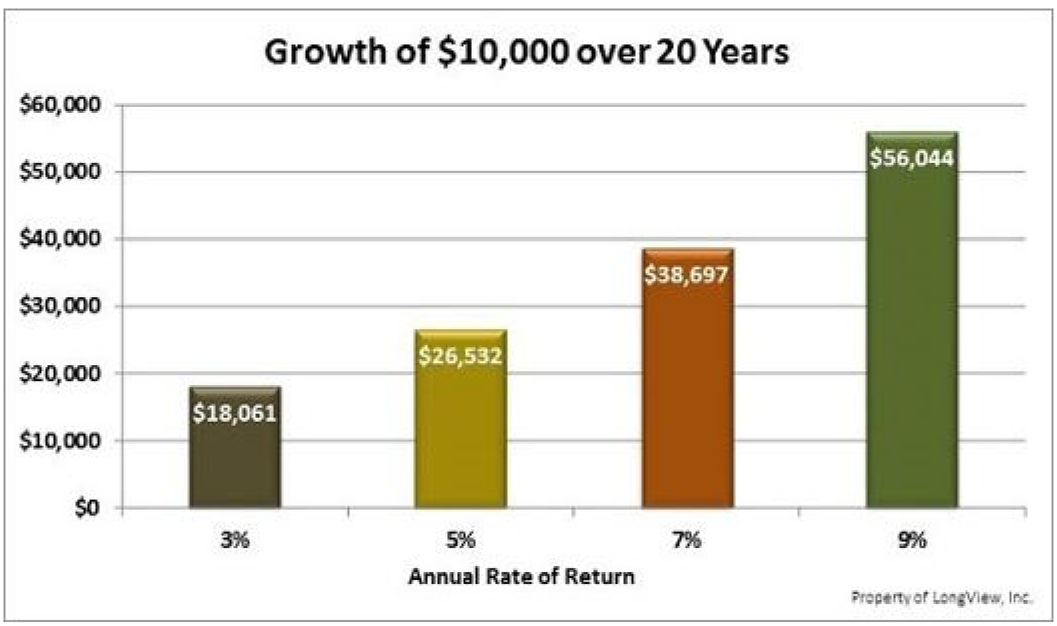
INVESTING

Why do we invest? If we know that we can make what are essentially risk-free investments by purchasing FDIC insured Certificates of Deposit or U.S. Treasuries, why do anything else? Why even take the chance of losing money? The only logical reason for assuming risk and accepting uncertainty is to gain the potential to earn a higher rate of return than you can in the risk-free investments. Please note that the key word in the previous sentence is “potential”. Once we leave the world of guarantees to seek higher returns by investing in the world's financial markets, we assume some level of risk and uncertainty.

Is it worth it? That's a question that deserves serious thought. We believe that you can best help yourself answer that question by going through a careful financial planning process. This approach can help you decide what portion of your assets, if any, you should expose to the financial markets of the world.

Strictly from a numbers point of view, it's no mystery that higher annual returns make quite a difference over time. The chart below is a hypothetical illustration of the growth of $10,000 at several rates of return over a 20 year time frame. *[PLEASE NOTE: This is simply an exercise to illustrate the results of higher returns, not the actual performance of any specific investment. Past performance in no way guarantees future investment results.]*



Regardless of our financial goals, needs and desires, we invest to achieve a rate of return that exceeds what we can earn in a safe-money, guaranteed investment … knowing all the while that as we seek higher returns, we assume some level of risk.

A client's level of risk tolerance is a critical factor in the investment management process. Investments are made in an effort to achieve financial goals, yet the rate of return the investment will produce is unknown and unpredictable. This uncertainty is one way of defining risk. Here are some others:

- Risk is perhaps most often viewed as volatility, or how dramatic and frequent the ups and downs in the investment are.
- Risk might be looked upon as the probability of a bad end result. The potentially damaging effect to your personal financial future if you've failed to protect your principal or earn a rate of return sufficient enough to achieve your goals.

