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From the Desk of the Lev Rourk Group

U P D A T E

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Tips for Getting Your Finances in Order

If you're serious about pursuing your financial goals, you need to get your finances in order. Some tips to help in that process include:

✔ **Get organized.** It's difficult to assess how much progress you're making toward your goals if you don't know basic facts like how much your net worth increased during the past year, how you are spending your income, or how well your investments have performed. Organizing your finances will assist in tracking this information.

✔ **Budget your expenditures.** While many people dread the process of analyzing and budgeting expenditures, inefficient and wasted expenditures are often major obstacles to saving for financial goals. Analyzing your expenses will help you find ways to reduce spending and increase your savings.

✔ **Develop explicit written financial goals.** Goals help set our financial priorities and provide motivation for reducing spending and saving for the future. Quantify your ultimate goal and interim goals so your progress can be tracked.

✔ **Pay yourself first.** If you wait until the end of the month to see how much money is left over for saving, you'll probably find that the answer is nothing. It's often easier to pay yourself first, and then find ways to reduce spending to pay the rest of your bills.

✔ **Establish an emergency cash reserve.** This will give you funds to deal with short-term emergencies, such as a temporary job loss, a short-term disability, a major home repair, or a large medical bill. How much you need in the reserve will depend on your age, health, job outlook, and ability to borrow quickly.

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Sharing an Inheritance

Married individuals who receive a large inheritance face a tough decision — should you share the assets with your spouse or hold them separately? Legally, you aren't required to share the inheritance, even in community property states where almost all other income must be split equally. Even if all other marital assets are owned jointly, you might want to consider keeping an inheritance separate for a couple of reasons:

✔ Should you get divorced, you probably wouldn't have to split a separately held inheritance with your spouse.

✔ When you die, you control who receives the inheritance. If the inheritance is owned jointly, it goes to your spouse. If your spouse remarries, there is a chance the inheritance will ultimately go to a second spouse or children from a second marriage. You can get around that result through the use of a trust, but it may be simpler to just keep the assets separate.

While there may be sound financial reasons for keeping the inheritance separate, those reasons may be difficult to explain to a spouse. Rather than remaining evasive, discuss the inheritance and your concerns openly. Even if you decide to keep the inheritance separate, that doesn't mean you can't share some of the assets for common goals. ✔✔✔

Finances in Order

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✔ **Get your debt under control.** Take steps to reduce your consumer debt as much as possible — any interest payments are just reducing the amount available for saving. There are a variety of strategies you can use to either reduce your debt or lower the cost of that debt.

✔ **Invest automatically.** One of the best ways to invest consistently is to make investing automatic. Make arrangements to have a specific amount deducted from your checking or saving account periodically and transferred to an investment account. *(Keep in mind that an automatic saving plan, such as dollar-cost averaging, does not assure a profit or protect against loss in declining markets. Because such a strategy involves periodic investment, consider your financial ability and willingness to continue purchases through periods of low price levels.)*

✔ **Develop an investment strategy.** Your strategy will depend on a variety of factors unique to your situation, including your risk tolerance, return expectations, investment period, and investment preferences. Developing an investment strategy requires evaluating many factors, but it can give you a well-thought-out strategy to help pursue your long-term goals.

✔ **Assess your insurance needs, including life, health, disability, long-term care, homeowners, automobile, and personal liability.** Over time, your insurance needs are likely to change. Insurance companies offer innovations and riders that might be applicable to your situation. Reevaluating your insurance can lead to lower premiums with coverage better suited to your situation.

✔ **Take active steps to reduce your taxes.** There are a variety of strategies that can help you reduce your income taxes, thus freeing money for saving. The key is to review those strategies now, so you have plenty of time to implement them.

✔ **Review your estate plan.** If it's been a few years since you've reviewed your estate plan, take time to go over your documents to make sure they still reflect your wishes for your estate's disposition. If you don't have an estate plan, get one in place.

If you'd like help putting these tips into practice or would like to discuss your finances in more detail, please call. ✔✔✔

The Basics of Asset Allocation

Your asset allocation strategy will depend on your risk tolerance, return needs, and time horizon. While each person's asset allocation strategy will be unique, you should consider these tips:

✔ **To moderate your portfolio's risk, invest in both stocks and bonds.** Stocks tend to have a low positive correlation with corporate and government bonds, meaning that on average, movements in stock prices will only moderately match movements in bond prices.

