February 2000 Volume 5.1

# BFAS Money Line

INVESTMENTS

## What's Hot, What's Not

Having put the Y2K issue firmly behind us, we ride a strong economy into the 21st century. **Seems like if you can spell technology you should be earning 100% returns**. Isn't everyone?

Actually, no. The market was narrowly focused on technology. Twenty-two of twenty-five S & P 500 stocks that earned over 100% during the 12 months ending 1/31 were technology stocks.

However, the following technology stocks had **negative returns** over the **last 12 months: Compaq, Dell, NCR, Unisys and Lucent**. In all, **280 stocks in the S & P 500 had negative returns over 12 months**. For significant sectors of the economy, we are in a bear market.

While technology is certain to continue changing our lives, don't forget that the **various market segments move in cyclical patterns. What's on top today rarely stays there**. This can be seen in the following chart showing asset category annual rankings for the last seven years.

**And all I have to do to win this toaster is wire $100,000 to some Swiss bank?**

**Categories Ranked by Annual Returns**

| | 93 | 94 | 95 | 96 | 97 | 98 | 99 |
|---|---|---|---|---|---|---|---|
| **Divers'fd Emrg Mkts** | 1 | 8 | 8 | 7 | 8 | 8 | 1 |
| **Foreign** | 2 | 3 | 7 | 8 | 7 | 3 | 4 |
| **Large Cap Growth** | 8 | 7 | 4 | 5 | 4 | 1 | 5 |
| **Large Cap Value** | 7 | 2 | 3 | 2 | 2 | 4 | 6 |
| **Mid Cap Growth** | 6 | 6 | 2 | 6 | 6 | 2 | 2 |
| **Mid Cap Value** | 4 | 5 | 5 | 4 | 3 | 6 | 7 |
| **Small Cap Growth** | 3 | 1 | 1 | 3 | 5 | 5 | 3 |
| **Small Cap Value** | 5 | 4 | 6 | 1 | 1 | 7 | 8 |

Since **the next "winning category" is unknown and unknowable**, I generally recommend some exposure to each. By **spreading your investments over several asset categories, you reduce portfolio risk while enhancing returns**.

I have been using terms like **Large Cap Growth** for some time now. This is probably a good time to tell you what these terms mean. **While some consumer media still use terms such as Growth, Growth & Income, etc., most people have moved to more specific terminology**. Morningstar, as the widest distributor of mutual fund information, defines the terms in the following manner:

**Large Cap – Top 5% of stocks** based upon market capitalization (shares of stock times share value)

**Mid Cap – Next 15%** of stocks

**Small Cap – Remaining 80%** of stocks

**Growth** – those **stocks with the highest Price-to-Earnings (P/E) and Price-to-Book (P/B) ratios**

**Value** – those **stocks with the lowest P/E and P/B ratios**

Thus, last year's technology boom with sky high P/E ratios means that the high growth categories were Large Cap Growth, Mid Cap Growth and Small Cap Growth. They all out-performed their value counterparts, although emerging markets and foreign stocks were strong also.

# Scams

Recently, I have seen and heard several advertisements for **"safe" investments yielding 12 – 14%**. With CD rates low, I can see how seniors on fixed income can easily fall prey to these advertisements.

I **followed up** on the last one I received. It screamed **"Up to 15% Commission".** This would be popular with those who accept commissions since it far exceeds the normal commission on CDs or mutual funds. Of course, it doesn't interest me since I don't accept commissions.

The flier says the **client can liquidate at any time, it is not a viatical or a security or an annuity and it provides insured asset-backed safety**. It purportedly **pays 14.1% on a monthly basis**.

So what is this perfect safe investment? What **you** would be doing **would be providing capital to a company in Dallas to lease pay phones**. Your **"income" is dependent upon the earnings on those pay phones**. And the **"liquidate at any time" claim**? Sure, if you don't mind paying a **surrender charge during the first 36 months**. You money actually gets tied up for about 60 months.

