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BFAS Money Line

INVESTMENTS

Economy OK, Market?

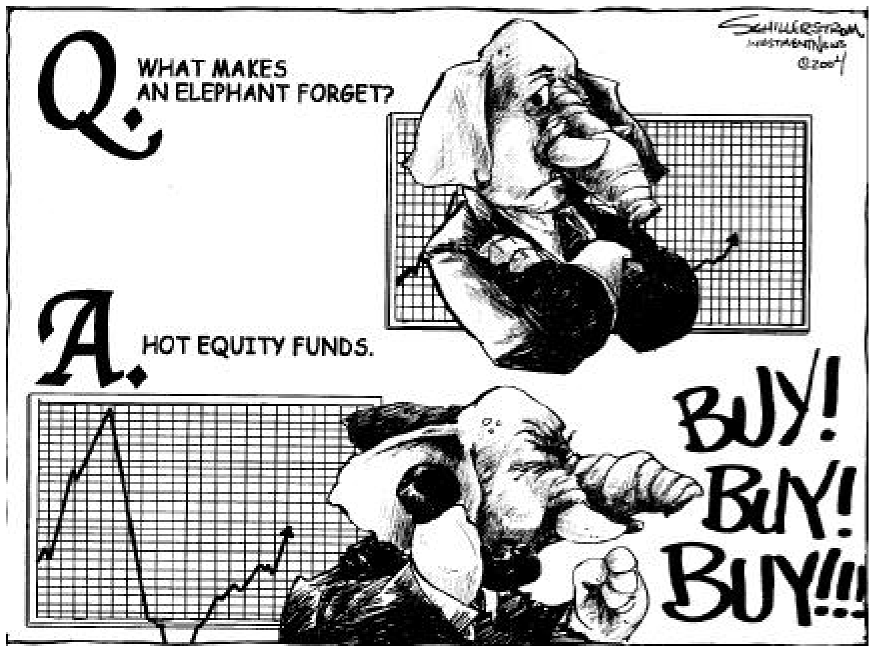
The economic recovery seems to be well underway. Company earnings are at historic highs, jobs are on the rise, and interest rates remain low. Will all that translate into another great market year, like 2003? Hard to tell.

So far, the market has been swayed more by events in Iraq and terrorism than by economic fundamentals. It's certainly true that a terrorist attack, or attacks, could disrupt our economy.

One good thing about this lull in the market's rise is that company earnings are growing. Thus, the market's price-to-earnings (P/E) ratio is coming down from levels that worried some pundits as indicating the market was over-valued.

Historically, the market's P/E ratio was in the mid-teens. Lately, it was in the high twenties, before the earnings increases reduced it to the high teens.

In addition, **our highly productive work force along with low-priced foreign competition has helped keep prices low**. While manufacturing employment is 15% - 18% below where it was four years ago, manufacturing output is virtually the same. This is due to the higher productivity of our fewer workers.



In past recessions, most jobs were only temporarily lost as factories reduced their workforces to reflect reduced demand. When demand picked up, workers were quickly rehired.

However, in the current economy, higher productivity means the workers were not quickly rehired. They will have to retrain and find another job. These structural changes in our economy have slowed the traditional post-recession growth in jobs (although the 500,000 jobs gained in the last two months show job growth is picking up).

Everyone's focus is now on the Federal Reserve and interest rates. An increase in interest rates will be a boon to retirees living on fixed incomes, but hurt housing, real estate and, temporarily, the stock market. Lately, even a hint of an interest rate increase has sunk stocks, although stocks will likely rise once interest rate increases actually kick in.

As I said last quarter, interest rate increases will typically hurt bond funds as well, although foreign bonds shouldn't be impacted by U. S. interest rates.

Overall**, the economy should do well this year**. Whether the market has a flat or up year may well be impacted in the short term as much by terrorist incidents and the presidential election as by the growth of corporate earnings.

Indeed, looking at the **last hundred years of presidential elections**, the market typically goes nowhere during the first half of the year. Then, about August (after the Nominating Conventions), the market finds a direction. **When the incumbent party loses, the markets have ended the year slightly negative. When the incumbent party wins, the market average has been up about 16%.**

That, of course, could mean nothing. However, the market has tended to predict winners and losers. If the market's up going into the election, the incumbent wins, if the market's down challenger wins. **Think Al Queda might want to influence the market and therefore the election? Odds on, they'll try**. However, with the American sense of fair play, it just might backfire on them.

The table below shows what the various markets did in the last year:

Asset Class	1 Yr Rtn (04/30/04)
S & P 500	+22.87%
NASDAQ	+31.13%
Lg Cap Gwth	+19.70%
Lg Cap Val	+25.37%
Mid Cap Gwth	+29.39%
Mid Cap Val	+33.20%
Sml Cap Gwth	+38.43%
Sml Cap Val	+42.29%
Foreign	+35.17%
Interm Corp Bds	+ 2.98%
Foreign Bds	+ 6.33%

Medicare Cards

Starting this month, you can purchase a card to purchase drugs at discount prices. I had intended to provide some guidance about which ones might be best for you. However, there are dozens of cards available and **the best one for you depends upon your assets, your income and, most importantly, which drugs you are taking.**

Single seniors with incomes less than $12,569 or married couples with incomes less than $16,862 should definitely purchase a card because they are eligible for $600 in aid to purchase prescriptions.