✔ **With a long time horizon, you can increase your allocation to stocks.** By staying in the market through different market cycles, you reduce the risk that volatility will adversely affect your equity performance. Those with a time horizon of less than five years should not be invested in stocks.

✔ **Diversify within as well as among investment classes.** For instance, in the stock category, consider value and growth stocks, small and large capitalization stocks, and international stocks. Bonds could include long-term bonds, intermediate-term bonds, high-quality bonds, lower-quality bonds, Treasury securities, municipal bonds, and international bonds.

✔ **Make sure you have reasonable return expectations for various investment categories.** Basing your investment program on return estimates that are too high could cause you to increase the risk in your portfolio.

✔ **Once you develop an asset allocation strategy, rebalance it at least annually.** Since your strategy is designed to provide a stable risk exposure, you need to periodically rebalance so your allocation does not get out of line.

✔ **Make sure you have enough cash to handle short-term needs.** That way, you won't have to sell investments at an inappropriate time.

✔ **Evaluate new investments carefully, ensuring they add diversification benefits to your portfolio.** Don't keep adding similar investments, such as several stocks in the same industry. Not only does this not add much in the way of diversification, but it makes your portfolio more difficult to monitor.

✔ **Avoid following the market too closely.** Your asset allocation strategy is designed to guide your portfolio's long-term makeup. Don't rethink that strategy simply as a result of a market downturn.

Please keep in mind that asset allocation does not guarantee investment returns and does not eliminate the risk of loss. ✔✔✔

Measuring a Stock's Risk

How has your portfolio performed compared to the major indexes? Has it experienced sharper or milder fluctuations? The answers to these questions will help you determine your portfolio's risk.

Basically, stocks are subject to two types of risk — market risk and nonmarket risk. Nonmarket risk, also called specific risk, is the risk that events specific to a company or its industry will adversely affect the stock's price. For instance, an increase in the cost of oil would be expected to adversely affect the stock prices of the entire oil industry, while a major management change would only affect that company. Market risk, on the other hand, is the risk that a particular stock's price will be affected by overall stock market movements.

Nonmarket risk can be reduced through diversification. By owning several different stocks in different industries whose stock prices have shown little correlation to each other, you reduce the risk that nonmarket factors will adversely affect your total portfolio.

No matter how many stocks you own, you can't totally eliminate market risk. However, you can measure a stock's historical response to market movements and select those with a level of volatility you are comfortable with. Beta and standard deviation are two tools commonly used to measure stock risk.

Beta

Beta, which can be found in a number of published services, is a statistical measure of the impact stock market movements have historically had on a stock's price. By comparing the returns of the Standard & Poor's 500 (S&P 500) to a particular stock's returns, a pattern develops that indicates the stock's exposure to stock market risk.

The S&P 500 is an unmanaged index generally considered representative of the U.S. stock market and has a beta of 1. A stock with a beta of 1 means that, on average, it moves parallel with the S&P 500 — the stock should rise 10% when the S&P 500 rises 10% and decline 10% when the S&P 500 declines 10%. A beta greater than 1 indicates the stock should rise or fall to a greater extent than stock market movements, while a beta less than 1 means the stock should rise or fall to a lesser extent than the S&P 500. Since beta measures movements on average, you cannot expect an exact correlation with each market movement.

