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PLANNING FOR TODAY & TOMORROW



Investment Assumptions

By Jeff Hahn

There is an old saying in the investment world that is attributed to Will Rogers and goes like this: I am more concerned with the return of my capital than I am with the return on my capital. That is the essence of a capital preservation investment strategy.

As the stock market has fallen over the last three years, investors have quite naturally tended to accumulate more and more cash. The draw back being that interest rates have fallen as steeply as the market. So the money, while being preserved, is not producing any meaningful returns. Illustrating this is a survey of CD rates, which are now as low as 1.1% for a one year certificate. Compared to the 6% rates of just a few years ago, the earnings are insignificant.

It stands to reason that an investment environment such as this requires more careful financial planning and more frequent contact between investor and advisor. The challenge of today is to find the best quality investments in order to create positive returns. It may also necessitate a reexamination of goals and strategies.

Doing nothing may be one of the worst things to do. This is sometimes referred to as investor paralysis. Leaving large sums in a checking, statement savings or money market accounts for lack of something better, without examining other possibilities, is a symptom of this.

Investments are made based on assumptions. If the assumption is that the stock market is likely to fall yet again, a more conservative posture would be appropriate. Conversely, if you believe we are poised for a sustained rally and bull market, then more aggressive investments would be called for.

Personally, (and I hope I'm wrong) I think we are in for a relatively flat market, possibly for a number of years before we see a long term bull again. That being the assumption, diversified and balanced portfolios would seem suitable. The fixed income portion should be invested in quality income producing vehicles such as bond funds, annuity contracts, REITs, tax free municipals and the like. The growth side should be invested in well managed, profitable companies and well managed equity funds. Well managed funds can make money in a flat market. To me, that is one of their most important qualities. See you at your next appointment.



In Support of our Troops

Perception vs. Reality

If you were to put your 3-year-old's education fund entirely into one investment, knowing that your child will not be able to attend college if you lose money, would you invest in the stock market? Most people would say "no" because the stock market seems so uncertain, risky and volatile.

Over the past 77 years (924 months), the market made money in only **60%** of the months. Although these are good odds from a gambler's perspective, few parents would take such a "gamble" with their kid's college education.

It gets a little better when we look at the market in one-year intervals: **70%** of the time it made money. Is this success rate high enough for you to invest?

How about five-year intervals? In the 64 rolling five-year periods since 1926, the S&P 500 made money **90%** of the time. In every 10-year interval, the S&P 500 made money **96%** of the time. In fact, in every 15-year interval and beyond, the stock market made money **100%** of the time.

Yet most people don't see it this way. We worry over what the market is doing today, even though the market is focused on tomorrow. "Should I get in now or wait?" is a popular question. "If things are going well, I'll get in, but if things are going bad, I'll stay out." That attitude will cause you to lose lots of money, because the stock market is focused on the future, not the present. Therefore, your investments must be based on where you're *going*, not on where you *are*.

Thus, the key is not *when* you invest in the stock market. The key is *how long* you invest. We can convert something as risky and uncertain as the stock market into a safe, predictable investment.

A personal letter from Joe

Dear Friend,

It was 3 full years ago (March 10, 2000) that we hit the peak of the stock market. From that point to now, the NASDAQ is down 72 %; the S & P 500 is down 45 % and the DOW is down 33 %.

Who would have thought that Blue Chip companies like General Electric would go from \$57 to \$22 per share or AT&T would go from \$56 to \$10 or INTEL from \$75 to \$14 or Ford Motor Company from \$32 to \$6 or for that matter MCI WorldCom from \$57 to 12¢.

In this same period we have had the technology bust, unethical accounting practices (Enron, Adelphia), the most respected CPA firm on the planet (Arthur Anderson) is now bankrupt, the horrific 9/11 terrorist attack and now the additional fear and uncertainty of the Iraqi crisis...the stock market absolutely hates uncertainty. The market will likely continue to drive us all NUTS J until we get to the other side of these current geo-political issues.

However, once we get through this mess, we are likely to experience a good rebound in the stock market. With 5 trillion of cash on the sidelines and money market rates below 1%, sooner or later a chunk of this



money will make it's way back into the market. Also, proposed tax law incentives coupled with low interest rates and improving corporate earnings all should eventually help turn things around.

