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THE FINANCIAL NEWSLETTER OF FINARC, LLC

Performance Measurement

By Liv Nash, MBA, Client Service Liaison

For many investors, performance is looked at as merely a gain or loss. However, behind these numbers there are many factors; factors that are important for an investor to be aware of and to understand.

The simplest performance calculation compares the percentage change between an ending market value and a beginning market value for any given time period. This simple calculation, however, does not take into consideration deposits and/or withdrawals that may have occurred in the portfolio during the specified period. If the deposit or withdrawal is more than 10% of the value of the portfolio, the impact on performance could be significant.

More than any other influence, performance is affected by the asset allocation of a portfolio. Asset allocation refers to the mix of stocks, bonds and cash equivalents in a portfolio. This allocation is typically determined by a person's risk tolerance, time horizon, age, income needs and asset level. On average, an individual who is risk averse, older or has lower return needs will have a higher percentage of fixed income (bonds) and cash equivalents in his/her portfolio. Individuals who have a higher tolerance for risk, are younger, or may require more growth will tend to have a higher percentage of stock holdings. The assumption is that stocks carry more risk than fixed income instruments, and with more risk one can expect higher returns in up markets. Unfortunately, the opposite tends to be true when the market performs poorly.

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News

Congratulations to **David Malone** and his wife Kara on the arrival of their daughter Chloe Macallan Malone. Chloe was born on May 7 and weighed in at 7 lb 4 oz.

Matthew Slaney recently sat for the Level II examination of the Chartered Financial Analyst (CFA) Program. He also became a member of the Association for Investment Management and Research and the Boston Security Analysts Society. These organizations focus on advancing education and ethical standards within the investment industry.

Dan Carroll, a senior at Buckingham Browne & Nichols School, joined FinArc for his Senior Spring Project. Dan learned the techniques of researching companies for investment. He also assisted the client service department with a variety of projects. A big thank you to Dan for all of his help. We wish him the best as he begins his first semester at Hamilton College in the fall.

Ali Fahs has joined FinArc as a security analyst intern. He is pursuing his MBA at Babson, where

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Risk is measured by standard deviation, the volatility of returns around the average return. The more volatility, the higher the standard deviation, the greater the risk. Stocks with higher earnings growth will tend to rise and fall more than the market, however overall returns are typically higher with stocks than with other types of investments.

Beta is another measurement of risk. Beta is a stock's sensitivity to movement of the whole market. The S&P 500 has a Beta of one. A stock with a Beta of 2.0 is two times more sensitive to market movements. For example, if the market rises by 5%, a stock with a Beta of 2.0 would be expected to increase by 10% (2 x 5%). If the market were to fall by the same amount, you would anticipate the stock to fall by 10%.

FinArc shows client portfolio performance vs. a given benchmark. Most domestic stock portfolios are measured against the S&P 500 as this index represents the 500 largest public companies in the United States. Portfolios that consist of fixed income instruments and/or foreign securities are measured against a combination of indices that may include the Lehman Credit Index or Morgan Stanley EAFE (Europe, Australasia, Far East).

As we all know, performance numbers themselves leave a reader with a strong first impression. By providing an overview of the factors affecting performance measurement, these numbers can become more personalized as we consider that our own needs, desires and investments are all part of the equation.

News *(continued)*

he is focusing on finance and investment management. Mr. Fahs was a financial adviser at UBS in Troy, Michigan. He holds a BA in Business Administration from The University of Michigan.

Catherine Friend White will be speaking at The Women's Leadership Conference at Babson College on October 24th.

What's the Buzz about Long Term Care

Susie Caspar, Senior Long Term Care Specialist

Here's another item for your "to do" list: plan for long term care needs. Have you had a family member or friend who had a prolonged illness, catastrophic accident or failing health? Who paid for their care and where was it provided? Was it stressful?

Long term care is one of the largest risks most Americans face. It is important to recognize the possibility that you or a loved one will need long term care.

