



## What Can Mutual Funds Offer Me?

*By Brian Clouden*

Mutual funds are a popular investment vehicle simply because they offer a number of features to suit the objectives of many types of investors. They provide a number of features, including built-in diversification, professional management, convenience, low investment minimums, and a wealth of investment choices all in one package.

**What Is a Mutual Fund?** A mutual fund is a pooled investment. When you buy shares in a mutual fund, you are buying shares in a professionally managed portfolio of stocks, bonds, or other securities. Investment managers are responsible for buying and selling securities according to specific investment objectives.

**Diversification** - Buying shares of a mutual fund gives you built-in diversification. A single mutual fund holds many different securities. Mutual funds may diversify within asset classes; for example, a growth fund may invest in a portfolio of stocks. Or the fund may diversify across asset classes —when a balanced mutual fund invests in a variety of stocks and bonds, for instance.

Whatever the case, diversification generally reduces investment risk and provides the potential for better long-term returns.

**Professional Management** - When you buy into a mutual fund, investment professionals manage your money. They carefully research, select, and supervise all the assets in the mutual fund. This frees you from having to select and track individual investments. When you invest in mutual funds, you gain access to some of the finest investment minds on Wall Street.

You should remember that past performance is no guarantee of future results. The value of your shares will fluctuate with the changes in market conditions, and when sold may be worth more or less than the original investment amount.

**Convenience** - Mutual funds make managing your portfolio very easy. Periodic statements will fill you in on the performance of your mutual fund, transactions within your account, and more. You'll also be kept informed about the taxability of your distributions.

**Low Investment Minimum** - Many mutual funds offer low initial investment amounts, as low as \$25 in a systematic investment. Mutual fund fees also vary and can be lower than other investment alternatives. Mutual funds are offered by prospectus, which contains complete information about the objectives, risk, fees and minimum investment amounts. It should be read carefully before investing.

All in all, mutual funds offer a variety of benefits. In many cases, they are ideal investment vehicles for experienced and beginning investors. Call the office for more information.



*MERRY CHRISTMAS  
& HAPPY HOLIDAYS*

## The Securities & Exchange Commission (SEC) Investigation

It seems that just about every week we hear about another mutual fund succumbing to scandal. When you look at the developments as a whole, it's generally the same story, market timing.

There has been much coverage in the media of investors who seek to trade rapidly in and out of a mutual fund in order to capture profits by exploiting pricing inefficiencies between the funds shares and the value of the underlying securities in the portfolio. This could happen for example in international funds, where time zone differences between markets create opportunities to profit from arbitrage based on "stale" prices. It can also occur in funds composed of thinly traded asset classes, such as high yield bonds, and in small cap stocks, where sudden large cash flows can have an immediate impact on prices.

As the investigation moves forward, with the possibility of more news in the future, we believe that the mutual fund industry will only become stronger. By eliminating unethical practices that uneven the playing field the mutual fund industry as a whole will return toward their main objective; reward the long-term investor.

Our goal at SgROI Financial is to put clients into funds that have a long track record of stability and success. We try to stay away from funds who are constantly having fund manager changes or continuously coming out with a "new" fund.

For over 33 years the goal of the firm has always been to do the best thing for the client. While the landscape has changed throughout the years, our ambitions will not.

*As one year ends and another begins, don't forget that a financial plan is at its best when it is reviewed on at least a yearly basis. See you in 2004!*

# *A personal thank you from Joe*

*Dear Valued Friend,*

*As we get ready to leave 2003 with some very good investment results, it was not a perfect year. Mutual funds were created to allow small investors to participate in the stock market and to take some of the risk out of having all your retirement investments in one particular stock. They were the “innocent” investment, the one that did not make the headlines when something went bad. Well, 2003 showed us that mutual funds were not immune to scandal.*

*The mutual fund companies that were caught practicing unethical tactics (Alger, Alliance, Janus, Nations (Bank of America), One Group, Putnam and Strong) were worried about one thing – bringing in new assets to their companies and making a profit. In the shuffle they forgot the most important part; their clients. When it comes to unethical handling of something that most people hold very close to their heart, money, it is usually a “one strike and you’re out” philosophy. Many investors will leave these companies to never return, and rightfully so.*



*But it may come at a price. If an investor’s money is not liquid, B shares for example, they will have to pay a penalty for taking their money elsewhere. What investors need to understand is that they are not invested in the mutual fund company; they are invested in the stocks and bonds that that particular mutual fund is invested in. For example, Putnam Fund for Growth & Income, PGRWX. Putnam Fund for Growth & Income, to date, is invested in 217 stocks. It is invested in Citigroup, Pfizer, Exxon Mobil, General Electric, Fannie Mae, Verizon Communications, etc. When you are invested in this mutual fund, you are invested in these companies, you are NOT invested in Putnam, the mutual fund company.*

*So please understand that before you take action, know the facts and understand the consequences of those actions. By scheduling an appointment you can discuss your options with your planner.*

*On a happier note, when our last newsletter went out I had 4 grandchildren. On December 3rd my son Patrick and his wife, Christa, made it 5 with a happy and healthy baby girl, Emma. My firm has been partners with Mercy Hospital for some time now and I can’t thank them enough for the fabulous service in their beautiful facility.*

*Getting together with family and celebrating the holidays is truly my most favorite time of the year. I’d like to wish you and yours the happiest of holidays!!*

*As always, if you have any questions please don’t hesitate to call.*



## Disability Insurance for the Small Business Owner

By Don Forhd

The average American between the ages of 35 and 65 runs a 30% risk of suffering a disability that will last for 3 months or longer. The average duration for a 45 year old is 2.9 years.

