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Financial Briefs

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The Path to Your Financial Goals

By definition, achieving your financial goals requires the accumulation of financial assets. How quickly you accumulate the needed assets depends on three things — how much you earn, how much you save, and how well you invest:

How much you earn. Sure, we all want to enjoy our work. But within that parameter, why not choose a job that will pay more? Your income is going to drive all your other financial decisions, so investigate your options.

- Are you sure you're being paid a competitive wage with competitive benefits? Even if you aren't interested in changing jobs now, pay attention to what is going on in your field.
- Do you have an outside interest or hobby that can be turned into a paying job? This could be a good way to supplement your current salary. It may also turn into a part-time job or business after retirement.
- Can you get some additional education or training to help secure a promotion or qualify for another job? Read up on which jobs are expected to have the highest growth rates and/or highest salaries over the next few years. If you don't enjoy your current job, you have even more incentive to implement these suggestions.

How much you save. You should be saving a minimum of 10% of your gross income. But don't just rely on that rule of thumb. Calculate how much you need to meet your financial goals and then determine how much you should be saving on an annual basis. If you can't seem to save that much, consider these tips:

- **Reduce spending, diverting that money to savings.** See the article "Get Your Spending under Control" for more details.
- **Invest all unexpected income.** Instead of spending money from tax refunds, bonuses, and inheritances, invest the money immediately. You may also want to put any salary increases into savings, possibly in your 401(k) plan.
- **Save regularly so it becomes a habit.** One of the best ways to save regularly is to make saving automatic. If you have to remember to write a check every month, it's easy to forget or not get around to it. It's usually easier to have the money automatically deducted from your bank account and deposited directly in an investment account. Another good alternative is to sign up for your company's 401(k) plan,

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Get Your Spending under Control

If you're trying to increase savings, remember that savings are directly tied to spending — the less you spend, the more you have to save. Some tips to consider to help get your spending under control include:

- Analyze your spending practices for a month. Are you surprised by how much you spend on dining out, groceries, entertainment, or clothing? Give serious thought to your purchasing patterns, looking for ways to reduce spending. Clean out your closet and really assess whether you need more clothes. Cut back on how often you eat out or at least dine at less expensive restaurants. Rent a movie instead of going to a theater. Make a list before grocery shopping and don't deviate from it. Look for coupons and sales before shopping.
- Go over major expenditures as well. When was the last time you comparison shopped your auto or homeowners insurance? Have you checked mortgage rates recently to see if you should refinance? Have you reviewed strategies to reduce your income taxes?
- Make a spending plan and put it in writing. Budget for all major expenditures and resolve not to

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Is an Interest-Only Mortgage Right for You?

Although interest-only mortgages have existed for many years, they have increased in popularity recently. With home prices continuing to rise and interest rates still at low levels, an interest-only mortgage allows homebuyers to purchase a larger home with a smaller mortgage payment.

Basically, for a fixed period, you only pay interest on your mortgage. The interest rate may adjust with changes in the prime rate or be fixed for a designated period. During that period, you can typically make payments against principal at your discretion. At the end of the interest-only period, the mortgage may convert to a traditional fixed-rate mortgage payable over the remaining period of a 30-year term. Since you are amortizing the entire principal over a shorter period, the monthly mortgage payments can be significantly higher than on a traditional 30-year mortgage. Sometimes, at the end of the interest-only period, the entire balance becomes due, so you must refinance at that time.

Several types of homebuyers may be interested in this type of loan, including those who expect their income to increase significantly over the interest-only period. The lower initial payment allows them to afford a larger home. When the payments go up at the end of the interest-only period, increased income should cover the increase in the mortgage payment. Homeowners with uneven income, such as those who own their own businesses or earn commissions, may find the lower payments helpful during periods when income is lower. When their income increases, they can send additional payments for principal in with their interest payments. Other homeowners may like the ability to use funds that would have been paid toward principal for other financial purposes, perhaps to fund a retirement plan or a child's college fund.

Before applying for an interest-only mortgage, be aware of the risks:

- Your payments can still increase during the interest-only period. Many interest-only mortgages are tied to the prime rate and will increase as the prime rate increases. Over a period of years, your payment can fluctuate significantly, especially if your mortgage has high caps on interest rate increases.
- Because you are only paying interest, your mortgage payments do not build equity in your home. Historically, increasing home prices have provided a significant portion of a homeowner's equity, but increases in home prices are not guaranteed. If home prices stagnate or decline, you may owe more on your mortgage than you can sell the home for.
- Once the interest-only period is over, the mortgage payment may increase substantially. If your income doesn't rise during that period or one spouse quits working, you may have difficulty finding the resources to pay the higher mortgage payment.

