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Start Your New Year with Four Powerful Questions

If ever there were a time to get your financial house in order, this is it. You and your family are another year chronologically closer to important life goals, such as retirement or college. But portfolio losses and the changing economics of our country now add a new urgency to getting back on track. Stress, information overload, portfolio paralysis, and inertia are major obstacles to getting started.

But sometimes getting started is difficult because you simply don't know what you want. Here are four questions you should ask yourself on a regular basis, but especially at the beginning of the year. Our thanks go to Dan Sullivan of The Strategic Coach, for allowing us to share these powerful concepts with you. We use them, and trust us, they really work.

1 Three years from now, if you were looking back to today, what has to have happened during that period, both personally and financially, for you to feel happy about your progress?

Actually, this can be for any time period, from the next 90 days to your entire life. (We use both.) But most of us can get a handle on three years. Your answers should include all dimensions of your life, such as family, practice, financial, health, spiritual, etc. They should be specific and measurable. Either you will have gone to Italy with your spouse or not. Either you will have attended 70% of your child's soccer games or not. Either your assets have increased to $_____ or not. Or, your blood pressure, pulse, and weight are at a certain level or not. **When you define your goals with benchmarks, it's much easier to make them happen and to measure your progress.**

Date: 3-YEAR PROGRESS CRITERIA (Relationships, Money, Health, Spiritual, Professional, etc.)	
Three Biggest Dangers:	**Best First Actions:**
1.	1.
2.	2.
3.	3.
Three Biggest Opportunities	**Best First Actions:**
1.	1.
2.	2.
3.	3.
Three Biggest Strengths	**Best First Actions**
1.	1.
2.	2.
3.	3.

With this bigger picture in mind, the next series are more tactical in nature, but they can be for any time period as well. It is best to brainstorm all the possibilities, and then prioritize the top three.

2 Looking ahead over the next 90 days, what are my biggest dangers to be reduced or eliminated?

Dangers usually represent losses. They could be lack of time with your spouse or family, decline in health, cash flow problems, debt levels, employee issues, malpractice, burnout, etc.

3 Looking ahead over the next 90 days, what are my biggest opportunities to be focused on and captured?

This could be a vacation, promotion, business opportunity, a new associate or grandchild, a financial plan, learning a new skill, or special time with family and friends.

4 Looking ahead over the next 90 days, what are my biggest strengths to be reinforced and maximized?

These could be your support staff, your associates, your spouse, your own skills, your cash flow, other assets, or your professional relationships. In short, these could be resources you can rely upon to help deal with the dangers and opportunities.

Continued on the back page.

Star Gazing for Mutual Funds

What do resorts, movies, mutual funds, restaurants, and some professionals all have in common? They often have star ratings to help consumers make choices. Perhaps this star searching is most pervasive in the mutual fund industry with Morningstar, Inc.'s rating system. Fund companies tout their five-star ratings in advertisements, and investors often assume that they have picked a winner by investing in a fund with a four or five-star Morningstar rating.

Unfortunately that can often lead to a lot of bad information and poor investment results. Quite often last year's five star funds were this year's losers. The reason for this is that Morningstar's rating system was biased toward past performance, comparing all sectors against each other. Thus, international funds got high ratings because of their excellent performance in the late 1980s, just as international funds started taking a back seat to US stocks in the early 90's. Large growth funds got high ratings in early 2000, just as the tech stocks within many of them began to fizzle and crash.

Morningstar, Inc. has recognized this and changed its rating system in July 2002, creating 48 separate categories and tighter definitions of each category. From now on, small value funds will be compared against small value funds, large growth against large growth, etc., regardless of whether or not that particular category was hot the previous year. Only the top 10% in each category will get the coveted five-star rating.

To help minimize the "driving through the rear-view-mirror effect," a number of forward-looking ratios of the stocks within each mutual fund's portfolio will also be factored into the ratings calculations. Downside risk is still weighted more heavily, but now funds that have highly volatile return patterns—even on the upside—will be penalized.