Therefore, if you had the courage to ride this market out through the worst period in the history of the stock market, it only makes sense at this point in time for you to stay the course. If you've gone cash with some or all of your positions, you may want to consider gradually re-entering the market (in low risk equity funds) either now or as soon as the Iraqi Crisis is over.

What has lifted our spirits and strengthened our resolve is the incredible client patience and loyalty to our firm during these trying times. And remarkably, where competing companies have dwindled, ours has grown significantly over the same period.

As a matter of fact, because of you we are about to begin construction of a 4,500 square-foot addition off the back of our current facility. We are all really excited because this will allow us to service you even better.

Thanks again for always being there for us and for all of the wonderful new clients you continue to send through our doors. If you have any questions or concerns whatsoever or if we can help you in any way, don't hesitate to call.

And of course, if you haven't been in to see us for your annual review, please schedule in at your earliest convenience.

All the best!!!!

A handwritten signature in black ink, appearing to be the name 'Joe' written in a cursive, stylized font. The signature is enclosed within a large, hand-drawn oval shape.

Dollar-Cost Averaging *By Brian Clouden*

The object is to invest a set amount of money at regular intervals so the average cost of shares tends to even out the market's peaks and troughs. Your dollars purchase fewer shares when the market is up, but they buy more when it's down. While you may not achieve the positive results of buying at the market's low point and selling at its high point, neither will you suffer the consequences of doing the opposite. On average, in a generally rising market, you have the opportunity to accumulate wealth over time in a systematic, organized way.

Here's how it works:

<u>Month</u>	<u>Invest-ment</u>	<u>Price Per Share</u>
1	\$100	\$10
2	\$100	\$5

Say you have \$100 and you buy a stock mutual fund which costs \$10 per share. That means you buy 10 shares. Next month, you do the same thing in the same fund, only now the shares are just \$5. Thus you buy 20 shares.

What is the average cost of all your shares?

If you said \$7.50... that's incorrect.

You invested \$200 and you own 30 shares. Divide \$200 by 30 shares and you'll find that the answer is \$6.67. The average *price* is \$7.50, but the average *cost* is \$6.67. You have a built-in profit!

Four things to remember about dollar-cost averaging:

- *In the long run, it doesn't matter when you start, just that you start.* Over a long enough period, it makes little difference whether the market was up or down when you began.
- *Making monthly additions to your account allows you three times as many opportunities to benefit from favorable market swings as investing on a quarterly basis.* On the other hand, of course, it provides three times as many chances for your account to be adversely affected by market swings. The more frequently you invest and the longer you keep investing, the smoother the average-share-cost line becomes.
- *A market decline can mean bargain prices.* Unless you are selling shares, a fund's price quote in the daily paper is not relevant for anyone who is not planning to sell, so don't panic if it is down. In fact, a downturn provides the opportunity to buy more shares at attractive prices -- shares that have the potential to grow in value when the market finally turns upward.
- *Be prepared to weather a sustained market decline.* Keep in mind that in order for dollar-cost averaging to work, you must be prepared to commit the financial resources and have the resolve to make the contributions on each appointed date. Regular investing does not ensure a profit and does not protect against loss in declining markets.

If you haven't already, schedule your annual appointment today. We can't stress enough that financial plans are at their best when reviewed on an annual basis.

History Offers Future Prospective

The financial markets hate uncertainty. But surprisingly, they have often responded favorably when America has been involved in military conflict. So what does this mean for today's markets? It's hard to tell, but a look at the behavior of past markets offer some insight as to how the markets may react while we are at war.

At the start of World War II, the economy was dragging and the markets were down. However, after the country became fully involved in the war, the markets rebounded and the economy prospered (no doubt helped in the end by a victory). We saw the same type of pattern take place with the Korean War.

In more recent times, the markets lagged for some time after Iraq invaded Kuwait on August 2, 1990. In fact, the S&P 500 Index fell 11% from that day until the eve of Operation Desert Storm. But a month into the military conflict, the Dow Jones Industrial Average was up over 10%. Six months into the conflict, the Dow was up about 15% and a year later, it was up nearly 25%.

Markets Have Historically Rebounded from Major Events

So what does all this mean? When bad news in the newspapers spells bad news for the financial markets, consider what may happen in the long term. Over the long term, market dips have been ultimately followed by a rebound.