Still think it's a safe, high return replacement for CDs? I didn't think so either. **If you hear about one of these deals, get someone to look under the rug and find out the details before signing up!**

COLLEGE PLANNING

# College Planning

I have spoken before of the **advantages of using a 529 plan to save for a child or grandchild's education**. Section 529 plans are set up by individual states and assets are managed by the state or by a custodian, like Fidelity or Vanguard.

In December, **Virginia announced its own 529 plan**. Previously, Virginia's only plan was a pre-paid tuition plan. With tuition growth flat, limitations on using the money out-of-state or in private schools, low returns and limitations on use for room and board, **the pre-paid tuition plan has not been a super deal.**

However, **the Virginia Education Savings Trust (VEST) is worth a serious look. It can cover tuition and fees, room and board, books and equipment (computers).**

The VEST can be **used at any accredited college in the country** and is protected against creditors. You **receive up to a $2,000 state income tax deduction for contributions**. If you contribute more, the remainder is carried over until all your contribution is deducted. When **withdrawn, the money is taxed at the child's tax rate**. If you want to move some money out of your estate, you can contribute as much as $100,000 (jointly) and not pay gift taxes.

You **can enroll at any time**. If you enroll by February 29th, you can even use the money for September, 2000 college costs. There are **no residency requirements.**

You **choose one of seven portfolios to invest your money**. These range from 80% stocks/20% bonds to 100% bonds. Every three years the allocations in the portfolios are adjusted to be more conservative, so that, as college approaches, you have less risk of portfolio losses.

Finally, **you name the beneficiary of the VEST**. If child #1 decides to follow Phish instead of going to college, you simply change the beneficiary to child #2.

In summary, the **new VEST program should be a strong candidate for your college planning dollars. Call 888-567-0540** for info.

INSURANCE

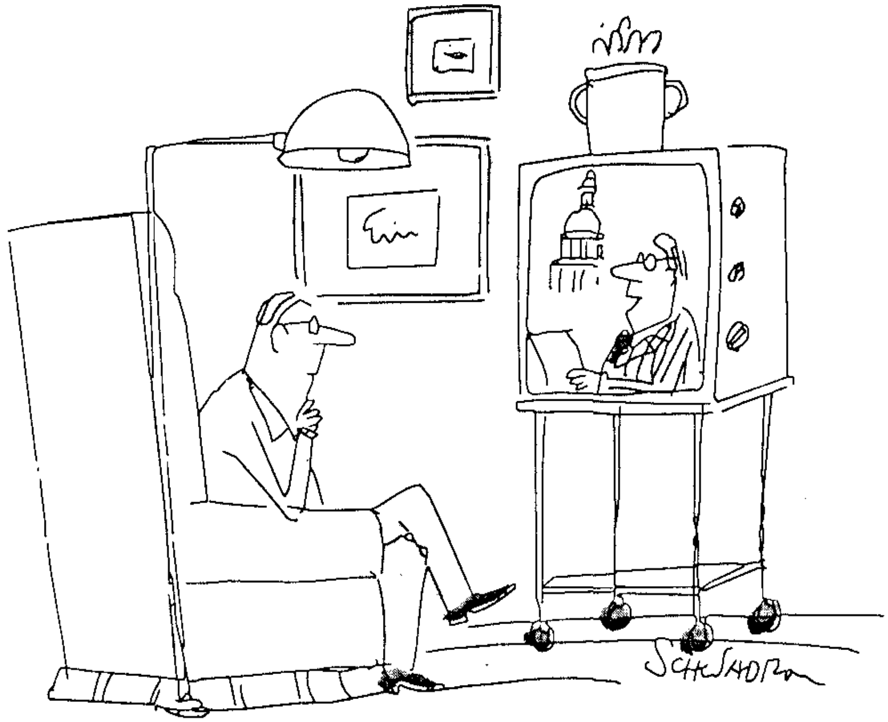
# LTC Ins

With **Long-Term Care Insurance** a hot topic these days, some insurers have come up with a slick new way to sell LTC insurance: **Package it with life insurance**.

