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BFAS Money Line

INVESTMENTS

Should You Be 100% in Bonds & Cash?

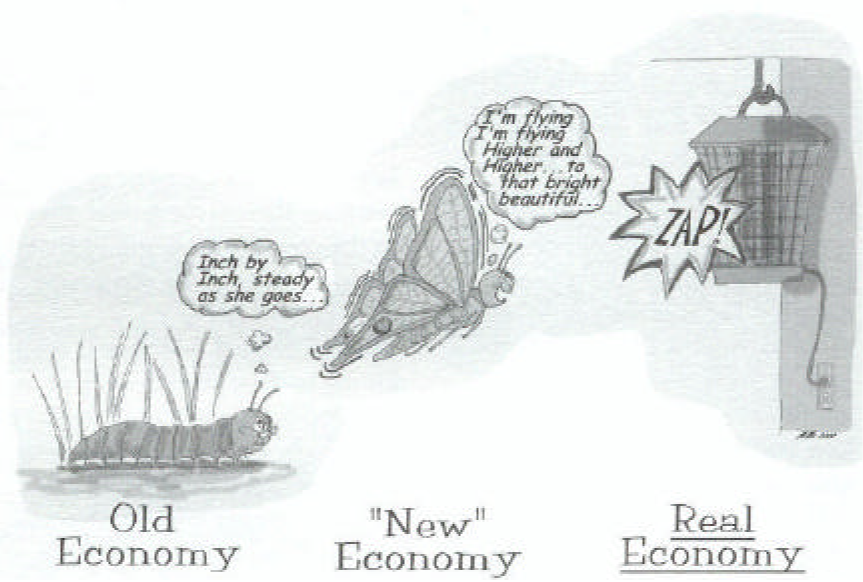
Yes, if you will definitely be using all of the money in the next five years. No, to everyone else!

While no one could miss the dramatic losses lately in the stock markets, many studies show that stocks need to be a significant part of any nest egg expected to provide an income over the years.

Okay, you say. But, **what about diving into bonds and cash now, then moving back into stocks when the economy improves?**

The problem comes in deciding when to re-enter the stock market. It will be months in the future when economists finally decide whether or not we are currently in a recession.

The stock market has a tendency to anticipate the economy by about six months. But, predicting the stock market, as well as the economy, over the short term is a notoriously difficult to do.



Who predicted the Fed rate cut in April? As a result, the S & P 500 jumped significantly and the NASDAQ was up about 14% in two days. From April 4th, the S & P 500/NASDAQ were up 12%/22% through April 30th.

How much of the upside would you miss before you decided to re-enter the stock market? Studies show that just missing a few up days can dramatically reduce your overall portfolio return.

Many people wait until the markets are really doing well before they jump in. Having missed the market run-up, they then sell during the next down cycle. A University of Michigan study some time ago found that **$1 invested in 1963 would have grown to $24.30 by 1993** if the investor stayed invested (reinvesting dividends) the entire time.

But if the investor had been switching from stocks to cash and back – and **missed only the 10 best days** – they calculated that the final pot would have been reduced by more than 1/3, to **$15.40**. **Missing the 60 best days, the investor would end up with a mere $4.10!**

Bonds certainly did perform well in the last year. However, since the market low in April, bonds have lost ground. The following chart shows that some stock asset classes had positive returns over the last year as well.

Asset Class	1 Yr Return (3/31/01)
S & P 500	-21.67%
NASDAQ	-59.76%
Lg Cap Gwth	-35.66%
Lg Cap Val	+0.20%
Mid Cap Gwth	-37.09%
Mid Cap Val	+10.72%
Sml Cap Gwth	-32.5%
Sml Cap Val	+13.27%
Foreign	-28.67%
Interm Corp Bds	+9.83%
Foreign Bds	+1.90%

One of my tasks, almost daily, is to counter media misinformation. At a recent breakfast, a friend told me he had nine annual issues of Money magazine touting the top stocks to buy that year (they were never the same)!

While Money magazine, and others, do provide some valuable education, they ultimately are in business to sell magazines. Hence, the attention-grabbing magazine covers. They are not held accountable for their advice! My job would be easier if everyone wasn't bombarded by financial news that is mostly noise.

A **recent story in Fortune magazine illustrates how biased financial information may be**. It tells how Mary Meeker, Morgan Stanley Dean Witter's (MSDW) technology analyst, spent most of her time and energy wooing the companies she was supposed to be covering, and how today she is "supporting" them with positive research.

