Fourth Quarter 1998

STANFORD eagle

A world of financial information from Stanford Group.

financial planning

painting the big picture

Is it just us or is the canvas getting bigger? Judging from the clients who walk through our doors, investors are setting bigger and more ambitious goals: the best colleges for their kids, second homes, luxurious vacations and a greater sense of financial security. In addition, they want to retire young, live long, travel the world and leave a generous inheritance for their loved ones.

Sounds good, right? Determining your financial goals is a good first step, but to reach and maintain a sense of financial well-being you'll need more than a wish list.

As financial markets become more complex, individuals seek out professional advice that will help them reach their long- and short-term financial goals. Young people are starting earlier, boomers are well on their way and seniors continue to invest long into their retirement.

"Because every client has a different set of priorities, creating and maintaining a financial plan is a very personalized process," states Mark Groesbeck, Stanford Group's vice president of financial planning. "Here, we work with a six-step program that begins with a simple face-to-face conversation. After all, if you're going to reveal your greatest hopes and dreams, you'll want to know who you're talking to."

When you work with a Stanford Group Financial Consultant, you receive professional advice from an experienced and proven professional—an informed and knowledgeable guide to help you through every financial situation, now and in the future. It's a level of support beyond investing. Our goal is to develop a long-term strategy that will keep you on a steady financial course throughout your lifetime. And it's never too late or too early to begin.

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weathering the market

Will the market continue its turbulent course? Will it plummet? Rebound? Soar above 10,000? Every experienced investor knows the risks and volatility associated with investing, but sometimes we need a reality check. No one, not even the most highly touted expert, can make a reliable prediction of how the market will perform.

If you've been in the market for at least five years, you've seen the Dow soar from 3794.33 in 1993 to a high of 9337.97 back in July of this year. So while the market may be down this quarter, lots of folks are still making money.

Despite such documented information, analysts are seeing a number of fundamental shifts in investor perceptions due to insecurity and fear. Individual investors, some heavily invested in stocks and relatively new to the market, are clenching their teeth at the recent downturn. They want clear advice on how to weather the market. And they want it now.

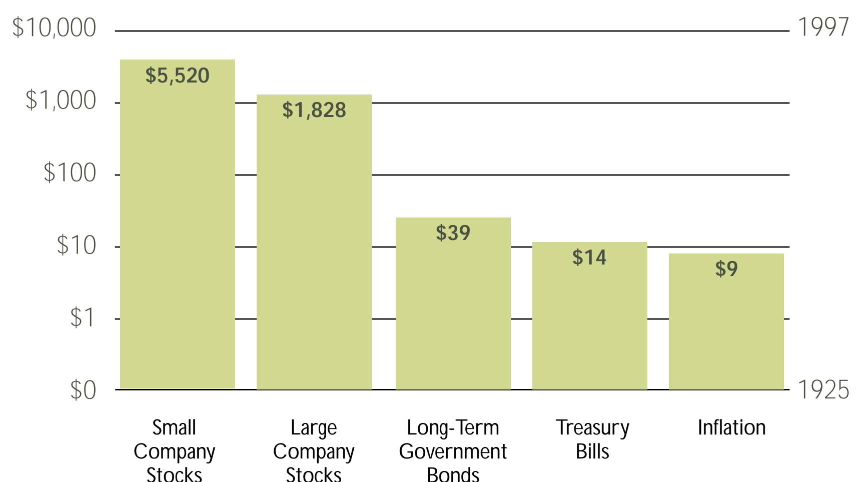
The first thing we tell clients is to have a plan. The best protection against risk is diversification, that is, allocating your investments across a broad range of securities and asset classes. But it's not just individual investments that have folks worried, but the ebb and flow of the entire market.

The best way to deal with the prevalent uncertainty is to know the facts. After looking at historical data, you'll see that those who invest for the long-term often benefit most. So if you have a 5-, 10- or 20-year time horizon, it's best to stay the course. If you're going to use your investments within the next five years, it's probably time to shift those investments into less volatile cash and income-earning securities, such as bonds, Treasuries and money markets.

