

The Sgroi Financial

Volume 5 Number 2

Fall 1999 Newsletter

Planning for Today and Tomorrow

Y2K: THE YEAR 2000

***F**or the past year, the hype for the millennium has been increasing quite significantly, particularly concerning any Y2K computer issues. In March of earlier this year, Bob Doll, Chief Investment Officer and Vice President for Oppenheimer Funds, Inc., reassured financial planners and investors that the Y2K hype is not all that it's cracked up to be.*

"In fact, one of Oppenheimer's ten predictions for 1999 deals with Y2K concerns: "Y2K concerns accelerate, creating more excitement than the actual event." If you are not already tired of this issue, by the end of the year, you certainly will be, considering that questions are raised by clients, firms like us, investment companies, and the press, and there are not many clear-cut answers. We compare the situation to when a country plans for a war. At the beginning of the war, what exactly will occur is unknown, but it is planned for and talked about so that strategies can be lined up. Furthermore, contingency planning is done so your chance of winning is maximized. That is what Y2K is all about. We know this is going to happen and therefore we are planning for it. All we can do at this point in time is assess the situation, not knowing exactly what will happen until we actually get there.

OPINIONS

"Ed Yardini, the chief economist of Deutsche Morgan, who has heavily researched and voiced his opinion on this issue, has said: "Y2K recession, prepare for the worst, hope for the best." He has staked his reputation on a belief that Y2K is going to cause a worldwide recession and a 40% decline in corporate process. This view might be a bit overly pessimistic.

"At the other end of the spectrum is Andy Kirschner, Chief Investment Officer at Paine Webber, who is also studying the issue and has said: "Y2K fears overblown. Benefits of the Y2K dividend are yet to be felt." This is quite positive.

"Oppenheimer, as well as the mainstream view, would argue that the real truth lies somewhere between these two. There probably will be some negative

disruptions, but it is not going to significantly disrupt the ability of companies like ours, and like the mutual fund or insurance companies with whom you invest in, to thrive.

WHY 2K? THE ACTUAL PROBLEM

"In 1967, one megabyte of storage for a computer system cost \$3 million. Rationally thinking, it only made financial sense to conserve as much space as possible. Therefore, it became standard for companies to do this by coding dates in only two year digits (e.g., 1967 would be six-seven, rather than one-nine-six-seven). Today on a floppy disk, that same amount of storage costs just a matter of pennies. That is what the issue is really about.

"Furthermore, systems and software that work fine on their own are obviously subject to the failure of other systems or programs. In some sense, everybody's system will only be as strong as its weakest link, so in essence one program can cause a snowball effect. These interconnections for software call for all kinds of testing, and much of 1999 is being consumed in testing those weaker links.

"Many believe that system failures will occur on January 1, 2000. In fact, that is really not the case. Those failures, to the extent they occur, actually are already occurring. They will occur during 1999, and the year 2000, and the year 2001. This is a process, not just an event. January 1, 2000 is the most critical date, but there are other key dates.

"Some are concerned that since Europe has been busy with the new European Monetary Unit (EMU), they may have gotten a late start on Y2K. That very well may be the case. The good news is that the EMU conversion occurred smoothly from a system standpoint, which should foreshadow a smooth Y2K conversion.

"Japan has been somewhat concerned about the readiness of their system, particularly financial institutions, and has focused less on this and more on survival. Like most of Europe, they are behind in their planning; developing markets are behind as well.

"The Federal reserve is preparing for January 1, 2000,

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A personal letter from Joe

Dear Valued Client,

For the past year or so there has been a steady amount of media and business attention paid to the issue of "Y2K". When I first heard about it, my immediate question was "What does Y2K mean?". Well the term stands for "The Year 2000", with Y being the year, 2 being two and K being the abbreviation for a thousand. But the bigger question of "What will Y2K mean?" remains unanswered and is probably unanswerable. I think the description of Y2K being a process not an event says it better than any. My personal observation is that those businesses that profit most from the potential dangers of "Y2K" have been the businesses promoting those same dangers the loudest. This, of course, is basic marketing at an elementary level.

So that you know, all fund and financial institutions that we deal with, who hold your money, have assured us that their computer systems are "Y2K compliant" and that your money will be safe. Of course no one will guarantee anything. My firm's in house system is essentially isolated from others and will not be affected. As a further precaution, we will be saving paper copies of all third quarter account statements until we know for sure that everything is in order.