Please call if you'd like to discuss interest-only mortgages in more detail.

The Path

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having funds withdrawn every paycheck. *(Keep in mind that an automatic investing plan, such as dollar cost averaging, does not assure a profit or protect against a loss in declining markets. Because such a strategy involves periodic investment, you should consider your financial ability and willingness to continue purchases through periods of low price levels.)*

How well you invest. To ensure that your savings grow, you need to invest them wisely. Consider these tips:

- **Set an asset allocation strategy for the long term.** The most basic investment decision you'll make is how to allocate your portfolio among the various investment categories, such as cash, bonds, and stocks. You want to ensure your portfolio is diversified among a variety of investments. That way, when one category is declining, hopefully other categories will be increasing or not decreasing as much. To decide how to allocate your portfolio, you'll first need to come to terms with your risk tolerance. Factors like your time horizon for investing and return expectations will also impact your decision.
- **Thoroughly review each investment in your portfolio.** Decide whether you should continue to own each investment based on your financial goals and asset allocation strategy. Also, make sure your investments are adding diversification benefits to your portfolio.
- **Maintain reasonable return expectations.** The higher your expected return on your investments, the less you need to save every year. However, if your assumed rate of return is significantly higher than your actual return, you may not reach your goals. Thus, it's important to use reasonable return expectations. Assess your progress every year so you can make adjustments along the way. If your return is lower than expected, you may need to increase your savings or change investment allocations.
- **Review your portfolio at least annually.** Your portfolio won't stay within your desired allocation by itself. Since different investments earn different rates of return, over time your allocation will get out of line. You need to review your portfolio periodically and make adjustments to rebalance it.

Please call if you'd like to discuss these concepts in more detail.

Get Your Spending

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purchase items that aren't in the budget. Monitor your actual spending against your budget during the year to make sure you are staying on track.
- Throw out your credit cards (or at least hide them for a while). Most people find it more difficult to spend cash than to charge a purchase. So, for the next couple of months, only purchase items with cash.
- Only purchase items over a fairly low dollar amount on your second shopping trip. How often have you purchased something on impulse, only to realize when you got home that you really didn't need it? To control those impulses, compare price and value on your first shopping trip. Then go home, think about whether you really need the item, and purchase it on another trip.
- Think carefully before making major purchases. Often, upkeep and maintenance will add to your costs. Do you really need a motorcycle, boat, recreational vehicle, or vacation home? Consider a less expensive car or a used car. Keep your car for four or five years instead of getting a new one every two or three years.
- Figure out the maximum amount you can afford for a house and then buy one substantially less expensive than that. Not only will you save on your mortgage payment, other costs associated with owning a home will be lower. Living well within your means is one of the best ways to ensure you have money left over for saving.

Learn to control your spending and your savings should increase. Please call if you'd like more help in this area.

Diversifying All Your Assets

When asked how their assets are diversified, most people respond by indicating how much of their portfolio is divided between stocks, bonds, and cash. But looking at your overall financial diversification means more than simply looking at your investment portfolio — you need to examine all your assets. Some items to consider include:

- **Your most significant asset is probably your ability to earn an income.** The predictability of that income will have a significant impact on your financial situation and how much money will be available to save toward your financial goals. If you work for a company in a volatile industry, your spouse might want to seek employment at a more stable company. No matter where you work, don't purchase too much of your company's stock, even if it is through a 401(k) plan. You may even want to avoid stocks in related industries. Since your current and future income potential is closely tied to the company you work for, you don't want your income as well as your investments to be overconcentrated in one company. That way, if your job is jeopardized due to problems at your company, hopefully your investments won't be declining at the same time.
- **Keep an eye on the outlook for your home's value.** Your home's appreciation potential is usually tied to economic growth in your area. If your area is dominated by a certain industry, the prospects for that industry can also impact your home's value. Thus, you may not want to own stocks in that same industry.
- **Adequately diversify your investment portfolio.** Typically, you do not know which asset class will perform best on a year-to-year basis. Diversification is a defensive strategy — it helps protect your portfolio during market downturns and helps reduce your portfolio's volatility. Diversify your investment portfolio among a variety of investment categories, such as stocks, bonds, cash, real estate, and other alternatives. Also diversify within investment categories.
- **Consider international investments.** Since U.S. stocks have outperformed international stocks for an extended period, international investments have gone out of favor. But no one knows whether this trend will continue in the future, so it may be prudent to include international investments in your portfolio. Before investing in international stocks, assess how much of your portfolio to allocate to this asset class, which will depend on your risk tolerance, time horizon for investing, and comfort level with foreign investing. Keep in mind that international investing may not be suitable for everyone. In addition to the risks associated with domestic investing, international investing has unique risks, including currency fluctuations, political and social changes, and greater share price volatility.

