



Some Thoughts as we get ready for 2005

by Jeffrey Hahn CFP

In early 2003 I “predicted” that the market would likely go into a flat trend while fluctuating up and down. I was essentially off by a year. That “trend”,

which is really the lack of a trend, was with us for most of this year. The economy is expanding and hopefully will continue to do so, interest rates are still low, jobs are starting to be added to the economy and corporate earnings have improved. Those are the positives. Fighting them are the rise in interest rates, the rising cost of oil, the situation in Iraq and the threat of terrorism.

What’s an investor to do? Maintain suitable levels of diversification, make sure you are in good quality investments and review your portfolio regularly. This is especially not a good time for an index fund. It takes good management to make money in a flat market and an index fund has essentially no management at all.

Interest rates are likely to continue to go up and that is a good thing. It would indicate the economy is doing well, which is traditionally good for the stock market. That said, if you haven’t refinanced your mortgage yet you probably shouldn’t wait much longer.

For most of us, especially those with kids and who are very busy, establishing systems to invest and save is the way to go. Getting started is both the hardest and easiest thing to do. Done right you won’t miss the money and it will likely just get spent if you don’t.

I think the rate of inflation is much greater than it’s reported to be. Not that I think our government would ever deliberately mislead us or conduct its affairs in an inefficient or incompetent manner. However, when I review the Hahn family’s expenses the increases have run much more than 2 or 3 percent annually.

Now that the election is over and there was not a repeat of the 2000 fiasco, the market is reacting positively. My opinion is that John Kerry did the right thing at the right time in conceding. For that he has earned our thanks and respect.

Finally, I hope our President and Congress will not only succeed in handling our foreign affairs but also “fix” our Social Security and Medicare Systems as well as get the deficits under control and their fiscal house in order. (They’d only need to manage as well as they spend.) **F**



Learn from Experience

by Brian M. Clouden

Back in June of this year the firm handled a significant number of Buffalo School retirees. In this process the Buffalo Board of Education made it mandatory all incentive pay and sick time be put into a employer funded Tax

Shelter Annuity (TSA/403B) (it is becoming a popular plan because it saves the retiree and school district the FICA tax). Many of the individuals the firm handled were already clients, but quite a few were referred to us because either their TSA provider would not take employer contributions or the employee never contributed to a TSA and needed an avenue to shelter their incentive/sick time.

The whole experience was an eye opener for me. I was surprised by the number of individuals that had never contributed to a TSA. It wasn’t unusual to go to one appointment where a person had been contributing for 20 to 30 years and had a significant amount in their account to another who had very little from starting late or just never contributing. Both made similar amounts throughout their professional careers and both have to live on roughly the same amount from their New York State retirement.

The biggest difference moving forward is that one has a New York State pension and a sum of money to battle inflation, to travel, to explore hobbies, be generous to their children and grandchildren and ultimately have many options of what to do in retirement. The other must be wiser in their financial decisions, because they only have a NYS pension. At some point in their professional careers the importance of a TSA was conveyed to one individual and not the other.

A veteran employee with a TSA knows its importance. These are the individuals that should try and help educate the newer employees, and sometimes another veteran employee that may never have had the value of a TSA conveyed to them.

These cases are not specific to the TSA/403B arena. Individuals that have a 401k, 457, SIMPLE, IRA, SEP or any other retirement account available need to understand the importance of participating. Those who take advantage of these retirement accounts will be much better prepared in the future.

If you have any questions or concerns, call the office.

A personal thank you from Joe

Dear Valued Friend,

Some analysts and observers are concerned that the fast-growing U.S. economy may be derailed somewhat by higher oil prices and federal interest rate hikes. However, the Federal Reserve raised interest rates precisely because demand remains strong. In particular, U.S. consumer spending continues to show resiliency and boost the U.S. economy.

U.S. consumer spending growth has stayed strong for nearly a decade despite the brief 2001 recession and recent worries about higher oil prices and short-term interest rate increases. Persistently strong growth in real (inflation-adjusted) consumer spending is significant because such spending constitutes a major part of demand in the U. S. economy. In fact, analysts often expound on the importance of household spending by pointing out that it is two-thirds of the total U.S. economy's Gross Domestic Product ("GDP"). In reality, it is even more than that. Consumption kept growing right through the economic recession (decline in GDP) of 2000-2001 that attended the stock market crash. In recovery



years 2002-2003, consumption growth not only outpaced GDP growth, it rose to a 70% share of GDP. The latest data report indicates that, in real terms at annualized rates, consumption in the third quarter 2004 was up a solid 4.6% from the previous quarter and 3.5% from the third quarter 2003. And now that the presidential election is over (markets hate uncertainty), no wonder the market has made such a nice recovery. With President Bush being re-elected, it is likely that the tax law will be made permanent. Hence, the tax-favored treatment of both dividends and capital gains being made permanent for stocks will likely make being invested in the market (quality stocks and especially stock mutual funds) the place to be.

Be sure that you increase your TSA, 401(k) or other form of pension plan beginning in January to also take advantage of the increased limits for the next year. It's absolutely amazing the wealth we've helped create by helping our clients pay themselves first with these wonderful tax favored plans.

