



# THE INFINITY HORIZON

An informational newsletter designed with stewardship in mind for those who want to maximize their financial potential.

January 2004

Volume XXI



*It only takes a minute to learn a lesson for a lifetime.*

### Stewardship Emphasis

*There is no better time than right now to get your house in order and prepare yourself to work your plan.*

## Welcome to 2004 - A New Beginning

A new year is once again upon us, and the new year is always a good time to review where you have been and to look at where you are going. In the financial area, the last few years have been very eventful, to say the least, but they also have provided us with some valuable lessons that we can use going forward. We have seen national and world events that have had significant political, economic, and social impact. If you have been an investor, particularly an equity investor, over these past few years, your patience and resolve have been tested as the market has experienced a series of ups and downs. If you have stayed in the market over that time, you should be congratulated for staying strong through the storms and believing that things would eventually turn around. And turn around it has. Since the first quarter of the year, there has been an increase in excess of 30% in the broader U.S. stock indexes like the Dow and the S&P 500. All of this has occurred even while we have issues like the continuing U.S. involvement in Iraq and the recent disclosures of impropriety with a handful of mutual fund company executives. There is reason to be optimistic for the future as the economy is continuing to show positive signs, but as the recent past has shown us, it pays to remain rationally optimistic because the world is so dynamic. In light of the position we find ourselves in today, we thought this would be a good time to take a step back and discuss some general practice **Do's and Don'ts** as you prepare for the upcoming year and beyond.



### **DO – Re-assess your priorities and goals**

When was the last time you sat down and really asked yourself what are the most important things you are trying to achieve. In the fast-paced busy life that most of us lead, we don't take enough quiet time to think and plan. When you consider what you want to do financially, you need to coordinate that with the goals you have for your life, so before you charge ahead into making financial decisions, seriously consider what you are making those decisions for. The time you spend up front preparing will pay off by helping you to be more focused and effective in the long run.

### **DON'T– Lament a missed opportunity so long that the next one passes you by**

It is often said that we don't know how to appropriately celebrate our victories and that we spend too much time wallowing in our defeats. If you are one of those persons who lost their nerve in the stock market in the last few years and fled for safety of less risky investments, thereby missing this recent market surge, don't get so discouraged that you remain on the sidelines. As we have said time and time again, markets are cyclical, and while the upturn of the market in the last nine months has been excellent, it is reasonable to expect that this will not be the last market bull run. But if you don't get in at some point, you will never find out.

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## **DO – Take a little time on a regular basis to manage your finances**

It seems like common sense, but as we know, common sense is not always common. There can be great benefit in taking the time to review your financial situation, cash flows, budgets, etc. on a periodic basis because it gives you the chance to correct small problems before they become big problems. It also makes it easier to handle the job in smaller pieces rather than having to catch up a year's worth of record keeping. Set aside a time just like you would other important appointments and get your finances under control.



## **DON'T – Chase the latest trend**

This may be the hardest lesson to learn because our natural instinct is to jump on the bandwagon after we have seen someone else obtain what we perceive to be quick success. When you chase a trend without analyzing the situation, you are taking the easy way out. Unfortunately, in the world of finance, often by the time the trend becomes widely known, most of the profit has already been made. If you want sustained, solid performance, it usually takes some effort and analysis on the front end, which will help you make an informed decision.

## **DO – Revisit your financial plan and your portfolio allocation**

This of course assumes that you have a financial plan in place, so if you don't, make that your first course of business because without a plan, you are far less likely to achieve any goals you have for yourself. Having said that, it is important to revisit the plan and make sure that it is still in line with your priorities and goals and with your current circumstances. With the way things are today, our financial situations can change very quickly, and that is the beauty of having a plan. It is a working document that you can alter as necessary to account for life changes and still keep you on track. It is also important to review your portfolio allocation regularly. If you are not having your portfolio automatically re-balanced, you need to check it yourself to see if adjustments should be made. This is especially true when you have periods like the last several years where markets have swung dramatically in one direction or another. You can easily find your portfolio vastly different from your intent, so check it out and make sure your allocation fits your plan.

## **DON'T – Miss the chance to prepare for your child or grandchild's college education**

The cost of a college education gets more expensive every year, but the fact is that the price of education is an investment in the future. While the cost of education is increasing, the opportunities to invest have opened up more and more in recent years. The former Education IRA's, now referred to as Coverdale Savings Accounts, now allow you to invest up to \$2,000 per student tax deferred, and the 529 Education Savings Plans, which have gained widespread popularity, permit an annual \$10,000 contribution per child, also with tax deferred growth. The key, of course, is to start early and allow time to work in your favor so your gift of education can truly multiply.



## **DO – Prepare yourself for the changes in the Tax Laws**

You may already know that the marginal tax rates for tax year 2003 will be dropping from 2002, but in addition to that dividend and capital gains tax rates are dropping as well. The highest long term capital gains rates will fall from 20% to 15%, and at the low end will drop to 5% through 2007, then reducing to 0% at the low end in 2008. Even better than that dividend rates will fall from being taxed at ordinary income tax rates to 15% at the high end and 5% at the low end of tax brackets. Take advantage of the chance to put more money in your pocket.



## **DON'T – Allow the headlines to throw you off what you need to do**

It is important to keep yourself informed, but you also need to keep the information that is published by the media in perspective. As we face another election year and the posturing that will take place by political candidates, the possibility of new international conflicts or terrorist activities, or even the chance of other business scandals like we have seen in the last couple of years, you must remember to keep your eyes on your goals in the face of adversity. Read between the lines and behind the stories so that you don't get manipulated into making decisions that set you back from your ultimate goals.

## **DO – Leave the past in the past and prepare for what's ahead**

We've been through a lot in recent years, and in spite of it all, we are still standing. That alone is a blessing. We cannot, however, allow past setbacks to hold us back from what we need to do now. Let's resolve to learn the important lessons from our experiences and use those to make us stronger so that we have the courage to move ahead positively towards the life we want to have. Here's to a prosperous 2004 and the start of something big.

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