

BFAS Money Line

INVESTMENTS

Did You Blink?

Were you an investor who was in the market for the long term, but decided to sell in September to protect your principal? If so, you probably missed the recent 1800 point rise in the U. S. large cap market.

However, the recovery has been uneven, as shown in the following table (as of 10/98):

	YTD	3 Yr
Growth	3.90	17.13
Growth & Inc.	6.81	20.46
Small Cap	-12.93	9.55
Foreign	.82	6.90
Corp Genl Bd	5.59	6.89
World Bd	1.62	7.04

Two lessons come to mind. **One lesson is that you must be diversified among the asset classes to take advantage of these sharp gain periods when they happen. The other is that trying to time the market will be hazardous to your portfolio returns.**

You may remember, although the talking heads on TV will conveniently forget, just last



"During your vacation, we sold the factories and put all the money into Microsoft stock, and the balance sheet never looked better."

September when all the news was gloom and doom. Bears were everywhere. Then, in seven short weeks, the market goes up 1800 points. The **only solution is to be in the market for the long term and to stay there. Trying to pick and choose when to be in or out is a losers game**, although many people make a fortune purporting to predict movement.

S & P 500 Stocks	Ann Returns
	1982 - 1990
100% Invested	18%
Less 10 Biggest Days	12%
Less 20 Biggest Days	8%
Less 30 Biggest Days	5%

The chart shows how just missing an average of the two biggest days each year reduces

your return from 18% to 5%! Indeed, almost all the total returns on stocks in the 70 long years from 1926 to 1996 were achieved in the best 60 months - only 7% of the 862 months over those long years. Imagine the profits if we could know which months! But we cannot and will not.

The lesson is clear: **You have to be there when lightning strikes.**

Wall Street is the only place people ride to in a Rolls-Royce to get advice from people who take the subway.

– Warren Buffett, *New York Newsday*

Y2K, What Me Worry?

At a recent conference, we spent half a day talking about Y2K. Speakers included a talk show host specializing in Y2K, a college professor author on Y2K and a programmer/consultant on Y2K.

To refresh your memory, for years computer programmers, to save space, used only the last two digits of the year in their programs. Now, the concern is **what will happen when all these programs reach the year 2000 and think it is 1900? Will they shut down? Give erroneous answers?**

Large amounts of money (some estimate \$600 billion) are being spent to correct the programming, both in government and industry.

If you take the doomsayers to heart, the programmers will not catch everything or they have started too late. Therefore, we should prepare to live like the Amish as of January 1, 2000.

Certainly, Y2K is more pervasive than some of you would think. Think not only about the computers at work or at home, but also those in your car, your appliances, your telephone, pager and voice mail. How about the ATM, cable TV or bill payment?

The U. S. and Australia seem to be far ahead of other nations in preparing. The Social Security Administration is the best government agency, so maybe those SS checks will continue to show up on time.

Banks and the securities industry have been spending big bucks and should be in good shape.

What if they miss one glitch in their system? Will it shut down? Will nuclear power plants have to shut down (20% of U. S. power) if they can't certify to the Energy Department that they are free of problems?

Will your elevator work properly on January 1st 2000? Do you want to be the first to test it?

While I tend to minimize the potential impact of all this, you can expect to see every glitch played up in the media, building to a frenzy of worry as December 31st, 1999 approaches.

Our speakers predicted a 50% possibility of a depression and a 35% possibility of a recession. I am not buying it, and neither did

my peers at the conference. However, the speakers will make a fortune from speaking and writing about it.

There is certainly the possibility of a wall of worry driving stocks down in December 1999. However, as the magic day passes and the worst does not happen, I expect them to bounce right back.

I do expect there to be some inconveniences due to Y2K, maybe as severe as Hurricane Bonnie in some parts of the country. However, I think we will scramble to make the fixes and move on.

Those who espouse selling all investments and putting all money in cash/gold are preaching the worst of market timing.

On the other hand, maybe we should buy up stock in mattress companies (to store money under) or home safe companies (can't trust the banks). Who knows, maybe we can profit from the doomsayers!

Me personally, I will probably be a stock buyer in December, 1999 (when so many will be selling irrationally). Long term investors should be aware of the risks, make sure their short term needs are protected and get ready to watch an interesting show.

By the way, the lawyers are salivating at the prospect of suing all the companies who fail to fully correct Y2K problems. They predict \$1.5 trillion in expected damages.

Holiday Gift?

Some of you are wondering what to give your children for Christmas/Hanukkah. Maybe you know they need some financial

guidance, but they will not listen to you.

You might consider a gift of financial planning. \$175 buys a gift certificate for two hours of professional guidance on any topic they choose. \$350 buys four hours. Call or E-Mail the editor for details.

Morningstar Ratings

Spurred by the media, many of you put great weight on the number of stars Morningstar gives a mutual fund. Morningstar uses a risk adjusted rating system and only gives the maximum five stars to the top 10% of funds.

However, Morningstar lumps all U. S. stock funds into the same group. Recently, large cap companies have soared while small cap companies have sunk. Over the long haul small cap companies have outperformed large cap companies.

Yet, due to short term performance, there are **only two small cap mutual funds with five stars out of over 900 funds**. Mid cap company mutual funds have been facing the same problems.

I am not saying the star rating is not useful. Just that you should be aware of what it really tells you and what are the limitations.

In a properly allocated portfolio, domestic equities in each capitalization category are appropriate. **Don't assume that a mutual fund with less than five stars is not a well managed, quality fund.**

Similarly, foreign funds are lumped together. Recently, European stocks have soared while

Asian stocks have plummeted. Most European funds will have high star ratings while most Asian funds will have low star ratings.

