

THE SGROI FINANCIAL

VOLUME 12 NUMBER 1

WINTER 2007 NEWSLETTER

PLANNING FOR TODAY & TOMORROW

Thoughts on 2006 and 07

By Jeffrey Hahn CFP®



With 2007 off to a fast start already, it always surprises me how fast the clock moves and the pages of a calendar turn over. A busy career and a part time job as taxi driver for three teenage kids will do that. In fact I am still trying to figure out when they stopped jumping into my arms when I arrive home at night and often wish that now was still then. I do hope that all is well with you and yours.

2006 was an exciting year for investors. The major indexes all experienced substantial increases. The S&P rose 13.6%, the NASDAQ 9.5% and the Dow 30 Industrials won the race at 16.2%. Add in dividends and the returns were even greater. Once again real estate, utilities, and international stocks were big winners. For the first time in a long while some of the larger company sectors performed equal to or better than the small and mid cap sectors. All of that coming after 2005's disappointing one to four percent returns. 2006 also saw bonds and bond funds earning more traditional returns, in the four to five percent range.

The stock market increases came about primarily because corporate profits increased around 14 percent. A company's share price is essentially a statement of that company's value. If a company is earning more, it becomes worth more. Should the opposite occur, the price will go down. Establishing what the value of a company should be or will change to is the function of investment management. Finding what we think is the best quality management for you is the function of our firm. There have been a variety of factors contributing to the nation's overall economic growth: favorable interest rates, lowering energy and commodity costs, favorable tax structure, willing consumers and a lack of disasters. As the U.S. economy currently makes up roughly 27% of the total world economy, what happens here is important.

In our area, the stocks of several local companies, a Buffalo Index so to speak, also rose about 13%. That is good news of course for a region that needs all the help it can get. I hope that the brighter spots of our local economy can be fortified and the structural changes needed to turn the area around can start to occur. Reducing the tax burden in one of the highest taxed areas of the country would help a lot, but seems unlikely. It also seems implausible that we pay some of the nation's highest rates for electricity while we sit right next to one of the world's largest hydro electric plants and pay more for water than people in the Arizona desert while we sit on the shores of the world's largest source of fresh water. These would be nice targets of reform for our new Governor. This is the time of year when anyone and everyone is making their market and economic predictions. Before I get there I'd like to revisit last year's. In that column I wrote: "I think the stock market will continue the pattern of advance and decline ... and the "flat" or slow growth trend will continue. I hope that I am wrong. I think the bond markets will do a little better and show traditional returns." Well I was wrong on the first and happy to be so, while being right on the second.

For this coming year I would not be surprised if last year's prediction came true. There are those who believe the market remains very undervalued, meaning they think the market should go up significantly. Others point out that we have not had a 10% "correction" downward in almost five years. That is true and very unusual. Normally those occur about every two years. So my prediction is that the markets will show modest gains overall with certain sectors leading the way and that bonds will continue to have "low normal" returns in the 4% to 5% range.

With all that said, the question of what to do remains. On the investment side keep yourself very well diversified with a strong emphasis on quality investment management. Don't overload a sector unless you are totally comfortable with it and have thoroughly analyzed it and the risks. Money Market accounts will be more advisable than CDs for your cash positions. We remain very pleased with the performance of our managed accounts and will continue our work to upgrade them on an ongoing basis. That is one "prediction" I can make for sure. Take time to review your investments and meet with us regularly. That's my last prediction: the clients who meet with us on a regular basis will achieve the most success. We look forward to meeting with you.

A personal message from Joe

Dear Valued Client,

Overall 2006 proved to be an excellent year for the financial markets. The 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. I am a firm believer that the reduction in tax rates normally increases tax revenues and vice versa...contrary to what you hear from some politicians. I also believe that these reduced tax rates have helped the economy in this strong recovery period.