**Combination policies sound like a good deal**. "MoneyGuard is a universal life insurance policy that provides a death benefit," explains First Penn-Pacific Life Insurance Co.'s Web site. "And in case that rainy day arrives, it also provides a long-term care benefit. It's as though we've created three buckets and linked them together. One holds the initial premium, the second holds the death benefit, and the third contains the long-term care benefit. You can draw out of the bucket that meets your most urgent need."

Trouble is, **these combination policies often cost much more than purchasing LTC and life insurance separately.**

Mitch Clark, a Texas fee-only advisor and an insurance consultant who has served as an expert witness in several insurance lawsuits, analyzed First Penn-Pacific's MoneyGuard policy as well as Asset-Care from Golden Rule Insurance Co. He compared a $50,000 purchase of these single-premium universal life policies to the purchase of a stand-alone LTC policy from UNUM and a whole life policy from Northwestern Mutual Life.



**"In our lead story tonight, Congress has simplified the tax code by adding several thousand additional pages to it."**

To make a long story short, the combo policies fall short. **Says Clark, "You're paying for the sizzle of a concept from a small company when you can buy greater benefits for the same cost from larger, higher-rated companies.**

# Accidental Death & Disability

The pitch sounds pretty persuasive. **For a mere $7.95 per month, conveniently deducted from your credit card, you can protect your family if you die in an accident. The policy, from J. C. Penny Life pays $1 million.**

I bet no actuaries buy this policy. Why? Because the **odds are terrible**. And in the unlikely event that your survivors do collect the $1 million, it will probably be under circumstances in which they won't particularly need the money.

**Ignoring the diversion of money from the life and disability insurance you do need, your odds of collecting are very low**. To collect the entire amount you have to die as the result of a common carrier accident (bus, train or airplane). You might collect only $100,000 for dying in an auto accident.

To **Jerry Rosenbloom, a professor of insurance and risk management** at the Wharton School of the University of Pennsylvania, **buyers of accidental death and dismemberment are simply suckers: "They think they have protection that's not really there."**

**My advice: Skip AD&D and buy a term life insurance policy that pays a death benefit no matter what the cause**. To be sure, accidents can create severe financial hardships for families. But when you are tempted by that AD&D offer, think about buying a lottery ticket instead. At least you'll still be alive when you collect your winnings!

DISABILITY

# Working While Disabled?

**Most people with disabilities do not return to work because they would lose critical health coverage under Medicaid or Medicare**. Yet most of them would love to work for both the money and the sense of self-worth that working provides.

The **"Ticket to Work and Work Incentives Improvement Act of 1999"** will significantly improve access to work. The four purposes of this act are:

1. Health care and employment preparation and placement services to reduce dependency on cash benefits.
2. Medicaid coverage needed to maintain employment.
3. Option of maintaining Medicare coverage while working.
4. Return to work tickets allowing the disabled access to services needed to obtain and retain employment and reduce dependence on cash benefits.

The program, to be phased in over the next three years, is, by far, the **biggest positive change for people with disabilities in a long time!**

Specifics include:

1. **A ticket for SSDI and SSI beneficiaries to obtain employment services, vocational rehabilitation, and assistive technology from their choice of service providers.**
2. **A return to work would not trigger a review of beneficiary's impairment by Social Security (Jan. 2002)**
3. **Expedited reinstatement of benefits if unable to continue working (up to 60 months after cessation of benefits).**
4. **States can allow people with disabilities to buy into Medicaid even if they are earning too much according to federal guidelines.**
5. **Allowing Medicare coverage for 7 ¾ years after a SSDI beneficiary starts earning over $700 monthly (current limit is 4 years).**

*"The concept is interesting and well-formed, but in order to earn better than a 'C', the idea must be feasible."*

A Yale University management professor in response to Fred Smith's paper proposing reliable overnight delivery service (Mr. Smith is founder of Federal Express).

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