

Understanding the Dow *by Jennifer Jurek CFP®*

Have you ever wondered what it means when they say “the Dow is up 30 points” on the evening news? The Dow Jones Industrial Average (the “Dow”) is a commonly quoted average that tracks the movement of 30 of the largest blue chip company stocks.

Charles Dow began his market tracking index in July of 1884. The original index represented the average stock price of just 11 companies including American Cotton Oil, American Sugar, GE, Tennessee Coal & Iron, etc. Originally, the Dow was computed by adding up the prices of the stocks then dividing by 11. The divisor has since changed through the years to account for mergers, takeovers, bankruptcies, stock splits, and various company substitutions. Today we add the price of the 30 companies included in the index and divide by .14452421.

Components of the Dow Jones Industrial Average are at the discretion of the editors of the Wall Street Journal. Although there are only 30 companies tracked in the index, they are all well established leaders in their industry and are well diversified among sectors in the market including financial services, technology, retail and consumer goods, etc. Currently, the 30 companies included in the DJIA are: Alcoa, American Express, AT&T, Boeing, Caterpillar, Citigroup, Coca Cola, DuPont, Disney, Eastman Kodak, Exxon Mobil, General Electric, General Motors, Home Depot, Honeywell, Hewlett-Packard, IBM, International Paper, Merck, Johnson & Johnson, JP Morgan, McDonald's, 3M, Microsoft, Philip Morris, Proctor & Gamble, SBC Communications, United Technologies, and Wal-Mart.

Interestingly, the worst one day drop was not the stock market crash of 1929; it was Black Monday on 10/19/87 when the average dropped 508 points or 23%. The greatest gain (in terms of points) was on 3/16/2000 when the Dow was up 499 points. Other milestones include the Dow breaking 10,000 on 3/29/1999 and 11,000 on 5/3/1999. As I write this on April 16th, the Dow closed at 12,720.46 up from 12,463.15 as of the first of the year.

In conclusion, the purpose of the DJIA is to give a sense of the market's general trend and often influences how investors generally feel about the market as a whole. All in all, the numbers (or points) are just marks on a measuring stick.

The Basics of a Credit Score

The concept of credit, the idea that your reputation or character will allow you to obtain goods or money based on the agreement that you will pay for them sometime in the future, has been around for ages. These days, home buyers are beginning to understand that credit ratings play an integral part in the lender or broker's decision to approve a borrower's loan application. As credit ratings also determine the interest rate a lender or broker will offer, it's important that consumers are more aware than ever of how credit reporting works and what your credit report actually contains. Here are some credit basics to help you navigate the often confusing world of credit and to help keep you apprised of the credit industry's major changes and how they affect you.

What is a credit score and why is it important?

A credit score is essentially a number that lenders use to approximate risk when lending to a borrower. Sometimes called a FICO score, for Fair, Isaac and Co., the company that developed the current credit score system. A credit score condenses all the information in your credit report to a number which helps determine your credit worthiness. Past experience has demonstrated to lenders that borrowers with higher scores are less likely to default on a loan, so lenders use a credit report to get a quick, accurate prediction of the borrower's risk. Scores can range from the 300s to about 900, though most borrowers fall in the 600-700 range. The higher the borrower's score, the better deemed one's credit worthiness.

How does the lender or broker use my credit score to determine my credit worthiness?

Typically, lenders or brokers will take the middle of the three scores from the three credit score agencies. As mentioned above, credit scores can range from 300 to about 900, but lenders may use other factors such as income, employment history and the type of loan you are seeking in order to make a final decision. For example, an auto lender is more likely to take into account the amount a consumer puts down, employment length and history, debt-to-income ratio, and the borrower's past performance on similar loan types. On the other hand, mortgage brokers will have very different borrower concerns, giving more or less weight to certain credit factors. For more information check out www.annualcreditreport.com.

A personal message from Joe

Dear Valued Client,

The Dow Jones closed today at an all-time record of 13,487.53. We had a bit of a correction a couple months back and, in no time flat, that correction has been completely made up. As I said in my last newsletter, stock valuations continue to be very favorable. One very reliable source (IBES valuation model of the U.S. stock market) has the U.S. stock market under-valued by 34.4% as of April 1st, 2007. In simple English, that means stocks are cheap and that dramatically lowers risk!! It's not the same as it was in March of 2000 when this same model showed the U.S. stock market to be over-valued by 62%.

This economy has returned to solid growth during the past few years as newly created jobs have boosted income tax receipts. This accompanied by a significant increase in corporate profits and hence, tax revenues, has reduced the federal budget deficit. So, overall we have a very strong economic outlook and cheap stock market prices. This is the time to not lose track of those long term goals and stay invested in areas that give you the greatest chance for long term growth....professionally managed equity mutual funds and real estate.



Thanks again to all of you who supported our major Boy Scout fundraiser on March 2nd, it was a great success!! Also, you may want to drive down Old Transit Road in Orchard Park and take a peek at our fabulous golf course coming into bloom. Our dream is coming true!! SMILE!

Be sure to schedule in if you have not had an appointment in the last year or so. Thanks again for your incredible support and confidence. We wish all the best for you and your families. GO SABRES!

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

Spring Thoughts

by Jeff Hahn CFP®



Some times I should try not to be subtle. So to set the record straight, I do not drive a taxi cab part time. Several clients who read this publication were lead to believe so by my comments in the last edition of The Sgroi Financial. The point I was attempting to make is that with all the driving I do for three very active teenagers I often feel like a taxi driver. The simple fact is that young people seem to have more structured activities now than when I was their age and those activities tend to be spread out all over.

