MID-YEAR 2003 PLANNING MEMO

We have seen substantial swings in the stock market over the past four years. Some issues have declined sharply, while other investments have gained ground. We are presenting this mid-year planning letter to cover a wide range of topics that might affect you or another member of your family. The topics include investment risk, financing a college education, life insurance coverage, saving for retirement, investment asset allocation, simplified retirement plans, lifetime gifts, and Social Security benefits.

Investment Risk: The stock market, by its very nature, is volatile. However, history has shown that a long term investment in stocks will outpace most other comparable investments (source: Ibbotson Associates, Inc.). Of course, past performance is no guarantee of future results. Try to avoid common mistakes that can plague experienced investors as well as novices. Following are a few examples: of the issues we keep in mind for you, while managing our risk adjusted portfolios.

- Don't buy stocks that appear to have reached their high point. As an alternative, you might consider investing in stocks that look to be currently undervalued and seem primed for a comeback. Look for stocks that have had continued earnings – not losses, but whose price has declined in response to the total market declines.

- Don't sell too soon. You'll kick yourself if you cash in on a quick profit, only to see the stock continue to rise. Keep close tabs on economic fundamentals and trends within the industry.

- Don't hold too long. Frequently, an investor who has suffered a loss will stubbornly hold on to the shares in an effort to get even, when it makes more sense to get out.

- Don't put all your eggs in one basket. For example, you might offset "growth" stocks in your portfolio with traditional blue-chip stocks that have had continuous positive earnings. With portfolio diversification, you may achieve better overall balance in your investments.

Asset Allocation, Is another fundamental issue we manage and monitor in your portfolios. By using "asset allocation," you may be able to reduce the risk that you could be severely damaged by a downward trend in the markets or by just one security. You divide your portfolio by assigning a set percentage to investments in different asset classes. This allocation should reflect the investor's personal comfort level. Of course, everyone's situation is different and the actual percentages and types of investments you choose for your portfolio will vary.

Due to fluctuations in the marketplace, a portfolio that was properly balanced a short time ago might now be weighted too heavily in favor of one investment. You may discover you are bearing a greater risk than you would normally like. This is a good time to review and adjust your portfolio taking into account your tolerance for risk., and is one of the reasons we periodically rebalance our portfolios for you.

Financing a College Education. Below you will find the amount that must be saved each year to accumulate $100,000 for a child's college education, assuming an interest rate of 8% compounded annually without any taxes applied.

Annual Savings Required to Accumulate $100,000

If a child is:	Years to Save:	Annual Savings:
Newborn	18	$2,472
Age 3	15	$3,410
Age 8	10	$6,342
Age 13	5	$15,783
Age 16	2	$44,516

This is a hypothetical example only and does not reflect any specific investment. Both the return and principal value of investments will fluctuate over time. Source: WPI Communications.

While financing a child's college education is a daunting task, it's not insurmountable. To build up a fund for a college education, make saving for college a priority item on the budget, right along with paying the mortgage or meeting an insurance bill. Consider the tax impact on investments. Be aware certain investments may generate income that is either tax-free or tax-deferred. For example, income earned by municipal bonds or municipal bond funds is generally exempt from federal income tax. However, the income may be subject to state and local taxes and the Alternative Minimum Tax (AMT).

Investigate financial aid. While financial aid often is based on need, your child still may be eligible for some type of state or federal financial assistance. This can take the form of a grant, work/study program or a low-interest loan. Some types of investments are counted in the current Congressional Aid Formula while others are not. This varies based on ownership (parent, child or trust) and the form of property (savings, bonds, stocks, mutual funds, retirement accounts, annuities and life insurance).

Investigate tuition programs. Many state universities, as well as certain private schools, offer tuition prepayment plans or other variations. While a tuition plan might be beneficial, make sure you get all the details and understand how the plan works. Caution: There may be significant drawbacks to such an arrangement (e.g., no investment earnings received on prepaid amounts if the child does not attend a particular school). You may want to consider special "529" tuition plans that offer unique tax benefits, but naturally have some limitations, which you should be aware of prior to investing.

Life Insurance Coverage. In light of certain changes in your life or lifestyle, it may make sense to either increase or decrease your current life insurance coverage. Perhaps there has been a birth, adoption, death, disability, divorce, marriage or other significant event in your family. Maybe you bought or sold a principal residence, vacation home or other real estate. Perhaps a family member switched jobs, retired or started a new business. Don't wait until the anniversary date to update insurance.