- Some 42% of Americans who reach the age of 70 will need long term care. *PR Newswire 5/19/01*
- 40% of those needing long term care are under age 65. *Submitted Testimony of Robert B. Blancato, Executive Director, 1995 White House Conference on Aging to U.S. Senate*
- The average cost of a nursing home stay in the greater Boston area ranges from $73,000 - $110,000 per year. If the average length of time a person has Alzheimer's is 8-10 years, this translates to $1 million in today's dollars!

A long term illness could wipe out your life savings and impoverish your healthy spouse. Sobering facts, to be sure, yet many of us stubbornly cling to the belief that we will never need long term care. Above all, this shows how vital it is that we become better educated. Most people buy long term care insurance for one of the following reasons:

- to protect their assets and preserve their inheritance for the beneficiaries of their choice
- to reduce the burden to their family – financially, emotionally, and physically, should they need LTC
- to allow them to receive care where they choose (usually at home), and to have an expert oversee their care services.

Your standard health/medical insurance does not cover long term care costs, nor does the government, unless you go on Medicaid or have separate LTC insurance. Unfortunately, Medicaid does not pay for daily home care, only for nursing home care. You lose the ability to choose where you receive your care if you rely on Medicaid. Quality of care in nursing homes heavily dependent on Medicaid financing may have lower standards. More importantly, will the government be able to pay for all the Baby Boomers?

Times have changed and family members are not always able to quit their jobs to care for a loved one. They may live too far away, or perhaps they too, have declining health. Long term care coverage used to provide only for nursing home care. The good news is that today, most people are using their long term care insurance to also pay for home care services. This means individuals with long term care insurance are choosing to receive quality care in the comfort of their own homes, surrounded by loved ones who are able to keep an eye on things.

When should you buy long term care insurance? Once you are over age 40, it is time to educate yourself about your options. You need to have reasonably good health, rates are based on your age, and the policy value grows each year. Simply stated, it doesn't pay to wait. Compare the cost of long term care insurance premiums paid over 30 or 40 years to as little as one year in a nursing home, and you'll see how valuable long term care insurance protection can be in terms of dollars and cents.

Susie Caspar, GE LTC *is a Senior Long Term Care Specialist with GE. She can be reached at (508) 785-3559 or via email at susiecaspar@comcast.net.*

A portion of one's Long Term Care Premiums may be tax deductible for those who itemize deductions. These deductions are based on your age attained by 12/31/03.

- Age 40 or less $250
- Age 41-50 $470
- Age 51-60 $940
- Age 61-70 $2,500

New Tax Law: What You May Need to Know

On May 28, 2003, President Bush signed into law The Jobs and Growth Tax Relief Reconciliation Act of 2003. Listed below are the major changes which affect tax years beginning in 2003.

- The maximum tax rate on dividends paid by most domestic and foreign corporations after December 31, 2002 has been reduced to 15% from 20% and to 5% from 10% for taxpayers in the 10% and 15% tax brackets. **NOTE:** this reduction does not apply to all dividends from regulated investment companies (i.e., mutual funds), REITS, and certain foreign corporations.

- The same 15% (or 5%) maximum tax rate also applies to net capital gains for securities sold on or after May 6, 2003.

- Standard deduction for married taxpayers who file jointly is now $9,500 and $4,750 if filing separately.

- The maximum child tax credit has increased to $1,000/child.

- <u>Changes to the 2003 Tax Rate Schedule</u>
  1. Tax rate brackets of 27%, 30%, 35% and 38.6% have been reduced to 25%, 28%, 33% and 35% respectively.
  2. The 15% rate bracket for married taxpayers filing jointly and qualifying widow(er)s has expanded to twice that of single filers.
  3. The maximum taxable income subject to the 10% tax rate has increased to $7,000 for single taxpayers and married taxpayers filing separately ($14,000 for married taxpayers filing jointly and qualifying widow(er)s.)

These changes could impact your estimated tax payments due this year. Please consult your tax advisor with any questions before making any changes.

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