On the professional side things are going exceptionally well for our firm and for me individually. Many of you have gained considerably with the market over the last five years. In addition, many of you have referred new clients in to see us for help and we will help to the best of our abilities. For this I thank you and hope you will continue.

When someone initially comes in to see us the first thing we like to do is our fact-finding interview. This comprehensive format gives us a clear understanding of their situation and allows us to make suitable recommendations. Often times we have to help new clients straighten up some things. I call that “cleaning up the messes”. It may be debt or scattered investments or old accounts that they do not understand. Once that is done we look to improve investment quality and put in place the systems that will carry the person toward their financial goals. Those systems often start slowly and gradually increase, year after year, all the while improving investment quality. It’s not an exact science but conscientious effort and team work with the client can lead to fantastic results. This is why we stress the importance of regular meetings with us, at least once per year.

What is a Bond?

by Shawn McLaughlin



In our last newsletter we took the time to examine stocks. Today I would like to discuss the characteristics of a bond. Bonds are a very different creature than stocks. Companies can issue both stocks and bonds and while stocks make me an OWNER in a company purchasing a bond makes me a LOANER to a company. A bond is very similar to a Certificate of Deposit (CD) at your local bank. With a CD you can take your monies to the bank and decide how long you would like to invest (as short as a month or as long as 30 years) and you are paid an interest rate while you are without your funds. The longer that you are willing to loan your money to the

bank the more you will earn in interest. Bonds are very similar in this manner; you part with your money for a specified amount of time and agree to a specific interest rate. (Please note that a CD at the bank is FDIC insured and offers a fixed rate of return whereas both the principal and yield of bonds will fluctuate with changes in market conditions.) This is a fictitious account, but I am sure that you are aware that Geico recently opened an office in the area. To do this they had to raise money for a number of projects. Most likely Geico estimated how long the project would take and approximately how much it would cost. With this information in mind they then sold Geico Bonds to the investing public until they had reached their goal. A person who purchased the bond would loan money to Geico, collect interest on their money while the project was underway and receive their initial investment back when the project was completed.

One of the major risks of Bonds is called the default risk. This means that the company takes your money and then is unable to pay you back. This does occur and it is important to understand the financial quality of a company that you plan to buy bonds from. The safest place to purchase bonds is from the US government, as they are backed by the full faith and credit of the federal government. Let’s pretend that I can purchase a 5 year bond from the US government that is going to pay me 5% per year. At the same time GE wants to issue a 5 year bond. While no one would argue that GE is a very stable company, they are not the US government. To attract investors they would offer their bonds at 6% for the same five year period. What about that ABC company that is starting at the end of the street? To attract investors for that same 5 year period they might have to offer 12% because investors should be aware that their risk of default is much higher than both the US government and GE.

One other important risk to understand is interest rate risk. Bonds and bond funds have an inverse relationship with interest rates; as interest rates increase the value of the bond falls and as interest rates fall the value of the bonds will likely go up. This perhaps is the largest risk concerning the ownership of bonds. I hope that this has been informative. I look forward to seeing you at your next appointment. If you have not been into the office for a while please pick up the phone and schedule in.

Getting a Feel for Insurance

by Erika Vranjes Director of Life Insurance

When you have dreams for your future you want to be sure they come true - even if you're not there to financially support them. Life insurance can be the safety net for all of your financial plans. With life insurance you can be certain that the dreams you have for your family will go on.

Term insurance is one way that can provide financial security for your family without a lot of expense. Term insurance has a low premium that's guaranteed for 10,15,20,25 or 30 years, with no cash value. In fact, term insurance gives you the most protection for the least amount of money - and now it's more economical than ever. Perhaps more importantly, term insurance can offer you and your family more than just low-cost protection. You can renew your coverage automatically and should your needs change, you can convert to a permanent plan of insurance that builds cash value and has premiums that don't increase.

Here is an example using company XYZ for \$250,000.00 20 year term. These premiums are annual.

	<u>Preferred Plus</u>	<u>Preferred</u>	<u>Standard Plus</u>	<u>Standard</u>
Male age 25	\$152.50	\$195.00	\$232.50	\$285.00
Female age 25	\$140.00	\$170.00	\$205.00	\$225.00
Male age 35	\$152.50	\$202.50	\$245.00	\$317.50
Female age 35	\$145.00	\$187.50	\$225.00	\$275.00
Male age 45	\$342.50	\$402.50	\$547.50	\$660.00
Female age 45	\$272.50	\$325.00	\$425.00	\$500.00
Male age 55	\$795.00	\$925.00	\$1,285.00	\$1,760.00
Female age 55	\$590.00	\$657.50	\$832.50	\$1,037.50

****If you would like more information please give your Financial Planner a call.*



Announcement

Director of Research, Jennifer Jurek has now joined the team of financial planners at Sgroi Financial. Jennifer has been with the firm for the past 3 years studying current and potential financial planning products and services for our clients. Jennifer is also a member of the investment committee that researches and continually monitors the investments within the Sgroi Financial managed money portfolio's.

Jennifer has 12 years experience in the financial services industry. After receiving her Bachelor of Science Degree in Finance from Canisius College in 1995, Jennifer was recruited by M&T Bank. She worked there for 9 years in roles as Assistant Branch Manager, Branch Manager and Financial Consultant with M&T Securities. Jennifer has her Series 6, 63, and 7 mutual fund licenses, as well as her life insurance license. She also received her Certified Financial Planner Designation through the College for Financial Planning in 2001.

We hope you have a wonderful Summer and look forward to seeing you at your next appointment.