Therefore, you could easily select a poorly performing fund in the sector that is in favor, and not select a top-performing fund in the sector that is out of favor.

RETIREMENT PLANNING

\$ Up on Smoke

For all you smokers having a hard time saving for retirement, check out these numbers (Assumptions are \$2.50/pack, 10% return, starting age 20):

	½ Pack/Day	1 Pack/Day
Age 30	\$7,838	\$15,676
40	\$29,141	\$58,282
50	\$87,040	\$174,080
60	\$244,405	\$488,810
70	\$672,109	\$1,344,218

Would you like to have that amount to retire on? **Think about what your habit is doing to your financial future.**

Last Call for One Roth Good Deal!

Remember that if you want to convert your traditional IRA to a Roth IRA and spread the taxes over four years, you need to convert before December 31st!

SCHILLERSTROM
INVESTMENTNEWS ©98



Yes, you can start a Roth IRA for 1998 any time until you file your income taxes for 1999. Also, you can convert in 1998 or any other year. You do not need to convert your whole traditional IRA to a Roth IRA.

Thus, you could start in 1999 and just convert 25% of your traditional IRA. However, you would pay more taxes because your traditional IRA is growing each year, therefore your overall tax burden to convert a part each year will normally be larger than converting now and spreading the taxes over four years.

My general rule is that **virtually everyone who is eligible should start a Roth IRA. Converting to a Roth IRA is normally the best thing to do**, but there are situations where I would not recommend it. Each case must be evaluated independently.

Annuities

While annuities have a role to play in retirement planning, I believe **they are oversold**. In particular, I **see annuities used for IRAs (bad idea)**.

I also see **deferred annuities sold to clients who are retiring or in retirement**. A deferred annuity make require 10 to 15 years for the tax deferral to overcome the added costs inside the annuity. This is **not something a retiree should usually be considering**.

Similarly, a recent study of variable annuity sales showed that **34% of clients thought their principal was guaranteed**. It is – but **only if the owner dies**. 60% of variable annuity clients describe themselves as conservative investors with low risk tolerances. However, **the principal in a variable annuity can lose value during a client's life**.

Think about it!

DISABILITY PLANNING

New Group Homes!

Most parents with disabled children are concerned about where their children will live. Unfortunately, our area has a severe shortage of group homes for these children. At least two groups are making a difference by obtaining homes for disabled children.

I recently attended an Open House for **Heart Havens, Inc.** This 501(c)(3) organization associated with the Methodist church obtained a very nice house in **Kempsville** where they will provide supervision to 3 disabled young adults. If you want to know more or know of a situation where a house may be donated, please call **Larry Holland locally at 420-7869** or **Rev. Art Wolz in Richmond at 800-768-6040**.

BIZNET, a local 501(c)(3) organization of business leaders, is close to purchasing their fourth property for people with disabilities. They currently own two condominiums and a four-bedroom home. Next up appears to be a **new-construction duplex with five bedrooms in each unit**. Each BIZNET house is operated by the local Community Services Board who also chooses the persons who live there.

All BIZNET houses are purchased outright with money donated by business people. BIZNET houses usually need appliances, furniture and routine household items for the people who live there. If you want to contribute money, appliances or household items, please **contact David**

Ramsey at 427-1900 or Tom Laidlaw at 437-6278.

With nearly 150 persons on the waiting list for housing, both of these programs show how private citizens can make a difference!

\$ & Disabled Child

Recently, I have seen a number of situations where a disabled **child loses eligibility for SSI/Medicaid benefits due to the unplanned receipt of thousands of dollars.**

Typically, this is caused by a relative leaving the child money. Of course, one of the things I preach about developing a **Future Plan** is preventing such situations. But once it is done, you normally must spend down the money below \$2,000 before the child is again eligible for benefits.

One alternative to spending it all down is to pay \$1,000 - \$3,000 for an **OBRA '93 qualifying Special Needs Trust**. This allows you to use the child's money to enhance his/her lifestyle (not food, clothing or shelter) while the child regains qualification for SSI/Medicaid.

The difference in this type of trust is you are **using the child's money, not the parent's money**. Also, **any money left in the trust when the child dies must go first to repay Medicaid before anyone else gets anything.**

For lesser amounts of money, being able to place the money in a Community Trust would be efficient. Unfortunately, the **Virginia Beach Community Trust does not have the necessary language to qualify for the child's own money.** Hopefully,

this situation will be corrected in 1999 and this avenue will be available.

Thus, if your child unexpectedly receives money, consider an **OBRA '93 trust** or check with the local **Community Trust** to see if they can accept the money for your child.

SSA

One benefit your disabled child may receive is Social Security's Adult Disabled Child benefit (SSA). You normally must apply for it and your child will be eligible if a parent is disabled, retired or deceased.

The amount of payment will depend upon the amount of the eligible parent's Social Security payment. **SSA is not means tested**, so your child's assets have no bearing on payment. However, SSA payments are income and will reduce SSI payments dollar-for-dollar (after the first \$20).

Thus, **you should determine the expected benefit before applying. Receiving SSA could possibly eliminate SSI and Medicaid.** While you can receive SSA and SSI, you should try to maintain some SSI income to qualify for Medicaid.

Edited and Published by:

Ronald S. Pearson, CFP

Beach Financial Advisory Service

6204 Ocean Front Ave.

Virginia Beach, VA 23451

(757) 428-6634

E-mail: rpearson@pilot.infi.net