



Thoughts on 2005

By Jeffrey Hahn, CFP®

As the year comes to an end a few moments of reflection seem in order. I hope this has been a good year for you. We have worked very hard to do our part in aiding your success and will strive to do even more in 2006 and beyond.

The three major stock market indexes, The Dow, The S & P 500 and the NASDAQ, have shown an increase for the year of between 1% and not quite 4%. In all three cases the increases have occurred in the last month and a half or so. Prior to that, all three indexes were down in what can still be described as a basically flat year for the stock markets. In fact, a longer look at the indexes shows them to be almost exactly where they were seven years ago for the Dow and S&P and 6 years ago for the NASDAQ.

The best performing stock market sectors this year have been energy, utilities and commodities stocks - which I lump together as they tend to overlap, the real estate stocks and the foreign stocks. Once again the small and mid cap stocks have out performed the stocks of the larger companies despite all the early predictions that the opposite would be the case.

The bond market hasn't been much different. With normal returns in the 5% range, the total returns for this year have been about 1%, depending on the sector. The stars of the bond world have been the municipals with about a 4% return for the safer short terms and 6%, give or take, for the longer term bonds. But even those returns have flattened over the last several months. Said another way, most of that 4 and 6 % return was made in the first half of the year and there hasn't been much since.

Economically, which is what should ultimately drive the stock market, the national economy is said to be doing rather well. The Gross Domestic Product, GDP, is growing at a very healthy rate of about 3.7% to 4% and inflation is low. This despite increased interest rates, the damage from the hurricanes, significant fuel cost increases, major labor problems, an enormous trade deficit and a gargantuan federal budget deficit. All of which is a testament to those who get up each morning and go to work and the technology that they use to do so.

Unfortunately, in our region we don't see very much of that growth and haven't for a long time, which is why our population keeps shrinking (and our county government just accelerated that downward spiral with their "courageous" sales tax increase and utter refusal to do anything meaningful to control spending). But there are some bright spots such as the housing development downtown and an increase in small business activity. One wonders what the ultimate outcome will be for Delphi and the thousands who work there as well as GM and the auto industry by extension. But that remains to be seen and it helps to remember that all economies are always changing and that only change can bring about improvement.

Since this is the season for prognostication and resolution, I'll throw my predictions for the future in with all the rest of the "expert" opinions out there and then watch to see what really happens. I think the stock markets will continue the pattern of advance and decline, similar to this year and the "flat" or slow growth trend will continue. I hope I'm wrong. I think the bond markets will do a little better and show traditional returns. I think good management of assets will be needed and that investing in an index will be a disappointment. We attempt to allocate your assets in the best quality investments our research finds. To that end, we are very pleased with the performance of our managed accounts and continue to recommend them. One final prediction, those clients who work most closely with us will achieve the greatest success, so please give us a call and spend some time reviewing your financial plan. I wish you all the best, hope you enjoy the holidays and have a great new year.



Index and Exchange Traded Funds

By Jennifer Jurek, CFP®

An Index Fund is a mutual fund whose portfolio matches that of a broad-based index such as the S&P 500 (The S&P is a collection of the 500 largest publicly traded US companies). The fund invests in all of the index holdings in the same percentage weighting, attempting to replicate the performance of that index (the performance of the 500 stocks collectively).

Some advantages of Index Funds may include lower annual expenses and tax efficiency. An actively managed mutual fund has a fund manager & research team. An index fund does not, therefore reducing fund costs (it is mainly run by a computer program). An index fund is also considered tax efficient. Due to the buy and hold (*Continued on page 4*)

A personal message from Joe

Dear Valued Client,

Thank You! Thank You! Thank You! 2005 was our best year ever!! We're proud to be associated with Cadaret, Grant & Co. Inc...what I personally consider the finest, high integrity broker dealer for totally independent financial planners nationwide. With over 1,000 independent planners across the USA, it looks like our firm again finished #2 and Joey as the #1 planner for the second year in a row. And I am really proud to announce that John Clouden, Jeff Hahn and Pat Sgroi all finished in the top 50. This is amazing considering the size of our market and business conditions in our region compared to cities like New York and Los Angeles. We could not have done it without you!!

Overall, I am very pleased with the performance of our highly researched investments and managed accounts. I am a huge proponent of finding the best managers in the various market sectors for our clients as well as proper diversification. This generally resulted in superior performance in a mediocre 2005 market.



I don't have a crystal ball for the market, but, I strongly believe the future looks bright. Corporate America is doing much better than is being reported in the news media and there are significant opportunities internationally (two-thirds of the worlds stock market value). A diversified portfolio with international exposure likely will increase your overall investment results and at the same time decrease your risk. I also personally feel the markets are generally undervalued at this time which also may lower not only your risk, but also the volatility of your investments.

Hence, I feel this is not a time to be sitting on the sidelines. Be sure you stay invested within your comfort zone/risk level and be sure to see your planner for a complete update at least annually.

Switching gears a little, here is a golf course update: we have made significant progress!! The irrigation system is just about in. The pumping station is done. And, we should complete everything else next year, including planting grass, etc. to be able to open up by mid 2007. It's been a long haul, but our dreams are about ready to come true. Thanks to all of you who have supported this wonderful community project along the way. ☺

Finally, I would like to take this opportunity to wish you and yours the happiest of holidays and a healthy and prosperous new year.

A handwritten signature in black ink, appearing to read "Joe". The signature is stylized with a large, looping initial "J" and a smaller "o".

