QuarterNotes

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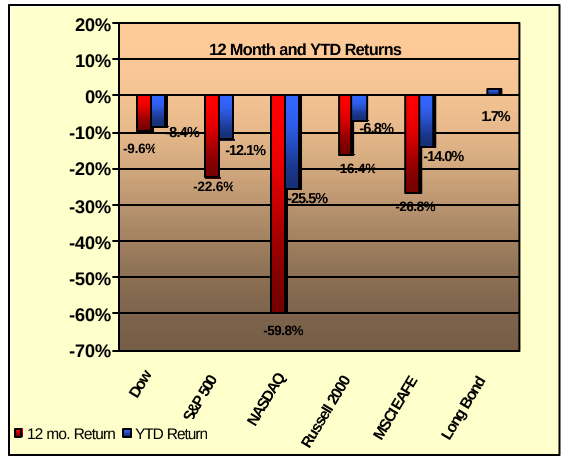
Looking for the bottom in this market

Looking for a bottom in the markets is like trying to catch a falling knife. It can get a little bloody. We would like to believe that the worst is behind us and can only hope that the next quarter will be better. When we do begin to see a recovery, expect returns to be in the single digits, not the double digit returns of the ‘90s.

For the first quarter the Dow came within points of having the worst first quarter since John Kennedy was president 40 years ago. The end of the quarter puts an end to a losing three months, when all the major indexes fell after suffering big declines in 2000. *(See Graph)*



No equity mutual fund category had a positive return. The losses came even as the Federal Reserve cut interest rates three times in an effort to stave off recession and jumpstart the economy.

The market decline of the last year is unlike the bear markets of recent memory where there were precipitous drops followed by very

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Funding College with 529 Plans

College funding is often a concern to our clients. One type of college savings plan has been increasing in popularity and we wanted to provide an introduction to it.

Section 529 plans are college savings plans created under the Internal Revenue Code Section 529, enacted by Congress in 1996 and amended by the Taxpayer Relief Act of 1997. It allowed special tax treatment for qualified state tuition programs. Both prepaid tuition programs and savings plans are covered by IRS section 529. Initially, most plans were open only to State residents, and most prepaid tuition plans still are. But more than half of the state-sponsored college savings programs are now open to non-residents of the State, and as more competition occurs between plans, they are becoming more attractive.

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Contributions can be made by anyone for anyone as long as the beneficiary uses the account for qualified educational expenses. Earnings on the account are taxed when withdrawn at the beneficiary’s tax rate. There are no income limitations on contributors and students have flexibility in the choice of colleges, which is not always available with prepaid tuition plans.

Contributions are considered a completed gift for gift and estate tax purposes and some plans allow acceleration of the $10,000 annual gift tax exclusion for 5 years so that a $50,000 contribution can be immediately removed from the gift giver’s estate. Account holders retain control over distributions and can change beneficiaries.

There are, however, some drawbacks. Unlike prepaid tuition plans, there is no guarantee the funds will provide sufficient growth to actually pay tuition at the institution of choice. Savings in 529 plans can affect a student’s ability to qualify for financial aid. There is a 10% penalty as well as taxes due on earnings withdrawn for purposes other than qualified education expenses.

When withdrawals are made, someone has to come up with the funds to pay the taxes from outside the 529 account to avoid penalties. This often means further gifting. Every State plan is individually designed, setting its own maximum contribution, fee structure, and investments. Fees average a 3% load plus annual 1% administrative

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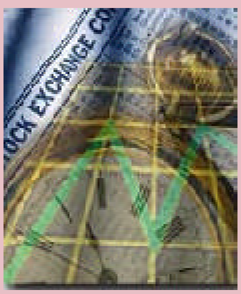

Bits and Pieces

We can now e-mail you reports on demand. All you need is Adobe Acrobat reader (a free download) to view. This will be especially helpful during the tax season. For instructions on how to use it call us.

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Quips for the Quarter

"The investor with a portfolio of sound stocks should expect their prices to fluctuate and should neither be concerned by sizable declines nor become excited by sizable advances"
-Benjamin Graham

When the market is down and you are tempted to go bottom fishing, just be careful that you don't hook a piranah.

"Don't try to buy at the bottom and sell at the top. this can't be done - except by liars.:"
-Bernard Baruch

You can't control the market - but you can control your reaction to it.

New IRA Distribution Rules

In January, the IRS issued new proposed regulations for the minimum amount required to be distributed annually from IRA and certain other qualified retirement accounts, like 401Ks and 403Bs. For 2001, IRA holders can either use the old rules or the new ones, but most people will find the new rules to their advantage. (If you are making distributions from a retirement plan other than an IRA, you will have to wait until your plan adopts the new rules.)

Key benefits of the new required minimum distribution (RMD) rules include:

1) There is no need to choose a particular distribution method. Almost all IRA owners will now use a Uniform Life Expectancy Table to calculate the RMD. (Exception: if your spouse is more than 10 years younger.)

2) Beneficiaries can be changed at any time.
The designated beneficiary does not have to be finalized until December 31 of the year following the IRA owner's death, but they must have been named as a potential beneficiary, either primary or contingent, prior to death.

The new rules make the ability to stretch the tax deferred earning power of an IRA over several generations more likely. This is because the designated beneficiary has the ability to stretch distributions over his or her lifetime, assuming any estate taxes due can be tapped from other sources. Therefore, now would be an excellent time to review your beneficiary designations and establish contingent beneficiaries where none previously were named.

You should note that the new rulings also include increased reporting functions for the IRA custodians such as Schwab. The 1099Rs, which always reported to the IRS the amount you withdrew from your IRA account, will now also show how much should have been withdrawn from your IRA. Schwab has a program which will automatically calculate and annually withdraw your RMD and send you a check or credit your Schwab account. This could be worth adopting since there is still a substantial 50% penalty for under withdrawals.

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fees and 1-2% in fund expenses. Further, the withdrawal rules for these relatively new accounts are still evolving.

There is a website devoted to the 529 plans which has a wealth of information. It can be accessed at www.savingsforcollege.com.

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quick recoveries. The Bear market of 2000-2001 seems more extended, like '73-'74 which happened during a time of price controls, runaway inflation and the war in Viet Nam. Economic fundamentals, however, are much different and far better today.

What about the economy? Gross Domestic Product (GDP) grew at 5-6% in the fourth quarter of 2000. Its deceleration to 0-1% this quarter does not yet put us in a formal recession, but it sure feels like one. Consumer spending did climb 0.3% in February after jumping a revised 1% in January. Personal income grew 0.4%. The University of Michigan's consumer sentiment survey edged higher in March, indicating that consumers are not as pessimistic looking forward.

The attitudes of consumers, whose spending fuels two thirds of the economy, had fallen earlier with the sinking stock market and rising corporate layoffs. Some economists had expected consumer sentiment to drop sharply, putting in place the conditions for much softer spending.

What does all this mean for the markets going forward? We see the Fed lowering interest rates further. With tax cuts expected to come on line retroactive to January 1, there will be more money in consumers' pockets. Mortgage rates are falling and unemployment seems to be stable despite layoffs in high tech and internet start-ups.

The stock markets are one of the leading economic indicators, meaning that the stock market can be expected to recover approximately six months before we see the signs of economic recovery. If the economy begins to get more robust later this year as is expected, then we should begin to see signs of market recovery in the near future.