

# Fee-Only Portfolio News

## Mutual Fund Manager Spotlight

Over 4,000 Mutual Funds are screened every thirty days to identify good mutual funds, and replace the weak performers in the portfolio.

### MATTHEWS ASIAN GROWTH & INCOME FUND

Going overseas can be risky business. Political instability, currency risk, regional strife, natural disasters. The average Asian fund has LOST 1% every year since 1994. Paul Matthews has GAINED an average of 9.4% per year.

How did he do it? He did NOT do it with great performance during upmarkets, but rather his style is conservative and he as a result he loses less when the bears are ruling the Eastern markets.

His favorite vehicles are convertibles, preferreds, and high-dividend stocks, which he chooses very carefully. In rallies, these stocks usually lag, but in down markets and weak upmarkets, this strategy shines, leaving his competition scrambling to regain lost capital.

Foreign stock represents a modest portion of all but our most aggressive portfolios. That's because along with the risks that come with all trading markets, foreign stocks bring even more risk for investors to swallow. So we take smaller bites when it comes to overseas stocks.

Paul Matthews and his Asian fund are a conservative way to participate in these exotic markets, and we appreciate his stodgy style when it comes to picking stocks. In the end, we'd rather lose less than gain more when it comes to fishing those foreign stock waters.

A Quarterly Summary of Performance and Changes Issue 9 October 2003

## End of Year Tax Planning By Peyton

On May 28th, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) was signed into law. This act accelerated reductions in the marginal tax rates, lowered capital gains and dividend tax rates, expanded the 10% and 15% tax brackets, and increased the basic standard deduction amount for married couples. The act also increased the first-year depreciation allowance and Sec 179 expense allowance, as well as bumped up the child tax credit.

Like EGTRA in 2001, many of the provisions of JGTRRA have sunset provisions which make the changes revert back to old law as early as 2004. The end result is a strange patchwork of laws which make tax planning "challenging", to say the least. One of the most odd provisions of the new law is a temporary increase in the Alternative Minimum Tax (AMT) threshold, which will prevent most filers

from being subject to AMT in 2003 and 2004. 2005, however, could trigger many AMT filers, if nothing is done to reinstate the higher AMT threshold. Confused? Join the club.

In any case, there are some things that taxpayers can do for 2003, now that the end of the tax year is approaching.

- 1) Assess your situation. Review last year's tax return, along with pay stubs and account statements, and do a few quick projections.
- 2) Address any shortfalls. If you are underwithheld, adjust your withholding for the last 1-2 months of the year to compensate, and avoid a tax penalty.
- 3) Determine whether Alternative Minimum Tax (AMT) will apply to your circumstances. The AMT is a separate set of tax rules that exist parallel to the regular tax system. If the



Peyton, Rhonda, and Russ

AMT amount is larger than the regular tax due calculation, the AMT amount will apply.

- 4) Income and deduction timing for 03/04. Defer compensation (bonuses, business debt collection) if possible until 2004. Accelerate deductions (charitable contributions, medical expenses, deductible interest, state and local taxes, college costs eligible under Hope/Lifetime Learning credit).
- 5) Maximize tax-deductible contributions to IRA's. For 2003, can contribute \$3,000 (\$6,000 joint) to an IRA. Those 50 and older can make a "catch-up" contribution of \$500 more this year.

## Allocating Your Assets: How we do it !!

Asset Allocation is defined as how a pool of assets is divided up. Everyone needs a combination of stocks, bonds, and cash.

For young people, this combination would likely contain more stocks, as young people have more working life to allow their

portfolio to mature. Older people would have more bonds, as they probably need income and can weather market drops with less patience.

Russell Hawkes Associates utilizes the model allocations provided by SEI, a Philadelphia-

area consultant. From their collection of over 20 models, we select 6 which fall along the risk spectrum, from growth to income.

Professional allocation techniques can optimize the performance of invested assets.

## Ultra Conservative Portfolio

This portfolio consists of 100% bonds, and is intended as an alternative to CD's and other fixed income vehicles.

Investors using this portfolio should expect very modest volatility, along with modest returns.

The risks associated with this portfolio are interest rate risk, and inflation risk.

Over the short term, interest rate fluctuations effect performance. Over the long term, inflation poses a risk to the real returns as living costs increase.