I just did a trial run through the official web site, www.medicare.gov, and found the question and answer process to select the best card to be fairly straight forward. If you don't have access to the Internet, please work with a family member who does have access. If you're a client and want help, please contact me. **Everyone on Medicare should take a hard look to see if they can save some money on prescriptions!**

Health Savings Accounts

Along with the changes in Medicare, Congress introduced **Health Savings Accounts (HSA), an innovative way to save for future qualified medical and retiree health expenses on a tax-free basis.** The idea behind HSAs is quite simple. Individuals should be able to manage some of their own health care dollars through accounts they own and control. They should be able to use these funds to pay expenses not paid by their insurance, including the cost of out-of-network doctors and diagnostic tests. They should be able to profit from being wise consumers of medical care by having account balances grow tax-free and, eventually (age 65), be available for non-medical expenses.

HSAs allow individuals and/or employers to make deposits each year equal to their health insurance deductible. The **health insurance policy that accompanies an HSA must have an overall deductible of at least $1,000 for singles and $2,000 for families.**

A typical plan will work like this: **When an individual incurs medical costs, they will spend first from their HSA. If they exhaust their HSA before reaching the deductible, they will pay out-of-pocket. Once they reach their deductible,**

insurance pays all remaining costs.

Annual HSA deposits cannot exceed the amount of health insurance deductible or a maximum of $2,600 for individuals or $5,150 for families. However, the **account balances can earn interest or be invested in stocks or mutual funds and they will grow tax-free.** Thus, a young person could accumulate hundreds of thousands of dollars by the time he/she retires.

HSA balances belong to the individual and remain theirs if they change jobs, become unemployed or retire. The funds can be used to pay expenses not covered by insurance, insurance premiums while unemployed and health expenses during retirement. In case of death, they can be bequeathed to a spouse or to other heirs.

Please note, HSA contributions are tax-deductible even if a person does not itemize for taxes. The individual's employer can make contributions that are not taxed to either the employer or employee. Employers with cafeteria plans can allow employees to contribute untaxed salary through a salary reduction plan.

HSAs differ from Flexible Spending Plans in that HSA money is not forfeited if not used by the end of the year. Not many insurance companies offer HSAs currently, but more should be coming on the market as time goes on. This is something to keep an eye on!

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Value of Financial Planning

Over the last decade or two, financial planning has grown dramatically in knowledge and professionalism. Twenty years ago, financial planning was a value added service of product providers such as insurance agents or stockbrokers.

Twenty years ago, information on things financial was hard to get. You needed an expert, usually in the form of a product provider to obtain the information and get it to you. In those days, most employees were covered by a company pension plan, not a 401(k).

Fast forward to today. Financial information abounds on the internet; it's cheap and accessible. Problem is, who has the time to sort through it all and figure out which information is good and which is just a sales pitch?

Twenty years ago, financial planning was sales-oriented, today it is more and more taking a consultative approach. You have been educated by the media to look for conflicts of interest and try to obtain advice from those who are truly looking out for you. Today, there are **a growing number of financial advisors around the country who provide advice while acting as a fiduciary**.

Standards are being raised. More and more people expect their financial advisor to be educated, examined, experienced and to comply with a code of ethics. This describes the criteria for Certified Financial Planner™ practitioners.

The Financial Planning Association (FPA) promotes CFP®s and is pushing for financial planners to act as fiduciaries. More importantly, the FPA is lobbying congress to level the playing field in financial planning.

Independent financial advisors provide their investment advice as Registered Investment Advisors (RIA). The SEC (and states) considers RIAs to be fiduciaries. Currently, banks, credit unions and wire houses can promote fee-based investment advice without registering as an RIA.

They get away with not registering as RIAs by **claiming their investment advice is "solely incidental" to the sales of stocks, bonds**, etc. Well, that's certainly not the way they are marketing themselves; yet **they are trying to hold onto their loophole to avoid being held to the fiduciary standards that RIAs maintain.**

Giant marketing budgets can fool some people into really thinking the folks at the wire houses, banks and credit unions (and many financial planning firms) are committed to your best interests. Thankfully, some of the advisors at these firms do try to work in your best interests, even though **their fiduciary duty is to the firm, not you.**

Many of the unsavory aspects of investment advice (unsuitable investments, churning, etc.) would be eliminated if all those providing investment advice for a fee were required to be RIAs. Adherence to fiduciary and disclosure standards would significantly help investors while requiring many firms to change their corporate culture for the better.

Bottom line, financial planning (and investment advice) is getting better. **But fiduciary standards are still the exception in the industry, not the norm. Be an informed consumer, ask if your advisor adheres to fiduciary standards!**

Finding the Best services

Services for disabled children are generally dependent upon eligibility for Supplemental Security Income (SSI) and Medicaid. However, **Medicaid** (the primary service provider) **does not serve all disabled children equally.**

Medicaid serves the substance abuse population, the mentally ill and various subsets of the developmentally disabled. Services include personal care, attendant care, respite care, crisis stabilization, therapeutic consultation, assistive technology, personal emergency response system, family/caregiver training, day support, in-home residential support, supported employment, companion care, skilled nursing, and environmental modifications.

But, **what about children with disabilities such as hearing loss, loss of sight, cerebral palsy, or other physical disabilities?** Most of the time, support programs for them are limited or non-existent. Medicaid programs do not support the whole spectrum of disability. Just those populations mentioned above.

Finding services for these non-supported populations is sometimes limited to finding ways to qualify them for one of the existing Medicaid programs. Thankfully, there are associations dedicated to spreading information to families.

If you have a child who slips through the cracks, check out the local and national associations associated with the disability. They will have the best information on what programs might be available or how to qualify for SSI/Medicaid programs. Cast a wide net. There is a wealth of information out there.

I have seen people relocate to other states because better services were available. Services vary greatly from state-to-state. Sadly, Virginia is at the low end of the spectrum of services due to funding shortfalls. The latest state budget provides some money to reduce, not eliminate, the long waiting lists for services. It is a start, not a solution.

Thus, **keep advocating for better services and be informed consumers to locate the best situation for your disabled child**.

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