And don't forget to take full advantage of the tax advantaged 529 college savings plans thru our firm. College costs are far outpacing inflation. It will take \$200/ month earning 8% from the day your child (or grandchild) is born to cover the costs of a public college education, and \$500/ month to cover the average private college. So start now if you can. I personally couldn't think of a better gift for a grandchild. ☺

Thanks for your incredible friendship and support. All the best to you and yours for the holidays and good health, happiness and prosperity in the new year.

P.S. Thanks in advance for forwarding your e-mail address to us at "info@sgroifinancial.com."



An introduction to the Federal Reserve and Monetary Policy

By Shawn McLaughlin

Every so often a man by the name of Alan Greenspan of the Federal Reserve appears on national television. The news media discuss his appearance all day, and the financial markets rally or suffer due to his announcements. So what is the Federal Reserve? What are the tools of monetary policy? Who is Alan Greenspan? Why are their actions important to you?

The Federal Reserve (Fed) was developed under the Federal Reserve Act of 1913. The purpose of the Fed is threefold: to maintain long term economic growth in the US; maintain price levels that are supported by said growth; and to keep the country 100% employed. The Fed attempts to accomplish all of these goals through the regulation of the country's money and banking systems. There is no doubt that these are some lofty goals.

The Fed attempts to achieve these goals by loosening and tightening the monetary policy as they see fit. For instance, if the Fed felt that interest rates were too low they would tighten the monetary policy. In order to accomplish this (take money out of circulation) the Fed would raise the price of short term borrowing rates for member banks (the fed funds rate) thereby restricting the amount of money available to lend to the public. This will ultimately lead to an increase in short term interest rates. If the Fed wants to lower interest rates they would do the opposite by lowering the price of short term borrowing rates.

The Fed can also restrict and relax the money supply by increasing or decreasing the Reserve Requirement for its affiliated banks, and also by altering the Federal Reserve discount rate. The Reserve Requirement is the amount of money that a member bank must keep in cash as stipulated by the Fed. If the Reserve Requirement is kept high, then there is less money to loan to the public and interest rates increase; whereas if the Reserve Requirement is lowered then more funds are available and rates would drop. The Federal Reserve Discount Rate is the rate at which member banks can borrow funds from the Fed. If this rate is raised, less money will be borrowed and the monetary policy will tighten causing interest rates to increase. The opposite will occur if the Discount Rate is lowered. The Fed can modify one Rate if only a small adjustment is needed, or a combination of all three if the situation is more severe.

All of these decisions are made by the Board of Governors and since August 11, 1987 the head of that board has been Dr. Alan Greenspan. He has been designated chairman by four separate presidents (Regan, Bush, Clinton and Bush) and his current term will keep him at the helm until January 31, 2006. Since a member of the Board of Governors can only serve one 14 year term Dr. Greenspan will have to step down when his current term expires. Dr. Greenspan was allowed to complete the term of another Governor who had stepped down prematurely accounting for his additional service.

The Federal Reserve is charged with a very difficult task: to keep the US a prosperous country with room for anyone who is interested to contribute. The Fed attempts to accomplish this end by using the tools of monetary policy and applying them to the prevailing economy. Their job, no doubt, is a difficult one. For the moment we have a knowledgeable, weathered captain to lead our country forward. More information is available at www.federalreserve.gov.

You Wouldn't Forget Their Lunch Money—Don't Forget Their College Money

You'd never send your child off to school without a few dollars for their lunch. So hopefully you would not want to forget to save and invest to help pay for their college education, if you are able.

Saving for college should be at the top of your back-to-school list. And since college costs rise each year, starting your college savings plan now can help ease the burden of paying for school later.

A [529 plan](#) is a tax-advantaged way to save and invest for college:

- Investment earnings and qualified withdrawals are federal tax free¹ when used for qualified higher education expenses²
- Contributions are considered gifts and are excluded from the account owner's estate³
- Qualifies for a special gift tax exclusion — you can contribute \$55,000 per beneficiary in one lump sum free of gift tax (up to \$110,000 if married and filing jointly⁴)

Aside from these tax benefits, [529 plans](#) offer more control over how and when the savings is used. Account owners can select and change beneficiaries to another "family member" of the original beneficiary, as defined in Internal Revenue Code Section 529, at any time without penalty⁵ and name a successor account owner or transfer the ownership to another person.

Most fund companies offer a [529 plan](#) and the ability to invest in a Coverdell Education Savings Account (formerly known as an Education IRA). Your [financial planner](#) can help you decide what type of [college savings](#) plan is right for your situation.

¹Some states offer favorable tax treatment to their residents only if they invest in the state's own plan.

²For withdrawals not used for qualified higher education expenses, earnings are subject to income taxes at the account owner's rate plus a 10% federal tax penalty.

³If the account owner dies within five years of the funding date, the account owner's estate will receive only part of the deduction. Consult your tax advisor.

⁴Lump sum contribution amounts are subject to change. Account owners must wait five years before gifting again to this beneficiary.

⁵There may be gift or generation-skipping tax consequences depending on who the new beneficiary is. Your SgROI Financial, LLC planner can provide you with more information.

FACT: College costs have risen roughly 6% a year over the last 10 years