The greater "danger", in my eyes, is that of hype and panic created by the media. Controversy, money, big names and other attention grabbing topics left unsaid are the subjects that sell newspapers and commercials on the TV and radio. This is basic marketing on the part of the media. "Y2K", of course, is the perfect subject because you can't see it or touch it, we haven't seen any effects and maybe never will but the possibilities seem endless, restricted only by our imaginations. So when the volume gets turned up on this, as I'm sure it will, I hope you'll take sensible precautions, but also stay calm and not let emotion overwhelm reason.

Compounding the situation from a financial perspective, which is my perspective, are the conditions of the stock market. Our national economy is doing extremely well. Our federal and state governments are finally getting their financial affairs in order. How they handle the huge increases in tax revenues is a far more important issue than "Y2K" and something we should really pay attention to. Now is the time governments at all levels should aggressively pay down debt, streamline themselves and reduce taxes. With the economic expansion of almost two decades the market has risen to record highs. In the long term I think we will continue to experience growth and further expansion. The short term, as always, is impossible to predict. Between record highs, "Y2K" and a historic tendency of the market to "correct" at this time of year we could experience more than a little volatility. My basic advice is that your total portfolio should be well diversified and your stock market based investments should be invested for the long term in the well managed funds we offer. If you want to position some extra cash in hope of a stock market buying opportunity in the new year, please call and we will be happy to assist you.

If you have not been in to see us recently, at least within the last year or so, please call and schedule an appointment. We value our relationship with you and work hard to service you honestly and professionally. In that regard, I hope you will take a moment to read the short article on the back page. It illustrates my greatest concern in regards to any persons finances and the profession in general. Financial planning is a team activity and successful team actions are based on communication amongst all the players. I look forward to the next time we meet. ☺☺☺☺

All the Best,

Y2K: THE YEAR 2000

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believing that many of us are going to demand extra cash. They are estimating that the average family in the United States will have \$500 more cash on hand than they would typically on that date; they are printing \$50 billion of extra currency to provide for that eventuality.

“The risk of the media-created hysteria is higher than the risk of the actual event.” The risk of this hysteria causes people, particularly senior citizens, to believe that they need to hoard cash and goods. Significant booms and busts have occurred throughout history, largely for psychological reasons, more so sometimes than for actual events. This is not to say that the millennium itself is a nonevent; it is significant. It can be expected to have some computer glitches and some systems failure along the way - maybe some blackouts or infrastructure problems - but not enough to derail the whole social-system here or abroad.

RESEARCH BEING DONE

“Perhaps the uncertainty regarding Y2K is that no one knows for sure what is going to happen on January 1, 2000. Furthermore, no one is really willing to give any guarantees. While most critical systems and applications are going to work, some may fail, and some may create some havoc in the social-system. The Gartner Group, which studies this issue, expects 10% of all mission-critical systems to fail, with some of these failures lasting for two to three days.

“One positive thing that has happened in the last few months is that many companies have been running tests. This testing has been reasonably successful with few significant failures. This is obviously good news.

“However, while the main systems have or will be tested prior to the millennium, it is clear some critical systems simply cannot be taken out of service and tested. For example, we will all find out only how certain phone networks and power supplies work come January 1st.

“Cost estimates for Y2K compliancy continue to go up. The estimates a year ago were approximately a half trillion dollars, and it looks like the number now is going to be \$800 billion, to perhaps a trillion; a huge change in only 12 months.

INDUSTRY PROGRESS

“We believe the U.S. industries that are in the best shape are the health care, financial and technology sectors. They started the earliest, they have spent the most money and - particularly in the case of the financial service industry - they would have the most to lose. The sectors that seem to be behind are the older sectors in our

economy that have more embedded technology, such as the energy and utility companies.

“Much of the information regarding Y2K preparedness has been collected from company disclosures and surveys. Until recently, this information has typically been fairly benign, as most companies have a vested interest in not disclosing harmful information regarding their Y2K status.

“Fortunately, as we have moved through 1999, deadlines for disclosure have become increasingly required by the SEC and other industry-regulatory bodies or Government agencies. For example, broker/dealers had to file independent audit reports on their readiness by April 30th. Nuclear plants had until a July 1st deadline for the Nuclear Regulatory Commission.