For instance, she referred to Netscape, which MSDW took public, as "my baby" and defended its valuation by upgrading her ratings when other analysts were taking a more cautious approach, noting that the company was steadily losing market share in the browser market.

Later, MSDW was competing fiercely for the chance to take eBay public. When eBay chose Goldman Sachs as its investment banker, she (in her words) "flipped into overdrive" and offered what Goldman could not provide: an exclusive Mary Meeker research report. The company still balked, so she sent eBay's CEO a draft of a glowing report on the company. The ploy didn't work, but Meeker published the report anyway on eBay's first day of trading. Seven months later, when eBay did a secondary offering, she was rewarded when eBay forced Goldman to split the business with MSDW. By bringing in deals like that, she earned a salary of $15 million per year.

In order to maintain her close relationship with the Internet community, Meeker looked for increasingly creative ways to justify their business models. She was a pioneer of the use of new measures, such as "eyeballs" and "page views" and she popularized the idea that the Internet was a "land grab".

Yes, she fretted that only 30% of Internet companies would wind up being long-term winners, but **she kept outperform ratings on all her stocks – all the way through the downturn**. MSDW took 27companies public in 1999 alone. **Today, Meeker has an "outperform" rating on all her 30 stocks – which are down an average of 83%, but which were all customers of MSDW's investment banking operation**.

The article concludes that Meeker got caught up in the thrills of deal-making and **forgot she was supposed to be analyzing companies**. That, apparently, was **just fine with the management team at MSDW, which receives far more revenues from IPO/investment banking activities than it does from the commissions paid by retail investors.**

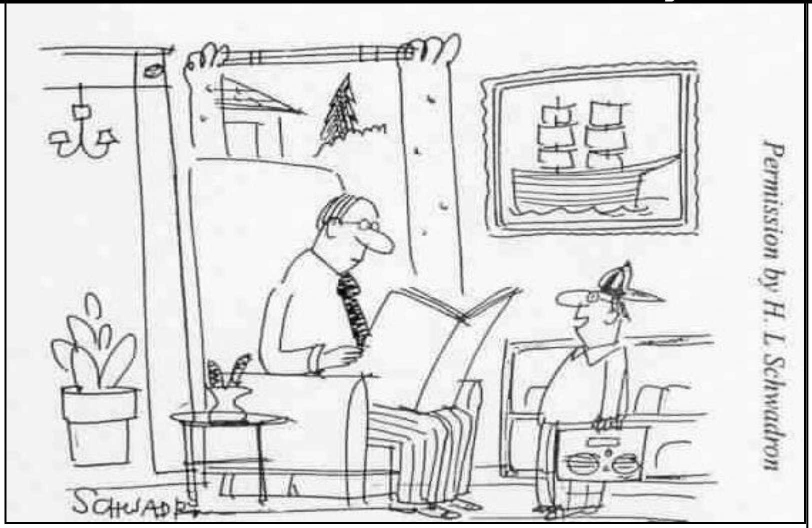
Does this just fill you with confidence in the research available from big brokerages?

TAXES

New Income & Estate Tax Rules

As I write this, Congress is close to sending comprehensive income and estate tax changes to the President for signature. If this is signed (possibly as early as Memorial Day), you will want to review your estate planning, your investment strategy and your retirement planning.

I will discuss these issues in detail in future newsletters.



"But, dad, raising my allowance would stimulate the economy in such sectors as toys, books, music ..."

INSURANCE

Long Term Care

One of the most potentially costly items in our future is the cost of care for ourselves when we are no longer able to do so. Along with better medicine and longevity comes greater possibility of paying for home health care or nursing home care.

I find many people today who, after retirement choose to downsize their lifestyle. Rather than continue maintaining the large family home, they will sell the house and move to a garden apartment, a condo, a continuing care retirement community or an assisted living facility.

This transition generally frees up equity from the family home to support retirement, reduces their workload and living expenses, and facilitates freedom to travel for sightseeing or visiting family.

However, **home health needs or nursing home needs of one or both partners can significantly drain assets needed for the other spouse or for future inheritance**. Costs vary in different areas of the country. **Nursing home expenses here in Hampton Roads cost roughly $40,000 annually**.