A practical rule of thumb is that as you seek higher returns, you assume additional risk, and vice-versa.

We believe that once you have thoroughly reviewed your current financial situation and defined your financial goals and obligations, to best achieve long-term investment success, portfolio construction and maintenance efforts should focus on 3 main areas:

Asset Allocation

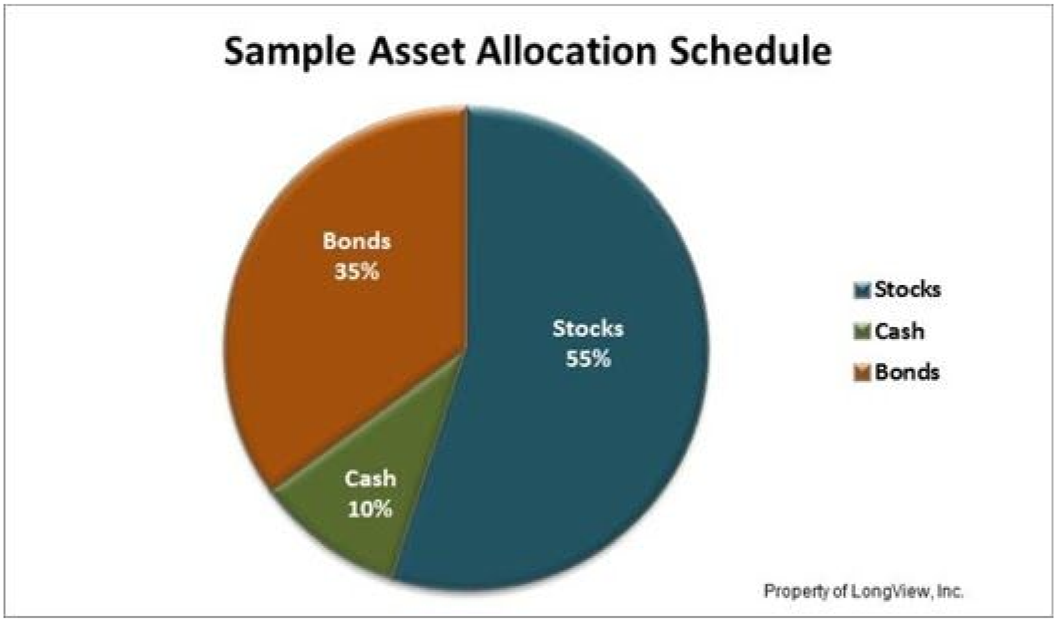
Asset Allocation is the process of creating a portfolio that combines different assets in varying proportions.

What's an “asset” or “asset class”? Investments can be grouped together into classes based on a very broad or very narrow set of common characteristics. And although there are many, the investment community recognizes Stocks, Bonds, and Cash & Equivalents as major asset classes.

Grouping assets into classes is useful because it allows us to gather historical data on the performance and volatility measures from each asset class. And although there is no guarantee that history will repeat itself, this information can be valuable when constructing a portfolio by providing a profile of how dramatic (or not) the ups and downs might be, and how different assets performed under certain market conditions.

Important portfolio management studies and our real world experience offer strong evidence that asset allocation is a significant factor contributing to overall portfolio performance.

As an example, an asset allocation schedule may call for you to direct 55% of your investments into stocks, 35% into bonds, and 10% into cash or money markets.