### Current Allocation

Govt Bond	59%
Intermediate Bond	30%
Short Term Bond	9%
Taxable Money Market	2%

### Performance Summary As of 09-30-2003

<u>Rate of return</u>				
	<u>3 mo</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 yrs</u>
	0.30	10.70	9.86	7.93
<b>B*</b>	<b>-0.03</b>	<b>5.99</b>	<b>7.23</b>	<b>5.40</b>
<u>Best/Worst Time Periods</u>				
	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 yrs</u>	
Best	6.71	19.32	11.40	
Worst	(6.10)	(5.32)	4.00	

3 year standard deviation  
5.59 vs 3.74 B\*

*Past performance is hypothetical, and does not intend to either show actual client experience, or guarantee future results. Results include change in share value and reinvestment of distributions, but not advisor fee. The principal value and return on an investment in the portfolios will fluctuate so that an investor's share may be worth less than their original cost when redeemed.*

*There are no sales, transaction, or trading charges associated with any of the funds used in these portfolios.*



### Changes since last quarter

## Capital Preservation Portfolio

This portfolio consists of roughly 20% stocks and 80% bonds. It is intended as a very conservative portfolio, with emphasis on preservation of principal.

Investors using this portfolio should expect modest volatility, and modest returns.

There is interest rate risk, and some inflation risk. The stocks provide potential to overcome long term living cost increases.

### Current Allocation

High Quality Bond	40%
Med Qual In Bond	38%
Stock- Large value	8%
Stock- Large growth	8%
Stock- Small Blend	4%
Taxable Money Market	2%

### Performance Summary As of 09-30-2003

<u>Rate of Return</u>				
	<u>3 mo</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	1.24	8.33	5.99	6.95
<b>B*</b>	<b>0.69</b>	<b>6.76</b>	<b>3.31</b>	<b>4.80</b>

<u>Best/Worst Time Periods</u>				
	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	
Best	8.18	20.13	13.95	
Worst	-2.14	1.53	5.86	

3 Year Standard Deviation  
2.87 vs 2.88 B\*

## Income and Growth Portfolio

This portfolio consists of roughly 40% stocks and 60% bonds. It is intended as a conservative portfolio, with emphasis on income.

Investors using this portfolio should expect some volatility, and moderate returns.

Volatility should be less than stocks, with some growth too.

### Current Mutual Funds

Intermediate Bonds	43%
Stock- Value	15%
Int'l bonds	15%
Stock- Growth	13%
Stock- Foreign	8%
Stock- small growth	2%
Stock- small value	2%
Taxable Money Market	2%

### Performance Summary As of 09-30-2003

<u>Rate of return</u>				
	<u>3 mos</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	1.71	10.77	4.87	7.56
<b>B*</b>	<b>1.18</b>	<b>9.96</b>	<b>1.69</b>	<b>4.66</b>

<u>Best/Worst Time Periods</u>				
	<u>3 Mos</u>	<u>1 Yr</u>	<u>3Yrs</u>	
Best	9.17	21.62	15.51	
Worst	-5.40	-3.19	4.25	

3 Year Standard Deviation  
5.32 vs 5.38B\*

*"Asset Allocation is the single most important investing decision you have to make. Your success depends on it"*



## Growth and Income Portfolio

This portfolio consists of roughly 60% stocks and 40% bonds. It is intended as a "balanced" approach, with slightly more emphasis on growth than income.

Investors using this portfolio can expect less than stock market volatility, and returns.

There is both stock and bond market exposure, with returns in excess of those available in the fixed income offerings.

### Current Mutual Funds

Intermediate Bond	8%
Stock- Value	23%
Stock- Growth	21%
Stock- Intl	12%
Bond- Intl	10%
Stock- small growth	2%
Stock- small value	2%
Taxable Money Market	2%

### Performance Summary

As of 09-30-2003

#### Rate of return

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5Yrs</u>
	3.99	18.90	5.30	10.44
<b>B*</b>	<b>2.26</b>	<b>13.59</b>	<b>(0.73)</b>	<b>7.45</b>

#### Best/Worst Time Periods

	<u>3Mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	11.22	27.17	18.21
Worst	-7.74	-8.48	2.03

#### 3 Year Standard Deviation

9.44 vs 8.44 B\*



## Capital Growth Portfolio

This portfolio consists of roughly 80% stocks and 20% bonds. Because of its high % stock holdings, it is intended for long term growth, with little regard for income.