Now if you're the type of investor who has a low tolerance for risk, you might also look at rebalancing your portfolio toward fixed-income vehicles. But remember, over the long-term, stocks have historically outperformed most other securities by a significant margin.*

Our recommendation is to have a strategy that reflects the natural ups and downs of the market. If you don't have a plan, your Stanford Group Financial Consultant can help you get started by evaluating your current situation and developing a clear picture of where you'd like to be. By working with an experienced professional, you'll gain a better understanding of your own ability to deal with the stress and uncertainty of investing. The results: a more resilient attitude that will keep investments on track, rain or shine.

STOCKS, BONDS, BILLS AND INFLATION 1925-1997
Hypothetical value of $1 invested at year-end 1925*



Assumes reinvestment of income and no transaction costs or taxes. © Copyright Ibbotson Associates 1998

**Past performance is no guarantee of future results*

Your worst enemies could be your emotions.

Here's how to *beat* them.

Fear

When the market drops, don't go running. Think about how much more you can get for your money. It's a theory called dollar cost averaging,* an investment strategy intended to avoid the negative impact of fluctuating markets by investing a specified amount of money on a fixed schedule. When prices decline, you benefit by buying more shares with your investment dollars. When prices rise, you buy fewer shares.

Obsession

Set limits on the time you spend reading the financial pages of your newspaper, especially if you find yourself glued to them day in and day out. Weaning yourself from financial news—and your reactions to it—may save not only time, but dollars and anguish as well.

Greed

If you must, set up a small and separate account for such things as aggressive trading. Don't mix these volatile securities with anything earmarked for long-term goals, such as retirement or education for your children.

Envy

You hear your neighbor bragging about some fabulous returns on "ABC" investment. Before you succumb to an urge to jump in, consider that the window of opportunity may be closed. Don't chase others' success. Stick with your original plan.

**Dollar cost averaging does not protect investors against loss in a steadily declining market.*

elements of a financial plan

By establishing a financial plan, your Financial Consultant will help you decide what you can realistically set aside to reach your goals, factoring in your assets, liabilities, income, time horizons and tolerance for risk. It covers much more than you might expect. Here are the six key areas of a comprehensive plan.

Retirement: Gone are the days when a company pension, a reliable Social Security check, some personal savings and a favorite pastime were all that were needed for an enjoyable retirement. Today, the issues people face are more daunting: longer life expectancies, inadequate pension plans, early retirement, inflation, rising health care costs, long-term care and of course, doubts about Social Security. So, if you plan on living 20, 30, or 40 years past retirement, you should have a plan that will help you manage your assets throughout your non-income-earning years.

Education: Soaring costs of colleges have given the term "higher education" a whole new meaning. Since 1980, tuition has risen more than 150%—surpassing inflation by more than a third.* Educational planning can help you develop a lump sum or systematic savings plan that will help build future funds for your children or grandchildren.

Estate Planning: According to *Consumer Reports*, roughly 70% of U.S. adults don't have wills, and experts say that even those who do often haven't done all they should to build an impermeable estate plan. Plus, many investors incorrectly assume that they don't have enough financial net worth to need a will, let alone an estate plan. Yet estate planning is for anyone who is responsible for someone or something else.

Protection and Risk Management: Company paid life insurance is rarely enough to protect your assets when the unexpected occurs. Most individuals need professional support to analyze and recommend the most appropriate forms of insurance coverage.

Taxes: How much is too much? A thorough evaluation of your finances could reveal some important oversights. A financial plan can help you implement a number of tax-minimizing tools designed to protect and build your personal assets.

Investing: A financial plan can help you determine when and how to invest. Many pre-retirees envision retiring at 55, but admit their definition of retirement is different from their predecessors. What they're really saying is they want financial independence. Whether making a career change, starting a business or continuing up the corporate ladder, investors want to make sure that their finances are in order.

