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BFAS Money Line

INVESTMENTS

What will the Millennium Bring?

"We tried saving for our retirement. But is was just too damn expensive."

We seem be finishing out the 20th century on a strong note. Our economy just keeps on perking and foreign markets have been especially strong. Due to rising interest rates, bonds have had their worst year since 1994.

The widely expected dip in the market due to Y2K concerns has yet to materialize. Have we saturated the public with Y2K warnings? The next six weeks will tell.

Year to date numbers (see table) show **Emerging markets and Foreign stocks having a great year along with Mid-Cap and Small-Cap Growth**. If you sold all your emerging market funds during last year's ugly 27% loss, you've missed this year's 31% recovery.

Four years of twenty-something annual performance seems to be ending for the **S & P 500**. Through the end of October, it **has earned 12%, versus 17% for foreign stocks**. Foreign stocks are following up on 20% performance in 1998.

Year-To-Date Returns

Emerg Mkts	**30.75%**
Foreign	**17.76%**
Large-Cap Growth	**15.98%**
Large-Cap Value	**4.10%**
Mid-Cap Growth	**22.06%**
Mid-Cap Value	**2.12%**
Small-Cap Growth	**22.54%**
Small-Cap Value	**-2.93%**
Corp Genl Bond	**-.56%**
REITs	**-5.83%**

The lofty returns of U. S. stocks since 1995 have undoubtedly created expectations that are not only unreasonable, but unachievable over longer time periods. Such overzealous expectations seemly ignore the cyclical performance of major asset classes.

On **page three**, I have provided **a figure with performance data on large-cap stocks, small-cap stocks, foreign stocks and some blended portfolios over the last 29 years**.

You can readily see that asset classes perform much like pistons in an engine: 1. They don't all move in the same direction at the same time, and 2. They go down so that they can come back up.

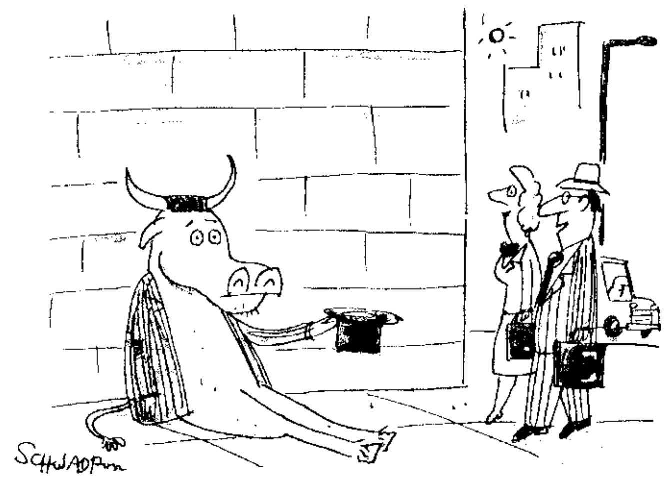
The figure also shows that while large-cap U.S. stocks have out-performed over the most recent periods, **all of the asset classes averaged 12% - 13% over the longer term**.

Check out the foreign stock returns from 1985 – 1988. The four-year average return is 43.8% compared to 17.8% for the S & P 500 and 10.4% for small stocks. Would you have been directing your advisor to put all your money in foreign stocks? How quickly we forget!

Think small stocks are always the whipping boy? Check out 1975 – 1983 where they averaged 35.3% compared to 15.7% for the S & P 500 and 15.6% for foreign stocks. Small stocks were also hot from 1991–1993.

Only when you take the long view can you tell that these asset classes take turns out-performing. Since different asset classes perform differently over time and **the timing of their out-performance is unknowable, it is reasonable for long-term investors to have some exposure to each asset class**.

The figure also shows that the **29-year total return of both blended portfolios is higher than any of the individual asset classes**.



"A sign the Bull market may be over … A Bum Steer!"

Additionally, their standard deviation (a measure of risk where higher is more risky) is similar to the S & P 500 and much less than small stocks or foreign stocks.

Over shorter time periods, the blended portfolios have not out-performed the S & P 500. Thus, only over the longer run does the logic and safety of asset allocation become appealing.

Failing to recognize the virtues of asset allocation may lead some investors to chase return (invest in last year's hot sector). Which type investor are you?

BUDGETING

Credit Cards

As we approach the holiday season (did you notice Christmas items were out before Halloween this year?), many people will max out their credit cards. Please pay off your balance. **If you incur $2,000 on your account and only pay the minimum each month (2.5%), you will pay off your $2,000 bill in 29.5 years and will pay $4,749 (18% interest)!**

Poor?

A recent talk by Michael Cox of the Dallas Federal Reserve Bank was interesting. Among other things, he said the misery index (the sum of inflation and unemployment) is at the lowest level in 40 years.

While all the talk seems to be about the big gap between the Internet Zillionaires and "burger flippers", did you know that 90% of Americans living in poverty have color TVs? Also, 75% have VCRs and 41% own their own homes. Wonder how many other places in the world would consider that poverty?

Total Returns of Major Asset Classes and Two Hypothetical Asset Allocations

Portfolios from 1970 to 1998. Data in brackets represent negative annual returns.

