks of investing in any type of real estate is selling it when the time comes. That is why real estate is considered an illiquid asset. Just think how hard it can be to sell a home in certain

neighborhoods or at certain times of the year. The commercial real estate market can be the same. The element of liquidity is one of the principal differences between a limited partnership and a REIT. REITs are commonly traded on various stock exchanges. Once listed on an exchange, they can be bought and sold in small or large increments, just like stocks, which helps overcome the risks associated with illiquidity. Partnerships may also be sold on a secondary market but it is often costly and the new buyers try to purchase at a discount.

When purchasing real estate either through a limited partnership or a REIT, it should only be considered if you have a long term investment horizon.

MUNICIPAL BONDS - When a state or local government or their agencies need to borrow funds they issue what are called municipal bonds. Examples of these are the New York State environmental bond issue that was on the ballot in 1996 or the bonds issued by the NFTA to fund the airport construction. Bonds of this type receive special tax treatment which make them worthy of consideration as part of a diversified portfolio. *Income generated by municipal bonds is exempt from income tax on both a state and federal level for residents of the issuing state.* For example a resident of New York would not pay state or federal income tax on municipal bonds issued in New York. However, if a New York resident invested in municipal bonds from Florida they would pay state income tax but no federal tax. Where it makes sense, we will try to eliminate both federal and state taxes.

In most cases, H. Joseph Sgroi and Associates considers a **Municipal Bond Fund** to be the most suitable method for investing in municipal bonds. Like all mutual funds, the advantages of diversification and professional management exist. Furthermore, we normally prefer a *limited term* municipal bond fund. A bond, being a loan, has a date at which it must be paid back, this is called the *maturity date*. Some bonds are issued for durations of up to thirty years or more. During this time the bond may be sold from one investor to another. Generally speaking, the longer the duration of the bond the more susceptible to price fluctuations. Put another way, as the term of the bond gets shorter, the price becomes more stable. *The stabilizing of prices equals, by definition, a reduction of risk.* This is why we prefer limited term municipal bond funds.

In today's financial world there are tens of thousands of investment choices. We are here to help you design the portfolio most suitable for you. The closer we work together, the more successful we'll be. ☺☺☺☺☺☺

You're Invited To A Special Valentine's Day Celebration

On Thursday, February 11th, 1999, you and your Valentine are invited to join us for food, fun and information at Kotecki's Gardenview Grove.

Representatives from some of our best investment companies will be there for you to meet and speak with. The doors will open at six PM with dinner at seven. There will be music, gifts and lots of fun. Space is limited so please call to reserve a spot for you and yours

A Golf Course for Our Community



In 1997, Mr. Carl Lambein donated 125 acres of land in Orchard Park, on Southwestern Boulevard, to the West Seneca Rotary Foundation, Inc. His wishes are for us to build a quality, environmentally friendly, 18 hole public golf course with reasonable greens fees for the residents of West Seneca and Orchard Park.

We have hired a super engineering firm and a nationally acclaimed architect to design the course. The W. N.Y. Chapter of the PGA is interested in managing our course and locating their offices on our site. In addition, a W.N.Y. PGA Hall of Fame is planned to be a part of our clubhouse design.

As treasurer of the foundation, you might guess that I am more than a bit involved 😊😊😊. My viewpoint is that this is the greatest community project in the history of the Southtowns. A much needed public golf course and a foundation that will forever put all proceeds back into the community.

If you can, please make your tax deductible check payable to "The West Seneca Rotary Foundation, Inc." and mail to myself or P.O.Box 189, West Seneca, NY 14224.

Thanks. 😊😊😊

Recipe For Success

Joey's Secret Spaghetti Sauce

Dice two large white onions and saute in oil. While onions are sauteing cut 4 lbs. of lean pork loin into small chunks. Using a separate pan, slowly saute the pork in oil. Once the onions are just right, add six 12oz.cans of tomato paste. Add three cans of water for each can of paste. Add one large can of tomato puree' and some freshly blended tomatoes if you'd like. Add 3 or 4 bay leaves, sprinkle in some oregano, a couple of tablespoons of pepper, parsley flakes, onion and garlic powder. Using a garlic press, squeeze six to eight small cloves of garlic into the pot. Now add the cooked pork to the pot. Make meatballs using 7 lbs of lean ground beef, mixed with a half dozen eggs, some parsley flakes, a diced small white onion and bread crumbs, all sprinkled with salt and pepper. Cook the meatballs separately and when done add to the sauce. Slowly cook the sauce all day (& the next) and call me when you're ready to open your own