

Financial Ink®

YOUR MONEY MANAGEMENT NEWSLETTER

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Don't Leave It to Luck

More than 20 percent of Americans believe that a winning lottery ticket is the best way to get rich.¹ Today, about half of American adults spend approximately \$45 billion annually in the all-but-impossible pursuit of lottery winnings, and the vast majority end up with nothing to show for it.²

SURVEY SAYS...

Here's how people responded when asked what they thought would be the most practical way to accumulate several hundred thousand dollars.



Source: The Financial Planning Association, 2006

Play a Better Game

Thankfully, most Americans realize that there is a better game out there when it comes to building wealth. The game is called compounding, and the sooner you get started, the better chance you have to win.

Here is a simple example: Say a 30-year-old lottery player shells out about \$10 per week on tickets. If she decided to invest the money instead each year in an account earning a hypothetical 8 percent rate of return, she would accumulate \$100,315 before taxes by age 65. Her total out-of-pocket contribution to the pot would have been \$18,200, and the rest would have been the product of compounded accumulation.

This hypothetical example is used for illustrative purposes only and does not represent any specific investment. Taxes and investment fees were not considered.

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WORKING WITH YOU TO HELP ASSURE YOUR FINANCIAL SECURITY

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Mutual Funds: Good Time to Stay Put?

Six years into the first decade of this century, a glance at the stock market indexes shows why it was an era of disappointment for many investors. From 2000 to 2005, the average annual return of the S&P 500 was -1.14 percent, and the cumulative return for the same period was -6.63 percent.¹



Undoubtedly, it has been a turbulent period fraught with terrorism, war in the Middle East, and episodes of corporate scandal. Painfully, mutual fund investors have learned not to count on the double-digit stock market returns that they once took for granted.

It might help to remember that in good times or bad, market fundamentals and the overall economy can have a direct effect on stock prices.

Gauging Growth

The economy has continued to grow, despite a series of shocks that include several devastating hurricanes in the Gulf of Mexico

and high oil prices. Gross domestic product has grown between 2.7 percent and 4.5 percent each year since 2003, and economists have predicted that the economy will grow by 3.25 percent in 2006.^{2,3}

Profits Stay Positive

More good news: The operating earnings per share for S&P 500 companies have risen 90 percent during the last four years.⁴ Furthermore, if the consensus forecast of 13 percent earnings growth in 2006 comes to fruition, it would mean an unprecedented fourth consecutive year of double-digit earnings growth.⁵

Over the last three years, the S&P 500 has risen cautiously

toward its peak in 2000. Could it be that several years of solid economic growth and impressive corporate profits will ultimately bode well for stock market returns?

Even professionals can't predict exactly how the financial markets will respond to positive reports or external shocks. However, only those investors who have realistic expectations and stick to a disciplined approach will be in a position to benefit when the markets perform favorably.

Mutual funds are sold only by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

RISING PROFITS

After falling for the first two years of the decade, corporate profits have risen significantly over the past several years.



Source: Haver Analytics, 2006 (corporate profits through 12/31/2005)

1) Thomson Financial, 2006, for the period 12/31/1999 to 12/31/2005. Stocks are represented by the S&P 500 Composite Index (total return), which is generally considered representative of the U.S. stock market. The performance of an unmanaged index is not indicative of the performance of any particular investment. Individuals cannot invest directly in an index. Past performance is no guarantee of future results.

2) Bureau of Economic Analysis, January 2006

3-5) *The Wall Street Journal*, February 6, 2006

The Evolving Role of IRAs

More than 30 years after the government passed the Employee Retirement Income Security Act and created the portable individual retirement account, IRAs have taken over as the largest segment of the \$11.6 trillion U.S. retirement savings market. In fact, one out of every four of those retirement dollars is held in IRAs.¹

One attractive feature of a traditional IRA is that it allows workers to make annual contributions that may be tax deductible, subject to fairly restrictive guidelines and income limits. For any number of reasons, only about one in four account owners opts to make those yearly deposits.²

The bottom line is that many IRAs are funded with a rollover from a workplace retirement plan. Here's a closer look at the rules regarding IRA rollovers, and why so many workers find rollovers to be beneficial.