Diversification

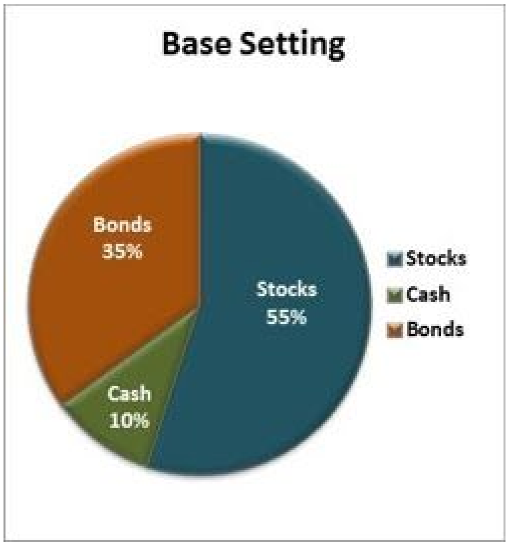
Let's start with the saying we've all heard before: “Don't put all your eggs in one basket”. Diversification is a strategy that makes a portfolio less dependent on the performance of any one investment, and can be used in an effort to reduce risk and volatility, and improve the overall results of your portfolio.

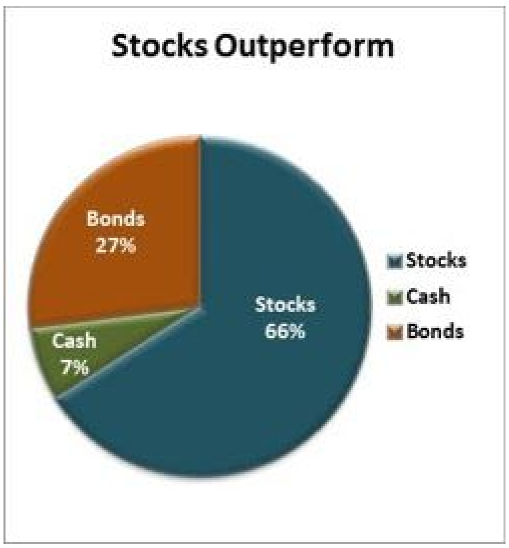
Diversification is not achieved or defined simply by the number of investments you own, but much more critically, by the different types of investments you own. For instance, the example above calls for 55% of the portfolio to be invested in Stocks. A diversified approach would look to divide that allocation to Stocks amongst a carefully selected group of Stocks from different areas of the market that might include large “Blue Chip” stocks, stocks from smaller U.S. companies, foreign stocks, etc.

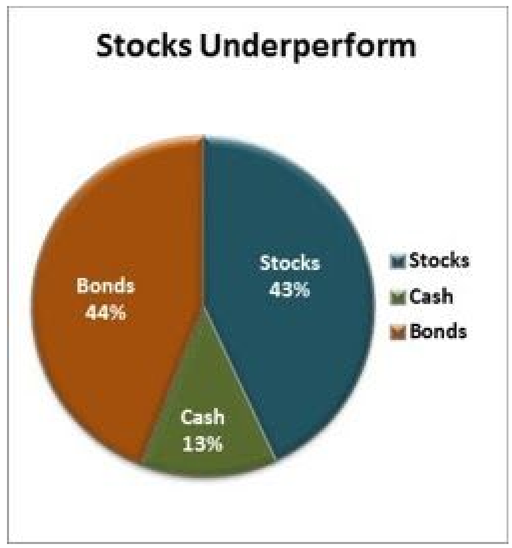
Rebalancing

Your Asset Allocation schedule represents your portfolio's “base setting”. Built with your objectives in mind, it clearly defines what percentage of the portfolio will be invested in certain assets. However, the selected investments will almost certainly change in value at different rates. For instance, Stocks may perform notably better or worse than Bonds over a given period of time. As a result, the percentage of the overall portfolio each investment represents will change on a regular basis. Rebalancing is the process of making adjustments (buys and/or sells) to the portfolio to bring the asset allocation schedule back to its “base setting”.

If left untended, after periods in which the assets you own perform significantly different from one another, your portfolio may end up with an asset allocation schedule that is quite different from its original design.







It's important to remember that these efforts and ideas are pursued in an effort to increase our chances for long-term investment success, but unfortunately offer no guarantee of doing so.