Client Appreciation Night at the Adam's Mark Hotel in Downtown Buffalo

We would like to thank all of the sponsors and clients who attended the event on October 4, 2005. We had a fun and entertaining evening with over 500 in attendance. Here are some photos:



Pat Sgroi and Leo Wells from Wells Real Estate.



Jay DePerno of American Funds and Shawn McLaughlin.



Jeff Hahn between Dave Womack and Steve Blazek from Wells.



Joe Sgroi addresses the crowd at the podium.



A wave of clients in the dinner line.



Ron Bates and Bob Borodcik prepare to eat.

Pro-active Philosophy

At the end of just about every article we try and stress the importance of scheduling in on a regular basis. Throughout our 35+ years of existence we have found that a very successful action is to meet at least once a year with your planner. As we go through life our circumstances change, whether it is marriage, birth of a child or grandchild, sending a child off to college or the passing of a loved one. When these type of events happen in our lives it is a good idea to address our financial planning (investment and insurance) needs.

With this in mind, we are pro-actively calling clients who have not been in in some time (over one year). Our philosophy has always been that we can better fulfill your financial planning needs if we meet regularly and are making the necessary efforts to try and ensure that this happens.

So if you get a call or message from Kim or anyone at the Sgroi office, please schedule in or give us a call back to do so. The timing couldn't be better to make an appointment with your planner!

☺ *Happy Holidays and a Wonderful New Year!* ☺



Investing and the Role of Emotions

By Shawn McLaughlin

Emotions are welcome and essential in many aspects of life. However, when it comes to investing, emotions are an absolute curse. Emotions can lead an investor to do what feels right and the truth of the matter is that when it comes to dealing with investments what feels right quite often is wrong. If we allow ourselves to use emotions as a guide we will get into markets when we are comfortable and get out when we are uncomfortable. The problem with this strategy should be obvious. When do we feel comfortable? We are comfortable when markets are high. And when are we uncomfortable? We are uncomfortable when markets are low. If we allow ourselves to get in the market when we are comfortable, and get out when we feel uncomfortable this is just another way of saying that we are going to buy when the market is high and we are going to sell when the market is low. This is not an efficient way of building wealth, and this is the exact reason that the average individual investor never realizes the full potential of the financial markets.

We know that emotions can cause an investor to make decisions that can be detrimental to their financial situation; so what can we do to avoid this pitfall? The solution is actually quite simple, but it does take some effort on your behalf. The key to being a successful investor (get your pencils out) is to formulate a plan. You need to identify (a) your current financial situation, (b) your reasons for investing (your goals) and then find a path that will get you from a to b. The hard part is committing yourself to your new plan. You need to be sure that your plan is logical and that you have faith that it can weather the ups and downs of the market. If you have already taken this step then the hardest part is behind you. If you have not yet developed a plan then you need to ASAP. As always the financial planners at Sgroi Financial are prepared to assist you.

Announcement

We are happy to announce our affiliation with a Property & Casualty Insurance Agency. In years past when clients would ask if we offer home or auto insurance, we would say no and have no place to refer clients too. Now, not only do we have a market for this type of insurance, we are very confident that this market is a very competitive one here in Western New York. If you feel that you are paying too much for auto or home owners insurance, please call the office and we will see if we can help you. When you call, ask for *Devin Clouden*, Corporate & Group Benefits.

Index and Exchange Traded Funds Cont...

strategy, there is less capital gain exposure. Because the fund only buys or sells positions to reflect changes within the underlying index, there is less turnover to trigger tax consequences.

As a disadvantage, an index fund has no flexibility. Because they track securities of a specific index, they do not have the flexibility to react to possible price declines of specific securities contained within the index. Because there are no professional fund managers actively managing your investment, you are just “buying the market” and accepting market returns. With a passive investment strategy, you are not relying on individual stock selection and market timing techniques of managers and analysts to outperform the market. Herein lies why we do not believe in index funds. Our philosophy has always been to try to beat market returns through objective management. An index fund simply wants to be the market. For example, the S&P 500 is roughly where it was 6 years ago. Good fund management has surpassed the S&P 500 index consistently over this time period.

An Exchange Traded Fund is an index fund that trades like a stock throughout the day on the exchanges. This is unlike a mutual fund where you purchase or redeem shares at the price at the close of the market. For this reason, in addition to the advantages I named for index funds, ETF's include one more positive feature; liquidity during trading hours. In addition, most trading in ETF's take place between shareholders. Therefore, ETF's do not need to keep cash on hand to meet redemption requests like mutual funds do. This also eliminates them from being forced to sell stocks in a declining market to meet redemption requests.

On the downside, although ETF's typically have low expenses; you have to keep in mind trading costs. Like an individual stock, you have to pay a commission to buy or sell exchange traded funds. This is a drawback for those who invest or trade frequently.

Some popular exchange traded funds are “Spiders” and “Diamonds.” “Spiders” (SPDRs) invest in the 500 stocks of the S&P 500 and “Diamonds” invest in the Dow Jones Industrial Average.

In summary, the debate continues on passive versus active management. While some argue they prefer to pay for professional fund managers and their research teams in hopes of outperforming their indexes over time, others are happy to pay less for unmanaged funds and accept pure market returns.

Important Facts for 2006

- 401(k), 457(b) & 403(b)/Tax Sheltered Annuity contribution limits increase to a max of \$15,000 in 2006. Age 50 or more can contribute another \$5,000.
- Traditional and Roth IRA contributions for individuals age 50 or older will increase from \$4,500 to \$5,000 in 2006.