Although many people will enter a nursing home at some point in their lives, you chances of a long stay are not that high. A Brookings Institution study found slightly more than half will not spend any time in a nursing home, 1-in-6 will spend less than 60 days, 22% will spend more than one year and 12% will spend more than three years. Less than 1% stay longer than ten years.

So, **a worst case financial hit would be about $400,000** (more for complications). Average cost is zero (since less than half will ever go into a nursing home). For the less than 50% who will need nursing care, expenses will average something between $40,000 and $100,000.

So that means you need **LTC Insurance**, right? Not exactly. **It's not a dollars and cents decision. Your family situation, where you live, whether there are caregivers available should you need help**; all this comes into the decision process.

Certainly, your income and assets plays into the decision as well. **If you have less than about $100,000 in assets not counting your house, personal belongings and car, you probably will choose to depend upon Medicaid to pay for LTC in a nursing home**.

On the other end, some people use a figure of **$1 million to say you might be able to self-insure for the LTC risk**. However, I have seen people who understood they could self-insure, yet wanted LTC insurance because they did not want their children to have to deal with the issues.

One major factor in the equation is income. If you have retirement income from the military, civil service or other source in addition to your assets, you may have more ability to meet LTC costs. Should the spouse receiving the retirement income need nursing care, a certain amount (almost $1,900 per month) is carved out for the spouse still at home. If the at-home spouse is receiving the income, they get to keep almost all of it, even with a spouse receiving Medicaid.

I won't go into all the Medicaid eligibility rules here. That's another article.

So you decide you need or want LTC insurance. What now? There are dozens of companies out there. You should consider whether the company you choose will still be there when you need coverage. Some companies with a long-term commitment to LTC are CNA, John Hancock, UNUM and GE Financial. They have been around long enough to have a good idea of the premiums necessary to cover LTC expenses. Although some new companies may have cheaper premiums, they may not be able to pay benefits when you need them.

LTC policies and policy provisions are quite complex. **Minor word differences can significantly affect your benefits**. There are **tax-qualified and non tax-qualified policies**. Most people get tax-qualified policies because they are deductible (within limits, on your Schedule A) and benefits are tax free.

Some companies offer **LTC policies that are paid up early (say, ten years).** This could be **a bargain if you live well past your peers, and be a waste if you die early**. If you have the money in a savings account or CD, I might recommend a paid up policy. If you are invested in a diversified account, in most cases you would be better off avoiding the pre-paid policy.

What does LTC insurance cost? That, of course, depends upon how much coverage you want ($ per day), how long you want coverage, how old you are and your health. Those is their 60's typically pay $1,500 - $2,000 annually. Some people look at Michael J. Fox and Christopher Reeves and decide to purchase a policy earlier (say the 40's or 50's)

I **recommend taking a calm, rational look at your specific circumstances and deciding what risk you are willing to accept yourself and what you want to insure**. Then, evaluate the potential policies and prices to find the best value for you.

DISABILITY

Some SSI Hints

The question I am most often asked by families is, **"Why is my friend with a disabled child getting more from SSI money than I am?"** As they say, the devil's in the details. SSI's eligibility rules are relatively complex and not well known.

Unfortunately, many people in Social Security (SS) treat the public as if they were trying to rob the Treasury rather than applying for the benefits they deserve. The CIA should be as good at keeping secret the details of how the process works!

One of SS's main questions will involve **housing costs**. They want to know the cost of the mortgage/rent, home insurance, utilities including telephone, food, repairs and number of people living in the home, etc. They add up all the housing costs and divide by the number of people in the house to determine how much the child is "benefiting" from room and board.

Social Security treats "in kind" receipt of food, clothing or shelter the same as if you contributed cash. They normally reduce the SSI payment (current max $530) dollar for dollar (although they don't count the first $20) for the "in kind" receipts. But, rather than tracking room and board costs monthly, they simply reduce your monthly SSI payment by 1/3.

This is why you might be receiving $353 while someone else may be receiving $530. The **solution is to deduct the child's "fair share" of room and board from the current SSI payment, then notify Social Security of this**. You should start receiving full SSI as of the next month.

Another reason your child may not receive full SSI is due to gifts from relatives. For example, if an aunt sends $50 per month for the child, $30 of that will be deducted from SSI (remember, the first $20 doesn't count). In this case, I would **recommend the aunt contribute the money to a Special Needs Trust or Community Trust for the child**. This way, all $50 will be available to improve the child's quality of life while still receiving maximum SSI.

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