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BFAS Money Line

INVESTMENTS

Where's th' Bottom?

With some trepidation, I intend to add to the wealth of information (noise?) you have heard regarding the markets. Hopefully, I can provide some perspective to all the doom and gloom out there.

As July's statements come out in the next week, many of you will feel real pain upon seeing the impact of last month's precipitous drop. Market timing could certainly be attractive ("Martha, open up the mattress, I'm stashing the money in there!"), however I do not know anyone who's made it work over the long haul.

The market decline has been dramatic. The **S & P 500 and NASDAQ have retreated to levels last seen five years ago**. In essence, the entire Internet bubble has been erased. This is what fills the headlines.

Yet, **properly diversified portfolios of stocks and bonds, US and foreign, large and small, with more "value" than "growth" have not declined nearly as much**. (Note: while diversification helped over time, this last month everything but bonds dropped). Some mutual funds remain in positive territory for the year, although many individual stocks have been battered, sometimes destroyed.

How well I remember just two years ago when some folks thought I must be a bit slow because I wouldn't invest any significant money in technology stocks or Internet funds. Now they wonder why I don't give up on stocks. I take that sentiment as a signal that we are near a bottom.

It's also just another example of how easy it is, psychologically, to **"buy high and sell low"**. (Paid advertisement: Much of the value of a financial advisor is standing between a person's emotions and their money, and providing a disciplined approach to achieving their goals!)

One of the reasons for this rocky market has been a crisis of confidence; a lack of confidence in the information provided by companies and brokerage firms. America's rapid response to this problem is one of our economic system's biggest strengths.

In mid-August, the CEO's of the 1000 largest companies will be required to certify their financial statements. Having watched other CEO's in front of Congress or handcuffed on national TV, I'm betting they will be loath to "push the envelope".

Look for a number of "restatements of earnings" in the next few weeks as companies come clean about their books. I don't believe a large % of companies will be restating their earnings, but each one will be a headline, with an attendant hit on the stock price.

I believe that all the publicity, regulatory changes and Congressional mandates will significantly improve the quality of the information we receive going forward.

Back to the issue at hand**, has the market bottomed?** I read many stories both supporting a bottom and arguing that there is more bad news to come. Certainly, a general and complete loss of confidence in the markets could cause prices to plummet from here. High bankruptcy rates and/or a real estate bust could precipitate it as well.

And yet, when I look back into the past, I believe you can gain some perspective. A quick look at the **S & P 500 graph of prices since 1950** shows a long slow rise that steepens dramatically lately only to fall dramatically in the last two years.

However, this perspective looking back can be deceiving as well. In **November 1972, the S & P 500 hit 116 only to fall to 63 in September 1974**. This drop over two years nearly matches our current drop (1517 to 850) in percentage.

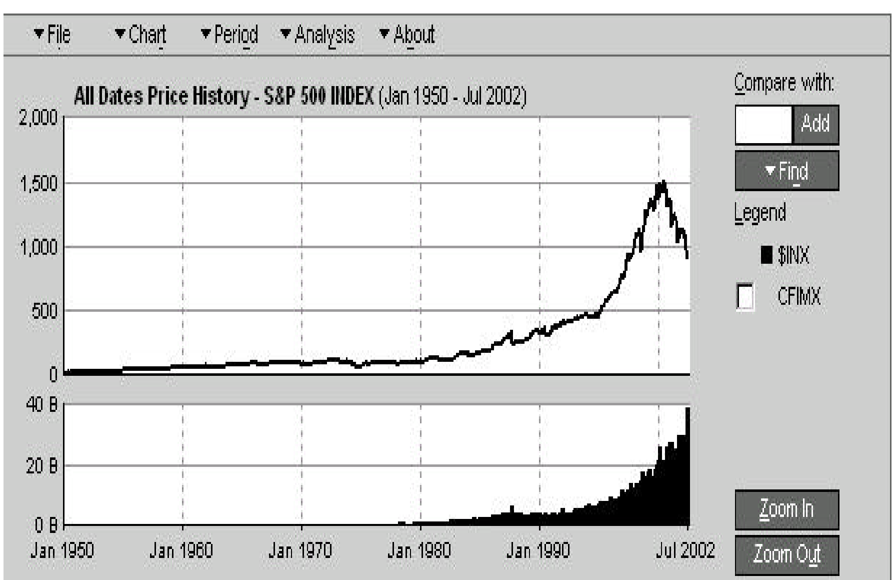
Remember that time: Vietnam War, Watergate, high inflation, oil embargo, Mideast War? The market drop was filling the headlines and magazines. Doom and gloom was everywhere. Yet, viewed from today's perspective that sharp drop shows up as only a slight blip in the long-term growth of the S & P 500.