“Slightly over a year ago, the U.S. government was behind with its own updates, which caused a lot of concern. In November 1997, only 27% of the 8,000 mission-critical systems were deemed compliant in terms of the Federal Government. However, by November 1998, that number had moved up from 27% to 61%, well over half, all in just 12-months. Since then, agencies have been self imposing deadlines on mission-critical systems. It will be interesting to see how many actually meet the deadlines.

EMERGING MARKETS

“The SEC has specifically raised concerns regarding mutual funds with the emerging market holdings.

“On a positive note, there is not enough sophisticated technology in these areas for Y2K to be an issue. That is the case certainly in the Asian emerging market and the Middle East, and to a lesser degree in Latin America; some progress has been made in Latin America.

9/9/99

“September 9th of this year, 9/9/99 is a critical date because many older systems have that date as an automatic shut-down code date. In our opinion, it will be interesting if there are failures on that date because it will prove to us that our ability to keep business going within the United States and around the world is not jeopardized.”

We hope you find this information helpful. If any questions arise, please call. ☺☺☺☺☺

Who you do business with.

When I first started working in the financial service business, almost thirty years ago, I very quickly realized that the industry suffered from a basic ethical flaw. Each company's primary interest was in selling the client a product and collecting the resulting commission revenues. The needs of the client came after, if at all. This is the exact opposite of how I feel we should operate. (This is also why one of the major insurance and brokerage firms was recently ordered to by the courts to return billions of dollars to it's current and former clients.) This was the main reason I went out on my own. It is also why my firm remains completely independent. We are not obligated to place your assets with any specific company or fund. Instead we research the markets extensively to find the investment products *most suitable to you*. And it usually varies from one client to the next. I have turned down numerous, highly lucrative, offers to affiliate exclusively with major national investment and insurance corporations. I decline such offers in order to protect your interests.

Not too long ago, I was informed that a client was moving her assets to another firm, one of the major national stock brokerages. She and her husband had started with my firm in the mid eighties. Over the years we had worked together and built her TSA retirement accounts up from "0" to well over two hundred thousand dollars while maintaining a very low risk profile. When she transferred those assets to the stock brokerage firm she incurred surrender fees of over three thousand dollars in addition to an estimated eight to ten thousand dollars in new fees and expenses. I estimate that she has lost in excess of an entire years contributions just in extra fees and commissions. This type of conduct is detrimental to the client and professionally unethical. An employee of my firm would be dismissed for such conduct with restitution to the client. Sadly though, I expect that the broker in this case was congratulated on his "success".

We work very hard to protect your interests. It's not easy. Between market fluctuations, interest rate changes, taxes, corporate mergers, buyouts, unethical conduct and/or plain incompetence and now "Y2K", it's important to remember the basic fundamentals such as "who you do business with".

Recipe for Success

Tiramisu from Receptionist Jill Kaz

Cover the bottom of an 8-inch square dish with three cups of pound cake cut into 1/2 inch cubes. I like to use an all butter pound cake. Dissolve one envelope of instant Cappuccino, Amaretto Flavor into 1/2 cup of milk. Sprinkle over cake.

In a large bowl beat one softened package (8 ounces) cream cheese with mixer until smooth. Gradually beat in an additional 1 1/2 cups of milk until smooth. Add one package (4-serving size) of vanilla flavor instant pudding along with another envelope of instant amaretto cappuccino.

Beat on low until blended. Stir in two cups of thawed whip cream. Sprinkle some cocoa on top for decoration. Refrigerate a couple of hours and serve.

Buffalo Bills 1999 Schedule

REGULAR SEASON GAMES

Date	Opponent	Time
09/12	at Indianapolis	1:00 PM
09/19	NEW YORK JETS	8:20 PM
09/26	PHILADELPHIA	1:00 PM
10/04	at Miami (Monday)	9:00 PM
10/10	PITTSBURGH	1:00 PM
10/17	OAKLAND	1:00 PM
10/24	at Seattle	4:15 PM
10/31	at Baltimore	1:00 PM
11/07	at Washington	1:00 PM
11/14	MIAMI	1:00 PM
11/21	at New York Jets	1:00 PM
11/28	NEW ENGLAND	1:00 PM
12/05	OPEN DATE	
12/12	NEW YORK GIANTS	1:00 PM
12/19	at Arizona	8:20 PM
12/26	at New England	1:00 PM
01/02	INDIANAPOLIS	1:00 PM