As a small business owner, are you and your business financially prepared to take on the odds, 1 in 3?

If not, there are several ways to protect yourself and your business. Your personal income can be insured with :

- **Individual Income Protection Policy** – A personal disability policy designed to replace a percentage of your income (typically 60%) when you are unable to work. The policy can be sold on its own, or as a supplement to a group disability plan. Policies can be tailored to your individual needs. Full Medical Underwriting is required. Discounts are available for groups of 3 or more individual policies billed together through an employer.
- **Short and Long Term Group Disability Policy** – Typically sold to employers with 3 or more eligible employees. Group insurance policies are less expensive than their individual cousins, but have pre-existing condition language and are not owned by the employee. The policy can be paid by the employer, employee or a combination of both.

You also need to consider the impact of disability on your business. If you or your partner/s are unable to come to work as a result of an injury or illness, the financial, emotional, and productivity impact can be detrimental to your businesses success. Two products that can help are:

1. **Business Overhead Insurance** – If you or your partner is out of work as a result of a disability, the businesses expenses don't stop. With a Business Overhead Policy, your normal operating expenses can be reimbursed while you are out. Some of the expenses which can be reimbursed are:

- a. Utilities
- b. Employee Benefit Costs
- c. Employees Salaries (Not in same professional field)
- d. Leased Equipment Payments
- e. Mortgage/Loan Interest Payments
- f. Supplies.

2. **Business Buy Out Protection** – If you die or become permanently disabled, how will your partner/s buy out each other's ownership interest? Take out a loan? Pay out of your own pockets? Pay out of the company's cash flow? All of these are options, but they may not be good options at the time of disability and death. Proper planning allows for the smooth transition of the business at a true time of need. There are a variety of ways to fund and structure the agreements. We will work with your lawyer to determine the language and process that makes the most sense for your business.

*Please give your planner a call today to discuss the options available to you and your business. We'd be happy to help.*



## The Importance of Early Financial Planning

By Shawn McLaughlin

For many young adults, the idea of creating a financial plan as soon as they are eligible to contribute to a retirement account (must be 18 years old with earned income) is ridiculous. Providing for their retirement is of little or no concern seeing as most of them have not yet joined the workforce, however, the benefits of such foresightedness are staggering. Example: A person who contributes the maximum to an IRA account (3k) from the age of 18 until the age of 28 and stops will have contributed 30k. Another individual who starts to save at the age of 28 and contributes the maximum until the day they retire (say 55) will have contributed 81k over the course of 27 years. When you include the growth of the assets in the financial marketplace, the individual who started saving early will have considerably more money saved even though they contributed far less. Ah, the wonderful occurrence known as the compounding effect of money.

The compounding effect of money is an amazing phenomenon; and all too often it is overlooked when an individual makes investment decisions. Let me share an example with you: Suppose you invest \$1,000 today in a 5% savings account. One year from now that account would be worth \$1,050 [ $\$1,000 + (\$1,000 \times 5\%)$ ], yielding a \$50 gain. However, in year two, that same initial investment would be worth \$1,102.50 [ $\$1,000 + (\$1,000 \times 5\%) + (\$1,050 \times 5\%)$ ], yielding a \$52.50 gain. And in year three, the same \$1,000 would be worth \$1,157.63, yielding a \$55.13 gain. By year ten, the initial \$1,000 investment would be worth \$1,629 and by year 25 it would be worth \$3,386. This example demonstrates why \$1,000 is more valuable to you if invested today, than it would be if invested a few years from now.

The lesson here is to encourage young people to begin to put away some money towards their retirement. Though they will most likely think the idea is frivolous, they will be thanking you in the years to come. Remember, the compounding effect of money truly helps to build wealth when properly and thoughtfully applied.

### Why it is Important to pay Yourself First

The following chart shows what can happen with a 8% return.

YEAR	\$50 bi-weekly (\$1300 annually)	\$100 bi-weekly (\$2600 annually)	\$200 bi-weekly (\$5200 annually)
1	\$1,404.00	\$2,808.00	\$5,616.00
5	\$8,236.71	\$16,473.42	\$32,946.83
10	\$20,339.13	\$40,678.27	\$81,356.53
15	\$38,121.57	\$76,243.14	\$152,486.27
20	\$64,249.80	\$128,499.60	\$256,999.19
25	\$102,640.74	\$205,281.48	\$410,562.96