Consider that if you picked the market peak of 116 to invest in the S & P 500, thirty years later your money would have grown 700%, even after this latest drop. But, only if you remained in the market. It is important to note that from the low of 63, the S & P 500 did not regain its former peak of 116 until 1982. But patience is a virtue, and has been rewarded.

So, **rather than "Where is the bottom", maybe the question should be, "Does it really matter?"** For long-term investors (if you're short-term, why are you in the market in the first place?), I believe investors who can tolerate the short-term pain should sit tight and they will be rewarded from current levels. Notice, I did not say rewarded immediately!

Many of you are approaching your maximum loss threshold. **In a serious bear market, you shouldn't be surprised to be bumping up against your risk tolerance. Just about the time your risk tolerance is stretched to the breaking point, is when the market is also close to a bottom.**

I am confident that we will be rewarded for staying the course. However, we may not have yet found the bottom, even though the market recently gained 13%.



Asset Class	1 Yr Rtn
S & P 500	-26.96%
NASDAQ	-48.27%
Lg Cap Gwth	-24.86%
Lg Cap Val	-20.94%
Mid Cap Gwth	-24.85%
Mid Cap Val	-10.50%
Sml Cap Gwth	-28.73%
Sml Cap Val	-10.15%
Foreign	- 8.86%
Interm Corp Bds	+ 2.06%
Foreign Bds	+ .19%

Weddings & $$$

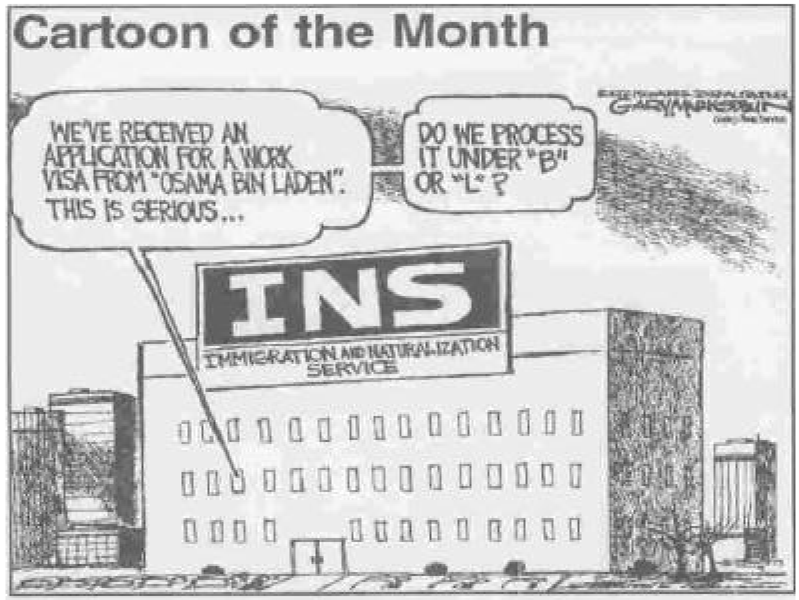
(The following was adapted from a newsletter by David & George Marotta of Marotta Asset Management, Inc. in Charlottesville, VA)

Couples getting married seldom take the time for pre-marital financial counseling. Yet **much of the friction in marriage stems from different financial perspectives, and how money is handled is often a factor in divorce.**

People always think financial planning is so unromantic, but romance is a small part of day-to-day marriage. Marriage is not primarily gazing into each other's eyes. Marriage is as much a business merger as any corporate contract you can sign.

For those who believe financial planning is unromantic, consider which is more romantic: Cruising in the Bahamas or telling your spouse they need to tighten their daily spending!