Regardless of what happens, we believe you should stick with core investment principles, most importantly, diversification. When you schedule your annual appointment, together we can determine the diversification and asset allocation most likely to support your individual financial objectives. A well-planned, long-term investment strategy can help prepare you for whatever the market, or the world, decides to bring your way in the future.

The Upside of Risk

No pain, no gain. There is no such thing as a risk-free investment. In order to build assets, you must undertake risk of one kind or another.

The greater the risk, the greater the potential reward.

Greater potential reward is the price the market demands in return for undertaking greater risk. However, taking big risks does not necessarily ensure big rewards. You must know the risks and weigh them against the possible rewards. Here's the bottom line: reasonable risk = reasonable reward.

Choose appropriate risks (finding your sleep threshold). Know and understand the risks involved in various savings and investment vehicles. Make sure you are comfortable with the risk level of the investments you choose.

Manage risk; don't try to escape it. Diversify; a variety of investment vehicles and securities lessens the negative impact of an investment that stumbles. Invest over time to offset market fluctuations. Monitor your investments to ensure that the risk/reward parameters you have set have not changed.

Maintain a long-term horizon. Many mutual fund buyers recognize that holding funds over a long time horizon smoothes out the effects of volatility. In a recent survey conducted by the Investment Company Institute, the majority of recent buyers consider risk within a long-term investment horizon, with more than 60% of the participants having a risk time horizon of six years or more and only 4% having a risk time horizon of less than one year.

Regular scheduled appointments with your advisor will help us manage your investments and risk tolerance.

On This Date in March

- *March 13, 1991* : Exxon pays \$1 billion in fines and for the clean-up of the Alaskan oil spill.
- *March 13, 1997* : The Dow Jones Industrial Average makes its largest compositional change ever, as four companies are removed (Westinghouse, Texaco, Bethlehem Steel, and Woolworth) and four are added (Travelers, Hewlett-Packard, Johnson & Johnson, and Wal-Mart).
- *March 14, 1879* : Albert Einstein was born (Nobel Prize-winning physicist [1921]: developed the Theory of Relativity).
- *March 14, 1923* : President Harding becomes the first U.S. President to file an income tax report.
- *March 14, 1956* : "Why Do Fools Fall in Love" by Frankie Lyman and The Teenagers topped the charts.
- *March 17, 1762* : The first St. Patrick's Day parade is held in New York City.

Growth and Value

These two investment styles outperform at different times. Which means you need both kinds of stocks in your portfolio (NOTE: a collection of individual stocks make-up a mutual fund).

The stock market can be divided into two types of stocks, value and growth. Value stocks are "bargain" or out-of-favor stocks that are inexpensive relative to company earnings or assets. Growth stocks represent companies with rapidly expanding earnings growth.

To determine whether a stock fits in the growth or the value camp, investment managers analyze earnings and assets relative to the stock's current price. High-speed earnings growth typically indicates a growth stock. A stock priced low relative to company assets or earnings is regarded as a value stock.

Growth Companies	Value Companies
Sales growth greater than competitors	Low or no sales growth
Debt incurred for expansion	Little corporate debt
Above-average earnings increases	Below-average earnings increases
High earnings per share	Low earnings per share
High price/earnings and price/book ratios	Low price/earnings and price/book ratios

The effects on returns. These differences affect the performance of growth and value stocks. At any given time, one style is in favor. In some periods, investors feel optimistic regarding the prospects for growth companies; at other times, they prefer the solid reliability of value companies. *For more information, contact the office.*

"Quotes"

- *"If you can see yourself in possession of your goal, it's half yours."* -**Thomas Hopkins**
- *"There are so many things that we wish we had done yesterday, so few that we feel like doing today."* - **Mignon McLaughlin**
- *"A study in economics usually reveals that the best time to buy anything is last year."* - **Marty Allen**
- *"If you had your life to live over again, you'd need more money."* - **Anonymous**
- *"Our Founding Fathers objected to taxation without representation. They should see it today with representation."* - **Anonymous**
- *"I am a great believer in luck, and I find the harder I work, the more I have of it."* - **Stephan Leacock**
- *"When you bet on a sure thing — hedge!"* - **Robert Half**