				Blended Portfolios	
Year	S & P 500	Small-Cap Stock	Foreign Stocks	50% S & P 500 50% Small-Cap	33% S & P 500 33% Small-Cap 33% Foreign
1970	4.0	17.4	(10.5)	(6.7)	(8.0)
1971	14.3	16.5	31.2	15.4	20.8
1972	19.0	4.4	37.6	11.7	20.5
1973	(14.7)	(30.9)	(14.2)	(22.8)	(19.9)
1974	(26.5)	(20.0)	(22.2)	(23.2)	(22.9)
1975	37.2	52.8	37.1	45.0	42.3
1976	23.8	57.4	3.7	40.6	28.1
1977	(7.2)	25.4	19.4	9.1	12.6
1978	6.6	23.5	34.3	15.0	21.6
1979	18.4	43.5	6.2	31.0	22.5
1980	32.4	39.9	24.4	36.2	32.2
1981	(4.9)	13.9	(1.0)	4.5	2.6
1982	21.4	28.0	(0.9)	24.7	16.0
1983	22.5	39.7	24.6	31.1	28.9
1984	6.3	(6.7)	7.9	(0.2)	2.5
1985	32.2	24.7	56.7	28.4	38.0
1986	18.5	6.9	69.9	12.7	32.2
1987	5.2	(9.3)	24.9	(2.0)	7.1
1988	16.8	22.9	28.6	19.9	22.8
1989	31.5	10.2	10.8	20.8	17.4
1990	(3.2)	(21.6)	(23.2)	(12.4)	(16.4)
1991	30.5	44.6	12.5	37.6	29.0
1992	7.7	23.4	(11.9)	15.6	6.2
1993	10.0	21.0	32.9	15.5	21.4
1994	1.3	3.1	8.1	2.2	4.2
1995	37.4	34.5	11.6	36.0	27.7
1996	23.1	17.6	6.4	20.3	15.6
1997	33.4	22.8	2.1	28.1	19.2
1998	28.6	(7.3)	20.3	10.6	13.9
Between 1970 and 1998					
$1,000 grew to ...	$38,136	$40,601	$32,416	$43,402	$43,300
29-Yr. Total Return	3814%	3960%	3142%	4240%	4230%
29-Yr. Avg. Annual Retur	13.5%	13.6%	12.7%	13.9%	13.9%
29-Yr. Std. Dev.	15.9%	22.6%	21.5%	17.6%	16.2%
Between 1989 and 1998					
$1,000 grew into ...	$5,784	$3,462	$1,766	$4,606	$3,426
10-Yr. Total Return	478.4%	246.2%	76.6%	360.6%	242.6%
10-Yr. Avg. Annual Retur	19.2%	13.2%	5.9%	16.5%	13.1%
10-Yr. Std. Dev.	13.9%	18.5%	14.9%	14.3%	12.5%
Between 1994 and 1998					
$1,000 grew into ...	$2,937	$1,856	$1,574	$2,369	$2,088
5-Yr. Total Return	193.7%	85.6%	57.4%	136.9%	108.8%
5-Yr. Avg. Annual Return	24.0%	13.2%	9.5%	18.8%	15.9%
5-Yr. Std. Dev.	12.7%	14.7%	6.1%	12.0%	7.6%

Source: Financial Planning September 1999

INSURANCE

Time for Term Ins?

New, higher reserve requirements for life insurance companies as of January 1st will likely cause much higher term insurance prices starting in 2000. Term insurance rates have dropped dramatically over the last five years.

If you have an old policy, **you may want to check out a newer policy**. Often, even though you are older, your premiums may be less for the same coverage. If your current coverage does not meet your long-term needs, now is the time to check out a policy.

One benefit of the new reserve requirements may be lower prices for whole life insurance.

In summary, **don't miss this rapidly closing opportunity to obtain excellent term insurance rates!** Check your coverage now!!

RETIREMENT

Savings

Recent high market returns have shifted the focus from clients' saving and investing habits to technical portfolio issues. If you save 15% every year, you can count on that. You can't count on what the markets will do.

If you are an A+ saver and your advisor is a C-, you will probably be able to retire comfortably. It doesn't work the other way. **If your advisor is A+ and you are a C- saver, you can't retire**. Read my lips, your contributions have a huge impact on your ability to retire. **Are you saving enough?**

DISABILITY ISSUES

Caregiver Issues

I recently spoke to a large group of Alzheimer's caregivers. Here are some thoughts which apply to many caregiver situations.

- Assess the expected costs and potential sources of income
- Think through residential options (family and commercial)
- Review estate planning and use a Revocable Living Trust or will and Durable Power of Attorney to control assets
- Check all life insurance and pension plans/IRAs for correct beneficiary designations
- Review health insurance coverage for your particular situation
- Consider taking a dependent's tax deduction for the ill person; take all health care expenses on Schedule A
- Check local rules for real estate and property tax exemptions
- If ill person cared-for by family, apply in February for Virginia Caregivers Credit ($500: for family with income less than $50,000).

Housing Issues

Virginia Beach currently has 96 people on a waiting list for housing the developmentally disabled. Of these 24 have mobility problems as well.

BIZNET, a local charitable organization, currently owns two condominiums and a four bedroom home which are available for this population. **BIZNET is about to break ground on a custom-built ten-bedroom duplex on South Kentucky Ave. near Virginia Beach Blvd.** If you wish to work with BIZNET or contribute, **contact Tom Laidlaw, ph. 437-6278**.

Heart Havens is another charitable organization working to reduce the housing shortfall. This group, led by the Methodist Men, have one four-bedroom home in Virginia Beach and two others elsewhere in Virginia. They are also **looking at setting up another house in this area**. If you have a house to possibly contribute or you are a family looking for housing, **contact Larry Holland, ph. 420-7869** (you don't have to be Methodist).

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