For many, finances are a taboo subject. Many engaged couples do not know what their prospective mates earn, nor how much savings or debt they have accumulated. **Most couples have ingrained emotions and expectations about financial matters which they unconsciously project onto others**. Blended families face even more financial issues than first-time newlyweds, for obvious reasons. But sharing financial information does not have to be a chore.



Cartoon of the Month

Financial security and planning produces an atmosphere of shared goals, respect, and communication within which romance can flourish.

If a couple can't share details about their finances, it doesn't bode well for their relationship. On the other hand, **most financial planning is planning for the financial means to meet a couple's shared dreams, hopes, and aspirations**. Nothing could be more romantic than that!

If money is a sensitive topic or has not been discussed before, turning to a professional provides an easy way to smooth the process. A financial advisor can ask the sensitive questions without judgment, listen to a couple's goals, and make recommendations which the couple can respond to without any hurt feelings.

Here is a newlywed checklist of topics to discuss with a financial planner:

* Current Savings/Debt
* Current Levels of Income
* Budgeting (list all categories)
* Accountability & Communication
* Savings Plan
* Credit Cards (Good Debt vs. Bad Debt)
* Retirement Plan
* Stay at home parenting
* Working late/weekends/travel

Mortgages

Currently, mortgage rates are as low as they have been in some time. Both new home-buyers and re-financers are able to take advantage.

I have long pressed for 20% down payments to avoid the requirement for **Private Mortgage Insurance (PMI). PMI can add 5%-8% to monthly payments**.

However, the mortgage industry has come up with a work-around. They offer an 80% first mortgage and a 15% second mortgage with a slightly higher interest rate (plus 5% down). The **combined principal and interest payments of the 80-15-5 are considerably lower than a 95% first mortgage with PMI.**

In a perfect world, I'd still like to see you save up and make that 20% down payment. However, if it's not to be, the 80-15-5 mortgage might be worth evaluating.

Another issue that comes up is whether to use a **fixed or adjustable rate loan (ARM).** With interest rates low, ARMs can be very attractive. The low monthly payments can get you into a larger house than you might be able to afford on a fixed loan.

However, **ARMs transfer the risk of higher interest rates from the mortgage company to you**. I have seen people whose principal and interest payments almost doubled as interest rates rose.

I don't know where interest rates are going. **If you know you will be moving within a certain period of time, an ARM might be less risky**. If you secured a low initial rate and will be leaving before the mortgage company can significantly raise the rate, go for it.

However, **if you're planning to be there for the long haul, I still recommend a fixed rate loan.**

RETIREMENT

New Retire-mentality

Few people know that the retirement age of 65 was first selected by Otto Von Bismarck in the 1880's. Average life expectancy then was about 62, so he figured not many would live to collect a new proposed pension.

When Roosevelt selected 65 as a retirement age in the 1930's, life expectancy was only about 67. He was also looking to "retire" many elderly workers to make room for the many younger unemployed.

We have been raised with the **idea that we should spend the first part of our life learning, the second part working and earning, and the last part in leisure or travel.**

Partly due to the prospect of living 30-40 years in retirement and partly due to other reasons, this model for retirement is being rejected and rearranged for a more tailor-made design on life. Seniors are going back to college and "retiring" to university towns rather than snowbird destinations.

Many retirees are becoming entrepreneurs and reviving shelved dreams and passions. People in their prime earning years are taking steps back in order to spend more time with their children in their formative years.

Others are rearranging their living circumstances in order to shift into more meaningful and fulfilling forms of work and less hectic lifestyles. Over 50% of retirees are going back to work after becoming bored with the prospects of full-time leisure.

More people are taking sabbaticals from work to rejuvenate and reflect. Adventure travel and learning vacations are popular with all age groups – especially the 50-plus crowd. Fewer people are migrating to the sunbelt, more are retiring (and becoming involved) in their own communities.

If you are considering some of these things, be assured that you are in the mainstream, not a kook! Traditional concepts are, and should be, rethought.

People who follow their passion and work in their later years may be healthier both physically and mentally. In this age of reduced assets to support traditional leisure retirement, you may want to reconsider your paradigm.

There are myriad opportunities out there. Don't let outdated ideas "box" you in. **Think about it!**

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