Saving for Retirement. A long-range plan for sustaining a comfortable lifestyle in your retirement years starts with an estimate of income and expense during retirement. Your income will likely include amounts from investments, retirement plans and IRAs and Social Security benefits. We can help you with these preliminary calculations, if your estimated retirement income does not cover your anticipated expenses; you need to close the gap. Here are a few suggestions:

> **Step up your savings:** One of the best ways to save for retirement is to set aside a fixed amount of money at regular intervals. The sooner you start saving and investing, the better off you should be during your retirement years.

> **Contribute to a 401(k) Plan:** If your company offers a 401(k) Plan, you may increase the amount of salary you are deferring to the plan. This year, you can set aside as much as $12,000 (subject to other restrictions) or $14,000 if you are eligible for "catch-up" provisions. The money compounds tax-deferred until it is withdrawn. Note: distributions made prior to age 59 ½ are generally subject to a 10% tax penalty in addition to ordinary income tax. Even sole proprietor businesses can establish 401(k) plans today.

> **Consider working longer.** This can increase Social Security benefits. It may also enable you to accumulate more savings. The key is to prepare for retirement while you are still working. If you wait, it may be too late.

Simplified Retirement Plans. Small business owners, including sole proprietors, S Corporation owners and partners, can set up a tax-advantaged plan. Two popular plans that are relatively easy to administer are the SEP (Simplified Employee Pension) IRA and the SIMPLE (Savings Incentive Match Plan for Employees) IRA. The two plans are similar in nature, but there are critical differences. These are just two options for small business owners to consider. We would be glad to set up a meeting to discuss your personal needs. Below is a brief comparison of SEP and SIMPLE plans. An additional consideration is the use of a small business.

	SEP IRA	**SIMPLE IRA**	**401(k)/PS**
Employer eligibility	Any employer.	Must have 100 or fewer employees earning at least $5,000 annually (and expecting to earn at least $5,000).	ANY
Employee eligibility	Must be at least 21 years old, worked for the company 3 out of the last 5 years and earned at least $450.	Earned at least $5,000 annually in two prior years (and expecting to earn at least $5,000 in the current year).	Flexible up to1 Year + 1,000 Hrs

Employee contributions	None for plans established after 1996.	Eligible employees can contribute a percent.	100% to 12,000 + Catch-up
Employer contributions	Up to the lesser of 100% of compensation or $40,000.	Matching contributions (maximum 3%) or non-elective (up to 2% of compensation*).	Up to 25% to 40,000
Distributions	Subject to 10% penalty for early withdrawals.	Subject to 10% penalty for early withdrawals (25% within two years).	Same as SEP IIRA but loans maybe available

401(k) and profit sharing plan which is a better choice for most small and sole proprietor businesses.

Lifetime Gifts. You can start a lifetime gift-giving program anytime during the year. With careful planning, you can reduce the size of your taxable estate, without paying any federal gift tax. Using the annual gift tax exclusion, you can give each recipient (such as a child or grandchild in a relatively low tax bracket) up to $11,000 per year with no gift tax consequences. This exclusion is doubled for gifts made by a married couple.

Social Security Benefits. Under the earnings test, you must forfeit a portion of your Social Security benefits if your earned income exceeds a specified threshold. Once you reach full retirement age, there is no earnings limit for working retirees. The Senior Citizens' Freedom to Work Act of 2000 eliminated the earnings test when you reach the age for full Social Security benefits. This is another reason why postponing retirement until the age for full benefits may be a good move.

Age to Receive Full Social Security Benefits		
Year of Birth	Full Retirement Age	Age 62 Benefit
1937 or earlier	65	80.0%
1938	65 and 2 months	79.1%
1939	65 and 4 months	78.3%
1940	65 and 6 months	77.5%
1941	65 and 8 months	76.6%
1942	65 and 10 months	75.8%

1943-1954	66	75.0%
1955	66 and 2 months	74.1%
1956	66 and 4 months	73.3%
1957	66 and 6 months	72.5%
1958	66 and 8 months	71.6%
1959	66 and 10 months	70.8%
1960 and later	67	70.0%
Source: Social Security Administration – 2003 Guide		

Insurance Review. If you have not had a comprehensive review of your personal "defensive" financial plans, now might be a good time for us to help you review the status and options in all your insurance: life, disability, medical, long term care and your general liability coverage's.

The Tax Act of 2003. This new legislation, signed in May by the President, may have an impact on your plans. We are sending out a detailed memorandum on this act separately.

In conclusion, the ideas discussed here should be reviewed with regard to your individual situation. It is not meant to constitute tax advice, so be sure to contact a professional tax or legal adviser when appropriate. We would be glad to schedule a meeting to assist you with a comprehensive mid-year plan that meets all of your objectives; just give us a call.