**Sources: College Board, 1997 and Bloomberg*

Key economic and market indicators
Third Quarter 1998

TREASURY/MONEY MARKET MONTH-END

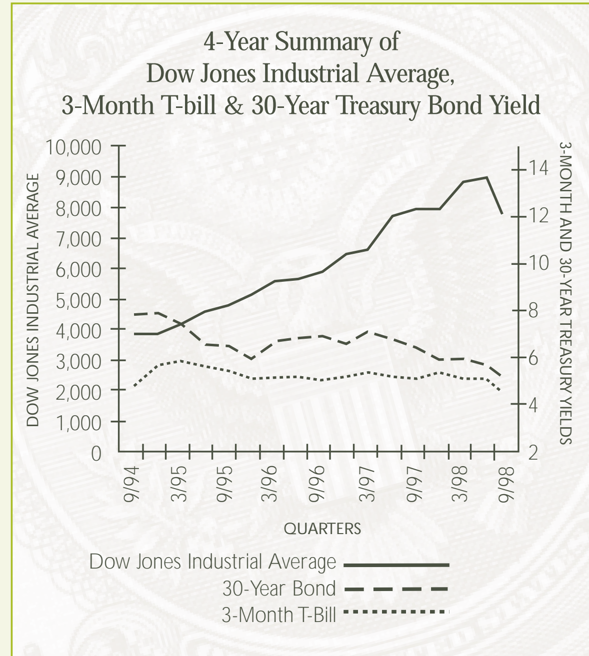
	Jul '98	Aug '98	Sep '98	Sep '97
Prime Rate	8.50%	8.50%	8.25%	8.50%
3-Month T-Bill Yield	5.08	4.84	4.36	5.10
2-Year Treasury Note	5.49	4.77	4.27	5.78
10-Year Treasury Note	5.50	4.97	4.41	6.11
30-Year Bond Yield	5.72	5.26	4.97	6.40

EQUITY AND COMMODITY MARKET MONTH-END

	Jul '98	Aug '98	Sep '98	Sep '97
Dow Jones Industrials	8883.29	7539.07	7842.62	7945.26
Standard & Poor's 500	1120.67	957.28	1017.01	947.28
Gold 100 oz. Futures	$290.50	$278.90	$299.00	$348.10
Crude Oil Futures	$14.79	$13.59	$16.14	$20.33

U.S. MACROECONOMIC STATISTICS MONTH-END

	Jul '98	Aug '98	Sep '98	Sep '97
Gross Domestic Product	N/A	N/A	N/A	(Q3'97/4.10)
Housing Starts	1706	1613	N/A	1501
Leading Economic Ind. (% chg.)	.50	.00	N/A	.20
U.S. Unemployment Rates	4.50	4.50	4.60	4.90
Consumer Product Index (YOY)	1.70	1.60	N/A	2.20



Source: Bloomberg

Last Call 12/31/98
deadline approaches for favorable Roth IRA conversions

Beginning in 1998, taxpayers have a new, tax-favored retirement accumulation vehicle in the Roth IRA. Unlike a traditional IRA, which allows tax deductible contributions for some investors and lets you defer taxes until withdrawal, a Roth IRA, which is not tax deductible, lets you withdraw accumulated earnings tax free. If you have an adjusted gross income below $100,000, you may convert current IRAs into Roth IRAs and incur a one-time tax event whereby IRA contributions previously deducted and all earnings are added to your gross income. If completed before January 1 of 1999, these taxes can be paid out over a four year period. Plus, the 10% excise tax (penalty for early withdrawal) is waived.

Generally, conversion makes sense if you expect to be in a higher tax bracket during retirement than you are now. And unlike the traditional IRA, the Roth IRA has no forced distribution at age 70 1/2, thus providing greater asset accumulation for you and your beneficiaries.

While tax deferral and tax free withdrawals make Roth IRAs attractive for many investors, there are other variables to consider. To determine if an IRA conversion is right for you, please talk to a Stanford Group Financial Consultant and your tax advisor.

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