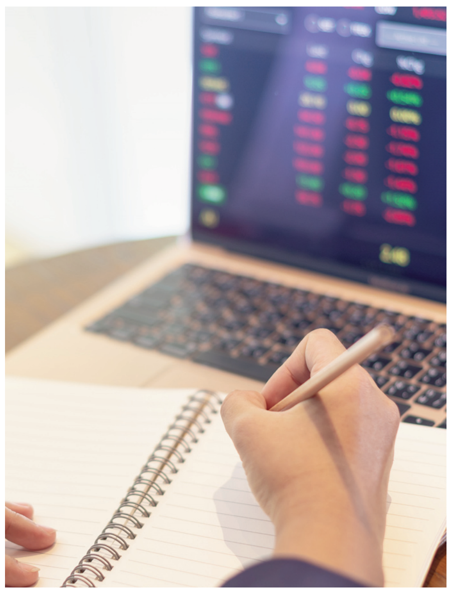
Calculating your portfolio's beta will give you a measure of its overall market risk. To do so, find the betas for all your stocks. Each beta is then multiplied by the percentage of your total portfolio that stocks represents (i.e., a stock with a beta of 1.2 that comprises 10% of your portfolio would have a weighted beta of 1.2 times 10% or .12). Add all the weighted betas together to arrive at your portfolio's overall beta.

Standard Deviation

Standard deviation, which can also be found in a number of published services, measures a stock's volatility, regardless of the cause. It basically tells you how much a stock's short-term returns have moved around its long-term average return. The most common way to calculate standard deviation is to figure the deviation from an average monthly return over a three-, five-, or 10-year period and then annualize that number. Higher standard deviations represent more volatility. In statistical terms, 68% of the time, the stock's range of returns will fall within one standard deviation of the average return while 95% of the time, the stock's range of returns will fall within two standard deviations.

Consider this example. Assume you own a stock with an average return of 10.2% and a standard deviation of 15%. 68% of the time, you can expect your return to fall within a range of –4.8% to 25.2%; 95% of the time, you can expect your return to fall within a range of –19.8% to 40.2%. (This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment.)

These measures can provide important information about your portfolio's volatility. If your portfolio is riskier than you realized, you might want to take steps to reduce that risk. When investing, you might want to take a look at an investment's risk first. Please call if you'd like to discuss these concepts in more detail. ✔✔✔



Tax Planning Tips to Make Life Easier

Plan Ahead. Strategic tax planning should really commence at the beginning of each year — not at the beginning of tax season. That is the best time to save for goals that can benefit you during tax season and beyond.

Make a List. To serve as an ongoing reminder, make a list of applicable tax deductions and consider keeping it in plain sight on your refrigerator or office bulletin board. Continued awareness of these deductions will not only motivate you but also keep you on track.

Stay Organized. Two of the biggest stressors of tax planning are remembering what you spent throughout the year that may qualify as a deduction and locating the receipt. Keep track of deductible expenses, donations, and cash gifts in a designated tax deduction file folder.

Do a Mid-Year Financial Review. Change is inevitable, though unfortunately, it's not always easy to anticipate while you're trying to plan ahead for tax season. For this reason, incorporate tax planning as part of your mid-year financial review; accounting for income changes, unanticipated quarterly bonuses, investment gains and losses, or changes in family status can substantially modify your owed taxes or refund.

Don't Go It Alone. Go to a professional who knows all the complex technicalities of tax planning; they can spot oversights, helping to maximize your refund and reduce your risk of audit. ✔✔✔

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Market Data

	Month End			% Change	
Stocks:	**May 22**	**Apr 22**	**Mar 22**	**YTD**	**12 Mon.**
Dow Jones Ind.	32990.12	32977.21	34678.35	-9.2%	-4.5%
S&P 500	4132.15	4131.93	4530.41	-13.3	-1.7
Nasdaq Comp.	12081.39	12334.64	14220.52	-22.8	-12.1
Total Stock Market	41524.55	41679.16	45847.30	-14.6	-5.3
Precious Metals:					
Gold	1838.70	1911.30	1942.15	1.9	-3.2
Silver	21.77	23.11	24.99	-5.0	-21.8
Interest Rates:	**May 22**	**Apr 22**	**Mar 22**	**Dec 21**	**May 21**
Prime rate	4.00	3.50	3.50	3.25	3.25
Money market rate	0.08	0.08	0.07	0.07	0.08
3-month T-bill rate	1.12	0.89	0.61	0.08	0.02
20-year T-bond rate	3.28	3.14	2.59	1.94	2.18
Dow Jones Corp.	4.27	4.33	3.72	2.48	2.33
Bond Buyer Muni	4.42	4.23	3.83	3.45	3.43

Sources: *Barron's, Wall Street Journal. An investor may not invest directly in an index.*

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