Roll It with You

Using an IRA rollover, employees who leave jobs can transfer their retirement savings to an account at a private institution of their choice. To preserve the tax-deferred status of retirement savings, the funds must be deposited in the IRA within 60 days of withdrawal from the employer's plan, or a direct institution-to-institution rollover can be arranged. Distributions from traditional IRAs are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10 percent federal income tax penalty.

An IRA can be tailored to the particular needs and goals of the account owner and can incorporate a variety of investment vehicles, as opposed to

IRA FACTS AND FIGURES

- In 2004, 45.2 million or 40.4% of American households owned IRAs.
- 70% of traditional IRA owners with rollover assets reported that a job change prompted the rollover.
- Households that own IRAs typically hold more than one-fifth of their financial assets in their IRAs.
- 26% of households with traditional IRAs also have Roth IRAs.

Source: Investment Company Institute, 2005



the limited number of options in most employer-sponsored plans. In addition, tax-deferred retirement savings from multiple employers can later be consolidated.

Over time, IRA rollovers may make it easier to manage your retirement savings by collecting your holdings in one place. This can help cut down on paperwork and give you greater control over the management of your retirement assets. ♦

1-2) Investment Company Institute, 2005-2006

Don't Leave It to Luck *(continued from page 1)*

Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

We've all heard the saying, "the rich get richer." But with compounding, those who save create the potential to get richer, regardless of their financial situation. That's because money invested today and left alone can build on itself over time as contributions earn an annual return. The longer money is invested, the more potential growth is possible.

The lure of a multimillion-dollar jackpot could tempt just about anyone to try his or her luck at the lottery. But investors who are willing to commit themselves to the time-tested practice of compounding may receive a much better payout in the end. ♦

1) Reuters, January 9, 2006

2) MSN.com, 2006

One Percent at a Time

Many experts suggest setting aside at least 15 percent of income toward retirement using tax-deferred retirement plans and other savings tools. But this can be difficult for several reasons, especially for individuals who are not already setting aside a significant percentage of their income.

Jumping to a 15 percent contribution in one leap could strain many people's finances. If this describes your situation, consider gradually increasing your contribution until it reaches 15 percent. Coinciding the increases with an annual pay raise might help minimize the impact.

Assume that a worker earning a \$75,000 salary (growing 3 percent a year) defers 10 percent of his income to an account earning a hypothetical 8 percent annual return. After 30 years, he would have accumulated more than \$1.2 million before taxes.

But if he contributed 10 percent the first year, 11 percent the next year, and so on, until he was contributing 15 percent of his salary on an annual basis, his ending balance would reach almost \$1.8 million after 30 years — a difference of more than half a million dollars before taxes.

Although setting aside 15 percent may seem like a daunting task, it still may be a worthwhile goal. Gradually increasing your contribution could help reduce any short-term pain while allowing you to save more over the long term. ♦

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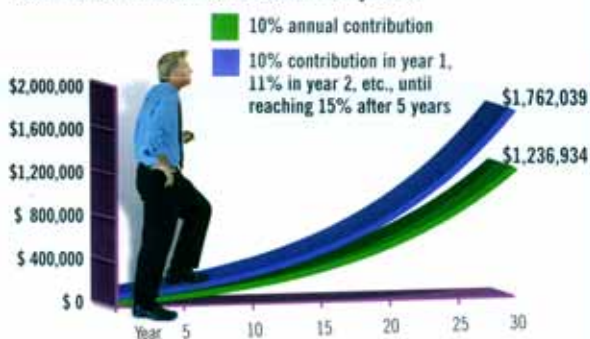
Are you taking full advantage of the power of compounding? We can help you find ways to make better use of this powerful force.

For help with your financial decisions,

Tom Good

STEP IT UP

By increasing contributions from 10% of salary to 15% over a five-year period, this hypothetical worker was able to increase his account balance by more than half a million dollars over 30 years.



This hypothetical example is used for illustrative purposes only and does not represent any specific investment. It assumes a \$75,000 annual salary growing at 3% per year. It compares the difference between contributing 10% of salary annually for 30 years with contributing 10% initially and increasing annual contributions by 1% until they reach 15%. Both accounts earn a hypothetical 8% annual return. The effect of taxes and investment fees was not considered. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.