When diversifying, consider all your assets, not just your investment portfolio. If you would like to discuss diversification and how it may impact you in more detail, please call.

Business Data

Indicator	Month-end Oct-04	Nov-04	Dec-04	Dec-03	Dec-02
Prime rate	4.75	5.00	5.25	4.00	4.25
3-month T-bill yield	1.86	2.20	2.23	0.89	1.19
10-year T-note yield	4.03	4.17	4.21	4.20	4.05
20-year T-bond yield	4.79	4.88	4.84	5.10	5.10
Dow Jones Corp.	4.78	4.85	4.97	4.70	5.47
GDP (adj. annual rate)#	+4.50	+3.30	+4.00	+4.10	+1.40

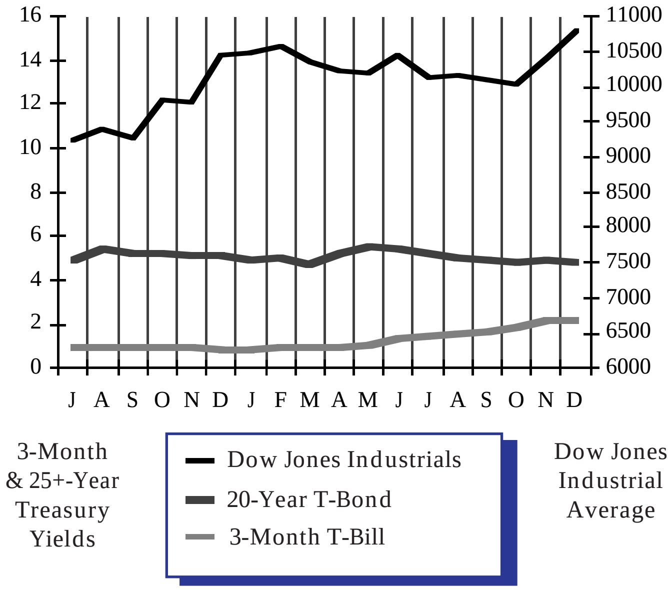
Indicator	Month-end Oct-04	Nov-04	Dec-04	% Change 2004	2003
Dow Jones Industrials	10027.47	10428.02	10800.30	3.3%	25.3%
Standard & Poor's 500	1130.20	1173.82	1213.55	9.1%	26.4%
Nasdaq Composite	1974.99	2096.81	2178.34	8.7%	50.0%
Gold	425.55	453.40	435.60	4.5%	20.9%
Money supply M2 (bil.)@	6330.30	6346.70	6379.90	5.2%	4.7%
Consumer price index@	189.90	190.90	191.00	3.6%	1.9%
Index of leading ind.@	115.60	115.10	115.20	0.8%	2.7%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov

Sources: *Barron's*, *Wall Street Journal*

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2003 to December 2004



News and Announcements

"Money Talks" Radio Show a Big Hit

I wanted to take a minute to talk about the radio show I am doing on WAKR 1590 AM on Saturday mornings from 7:00 to 8:00 a.m. I hope that if you are up that early, you have had an opportunity to listen to the show and have enjoyed it. We have had a great response from the public concerning the show, and I would like to ask our clients if they have any ideas or suggestions on how to make it even better. We are going to take the best suggestion and incorporate that idea into the show. The person or persons who make the suggestion will receive complimentary coupons to Bob Evans. My purpose for the show is to offer objective information regarding the many various financial issues that exist today. I also take "live" questions from people who call in and answer the financial questions that they may have. I feel that it is important people know that there are better ways to accomplish one's financial goals than the standard commission-based investment ideas that many brokers try to *sell* to their clients. Let us know if you have any ideas, and give a listen to the show on Saturdays from 7:00 to 8:00 a.m. on WAKR 1590.

Rick