Stock valuations continue to be very favorable; the federal reserve has moved strategically to slow inflation by raising interest rates. Hence, interest rates will likely be very stable for the foreseeable future. To sum this all up, we should see a continuation of respectable returns in the market as well as in quality real estate investments.



On a personal note, thanks in advance for those that support our major Boy Scouts fund-raiser on March 22nd. My firm has been an avid supporter of the Boy Scouts for some time now and it is always very rewarding to give back to our community.

And, believe it or not, we have a July 4th, 2007 date for the Grand Opening of our awesome community golf course in Orchard Park. Thanks again to so many of you who have helped along the way.

Have a great 2007 and 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.

P.S.— I really enjoy working with Linda Pellegrino each Thursday morning on Channel 7's "AM Buffalo". If you get a chance, call in. I would love to take a call from any one of our awesome clients.



Making a Move Towards Financial Independence

by Brian Clouden

An often overlooked aspect of a complete financial plan, regardless of ones tax bracket, is building an emergency fund.

An emergency fund is a money market or savings account where you keep a specified amount of money to cover expenses. You don't touch this money unless it's a real emergency.

Once you've established your emergency fund, you will have a cushion that can protect you from financial troubles such as not being able to pay a bill or covering expenses if you are out of work.

How much should you keep in an Emergency Fund?

The amount you hold in your emergency fund will vary over time. At first, just aim to keep enough to cover three months' worth of expenses. If you are used to spending every dime, it will take perseverance to tuck away money from each paycheck to stockpile your emergency fund. But it's well worth it. When you get this money saved, you should give yourself a pat on the back because you've just taken the first step toward financial independence. Just the fact that you are now saving on a regular basis is a financial milestone.

The general rule of thumb on how much should be in an emergency account is to save enough to cover three to six months' worth of expenses. As your take-home pay increases, you may need to keep as much as a year's worth of expenses. The more you get paid, the more you'll need in your emergency fund. That's because if you do lose a high-paying job, it takes longer, on average, to find a comparable position than if you're in a lower-paying job.

But take this one step at a time: Once you've had enough to cover three months' worth of living expenses, then work to get to the six-month mark. This generally happens over time as your salary increases.

If you are interested in starting an emergency fund, a good money market account can earn 4+%, which beats just about any savings account. Call for more information.



New Year Financial Check-up

by Jennifer Jurek CFP®

The New Year brings a great opportunity to take a fresh look at your financial situation. As you continue to focus on the big picture; your retirement, saving for college, your mutual fund portfolio, etc., don't forget to look back and see if you have laid the proper foundation for your financial plan.

Let's take a look at 4 basic financial planning ratios that can help you analyze your current situation.

1.) Liquidity Ratio - $\frac{\text{Cash and Liquid Assets}}{\text{Monthly Expenses}}$

This formula shows you how many months you can continue to meet expenses from cash or other relatively liquid assets. A basic guideline is to have at least 3 to 6 months of expenses in an emergency fund.

2.) Savings Ratio - $\frac{\text{Savings and Investments}}{\text{Gross Income}}$

This ratio indicates what percentage of gross income you are setting aside for future use. You should strive for a ratio of 10% or more.

3.) Debt to Asset Ratio - $\frac{\text{Total Debt}}{\text{Total Assets}}$

This formula measures ones ability to pay debts as it determines what you owe, to what you own. Generally, you want to be at 50% or less.

4.) Debt Service Ratio - $\frac{\text{Annual Debt Repayments}}{\text{Annual Take Home Pay}}$

The Debt Service Ratio compares the annual payments on all consumer and mortgage debts of a fixed nature, with your annual take home pay. Lending institutions often use this ratio to determine your payment ability for debt. Ideally, you should be at 35% or lower.

Controlling debt and maximizing your savings are the building blocks to a solid financial plan. Call us to schedule an appointment so we can help you with your 2007 financial check-up!