Stock market volatility should be expected nearly in full here, with long term growth of capital, and wealth in real terms.

### Current Mutual Funds

Stock- Value	30%
Stock- Growth	28%
Stock- Intl	16%
Bond- Intermediate	13%
Bond- Intl	5%
Stock- Small Value	3%
Stock- Small Growth	3%
Taxable Money Market	2%

### Performance Summary

As of 09-30-2003

#### Rate of Return

	<u>3mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5Yrs</u>
	5.42	24.32	3.92	12.27
<b>B*</b>	<b>3.54</b>	<b>17.76</b>	<b>(5.38)</b>	<b>7.66</b>

#### Best/Worst Time Periods

	<u>3 mos</u>	<u>1 yr</u>	<u>3 yrs</u>
Best	14.55	33.79	21.71
Worst	-11.23	-12.85	-1.17

#### 3 year standard deviation

12.79 vs 12.04B\*

*"Patience is required and rewarded, each more so as your portfolio is positioned in stocks."*

## Pure Equity Portfolio

This portfolio consists of 100% stocks. It is designed for maximum wealth accumulation in real terms.

Investors using this portfolio should expect superior returns, and corresponding volatility in line with the stock market as a whole.

### Current Mutual Funds

Stock- Value	36%
Stock- Growth	34%
Stock- Intl	20%
Stock- Small Value	4%
Stock- Small Growth	4%
Taxable Money Market	2%

### Performance Summary

As of 09-30-2003

#### Rate of Return

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	5.77	28.51	0.95	13.84
<b>B*</b>	<b>4.45</b>	<b>21.52</b>	<b>(10.29)</b>	<b>3.92</b>

#### Best/Worst Time Periods

	<u>3 mos</u>	<u>1Yr</u>	<u>3Yrs</u>
Best	17.82	40.56	25.20
Worst	-12.19	-15.88	0.40

#### 3 year standard deviation

13.77 vs 16.35 B\*





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**Investment Consulting and Retirement Solutions since 1981**

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*Fee-Only Portfolios are designed to provide cost-effective asset management to investors of all stripes. Russell Hawkes Associates Inc is a fee-only advisor to the Portfolios. They use only no-load products, and are never driven by the incentives that commissions offer.*

*TD Waterhouse is retained as the custodian/trustee to the Fee-Only Portfolios. As a very large mutual fund "supermarket", they offer access to thousands of mutual funds from one portal. OnLine Access is provided.*

*Using a system of screening each month, the best mutual funds are selected for use in the Fee-Only Portfolios..*

*Portfolios can be assigned to each investor through a simple self-administered needs test, or a full financial plan prepared by the Advisor.*

**BONDS:**  
**The Party's Over: Have YOU changed YOUR holdings??**

All good things must come to an end. Bond investors have basked in the lucrative returns of the bond market for over 3 years, enjoying double-digit annual returns while the stock market tumbled.

For balanced investors with some bonds, the bond portion of their portfolio saved the day, and buoyed account values.

The party, however, is distinctly OVER. If

the U.S. economy, as some predict, emerges from the doldrums and exhibits extended growth, interest rates will rise, and bond prices will fall at the same time.

What can investors do? Well, they can 'shorten up'. This means that they reduce the maturity dates of the bonds they own. At Russell Hawkes Associates, we have already taken care of that for you, as part of your portfolio manage-

ment service.

You should, however, be concerned about assets not under our domain, such as your 401(k) plan at work.

Our suggestion is that for the bond portion of your 401(k) plan, you switch from bonds into stable value fund, if they don't offer a short-term bond fund alternative; and most don't. This will save a lot of losses when interest rates rise again in the future.



**PICKING MUTUAL FUNDS**

Using a state-of-the-art computerized process, we screen over 4,000 mutual funds every month.

The Fee Only Portfolios contain only those whose five year performance places them in the 10 percentile for high returns, low risk, consistency, and low volatility.

Mutual funds are monitored monthly, and those who fail to are replaced.