Understanding the Basics to a Stock by Shawn McLaughlin

When I meet with a new client one of the first things that I give them is a copy of our Basic Investment Guide (if you don't have one just call the office and we can get one out to you). Just like any other profession the world of finance has its own jargon. The only difference is that while I may never have to operate a bulldozer or teach a Spanish class, you must have some knowledge of financial talk. I would like to take a moment and explain exactly what a Stock is.

Individual Stock – While there are a number of different types of stock, I will be concentrating on common stock. Owning common stock in a company entitles the owner to share in that companies' profits through price appreciation and a share in the voting power when it comes to making decisions for the company. Let's assume that I own 100 shares of General Electric (GE) that I purchased for \$25. As of today GE stock is trading just over \$36 per share. This means that GE has performed well since I have purchased the stock and I currently have an unrealized gain of \$11 per share. So long as GE continues to perform well I can expect that the price per share of GE will continue to rise. However, if things don't go as planned the value of my stock can drop very quickly (i.e. Enron, World Com, Adelphia). As a stock investor it is important that I own a number of different stocks in a variety of different industries so that I am properly diversified.

One of the other perks of owning stock is that I have a right to vote on whatever topics appear before the board. They want to hire a new CEO? I get 100 votes. They want to change the dividend? I get 100 votes. These votes are called proxies and they are sent to my home so that I can vote however I like on the pending topic. Of course, in the real world, my 100 votes don't go very far! So, in summation, if I own a stock I am an OWNER in a company.



Boy Scouts of America

The Greater Niagara Frontier Council will be hosting their 2007 Frontier “Gala” Dinner/Auction Thursday March 22nd @ Brierwood Country Club in Hamburg. Our own Joe Sgroi will be the Honorary Dinner Chairperson. If you would like to support the Boy Scouts or attend the event, please call the office for more information. Registration deadline is March 9th.

For years Sgroi Financial, LLC has been a big supporter of the Boy Scouts of America.

Beware of Random Marketing Mailings

We all receive junk mail. One of the areas in the financial world that these mailings have been targeting are annuities. They let a possible contract holder know that they may have an annuity that is out of surrender charge and eligible to cash in, withdrawal or transfer to another annuity. There are several problems that this mailing can cause.

1. Cashing in or withdrawing your annuity may cause a significant tax consequence. If the annuity is inside of an Individual Retirement Account (IRA) the entire balance is subject to state and federal tax. If the annuity is after-tax dollars, only the growth of the account is taxable. For older annuities the growth will normally be greater and therefore may create a sizeable tax burden.
2. A sizable tax consequence for older individuals in any given year may effect Social Security. Consult your tax preparer for this information.
3. New annuity contracts may not offer attractive long term interest rates. Many of the newer contracts offer a great rate for the first year and depending on prevailing interest rates after the first year the rate could decrease, drastically. Older annuity contract may have rock bottom rates in the 4.5% range. New contracts tend to be in the 3% neighborhood.

The bottom line is beware of the grass is greener on the other side of the fence scenario. If you have seen one of these post cards or receive one in the future and have questions, please give the office a call.

News & Notes

- | | |
|---|---|
| <ul style="list-style-type: none">• John Clouden, coach of Saint Francis High School Club Varsity team, has his team among the top-ranked Club teams in Western New York. John has been coaching youth hockey for many years and is in his third year at Saint Francis.• Harvest Hill, the new golf course off of Old Transit Road in Orchard Park, is slated to open this July. A round of golf and an official club polo shirt are available in our lobby. For more information call the office and ask for Marie. | <ul style="list-style-type: none">• Congratulations to Dave Gerspach, Math Teacher at Sweet Home High School and client of Sgroi Financial, LLC. He and his Federation Hockey team were recognized for their efforts in the Buffalo News on January 16th. After a slow start Dave has helped turn the program into one of the best in Western New York.• As of the second week in January, Sgroi Financial welcomes back Erica Vranjes from her short hiatus from the firm. Erica and her husband Dan had their first baby on November 10th, Isabella. Well done!! |
|---|---|

As another year passes we can't stress enough the importance of scheduling in for your annual appointment.