So, that's the good news, and it's long overdue. As a result of this new methodology, over half the rated funds had a change in rating. **The new system makes Morningstar a much more useful analytical tool for serious investors and professionals who use it with other information and sound judgment to build portfolios. The bad news is that picking a five-star fund is still no guarantee of good investment results for four big reasons:**

1. **The ratings do not tell you how to allocate your portfolio between asset classes.** That would be the equivalent of a patient requesting Prilosec and Celebrex because they are well-advertised "five-star medications," not because they are the right prescriptions for the right ailments. A fund with good ratings against its peers—such as one that invested in Japanese stocks, for example—could still have negative returns. **Remember, the <u>mixture</u> of what you have is far more important than having too much of the best-rated funds in the wrong categories.**
2. **The ratings are not adjusted for new managers.** The manager that built that record may have moved on, or a fund with a low rating may have recently recruited a stellar manager from elsewhere. A lot of that is going on these days.
3. **The ratings do not consider other quantitative and qualitative factors,** such as expenses, management tenure, research sources, independence, compensation methods, the appropriate size of the fund for it's category, and decision-making processes.
4. **The information is old, by today's fast-paced investment standards.** The stocks or bonds in a fund's portfolio may not exist in that fund at the time you read the analysis.

So, don't buy or avoid a fund just because of its star rating from Morningstar—or any other rating service. We use it and subscribe to it's expensive analytical software package. But we certainly don't rely on it exclusively. A star rating might be okay for a restaurant or a movie. But it is not a substitute for more in-depth research or professional advice when it comes to making important investment decisions.

The Planning Vision Process® Trademark Approved

After two years, the Federal Trademark Office finally granted us trademark protection for **The Planning Vision Process®.** This is the name for our overall financial planning process and the way we provide a unique planning approach to investment management, retirement planning, and estate planning. **The Confident Retirement Vision®** and **The Confident Legacy Vision®** trademarks were granted last June.

So, to celebrate (and in honor of Mary's 8th year in Ron's practice) we decided to give Kelemen's Financial Perspectives a new name and a makeover, giving it a more consistent appearance with The H Group, Inc. materials and web site. Our website can now be found at <u>www.planningvisionprocess.com</u>. It's much easier to spell than Kelemen!

Bear Market Math

(Or Why Do Stocks Move Up and Down?)

This simple question from a client recently reminded us that somewhere between the tech-stock mania of the late 90s and the angst of our bear market, many people have forgotten (or never learned) what makes stocks tick. Whole books have been written on the subject and a huge industry with countless analysts revolves around this question. So here is a very basic explanation.

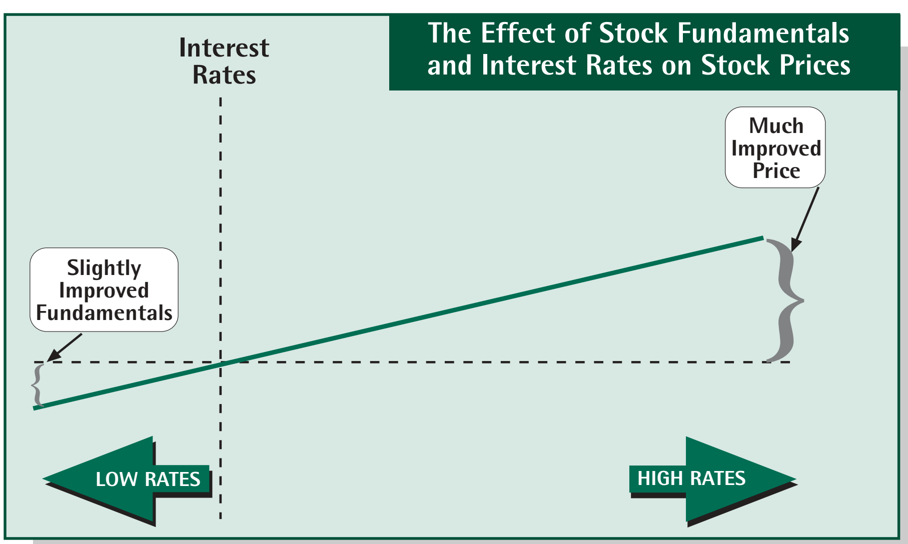
The stock market is like a giant E Bay auction. Stocks go up when there are more buyers than sellers. They go down when there are more sellers than buyers. It's good old supply and demand. But why would someone want to buy a particular stock?

Stocks are pieces of businesses. As long as a business has assets and is profitable, it has a value. Thus, if we were buying a business, what would we want? In essence, we would be buying a future income stream, so we would want to know as many fundamental things about that company to see how likely that income stream will be. Business buyers and stock analysts look at debt load, cash flow, future liabilities, price-(of the business or stock)-to-earnings ratio, book value, and much more.

Earnings could be paid as dividends to us, the owners. Or, future earnings could be used to purchase additional assets and thus further grow the company and its earnings. That's where the bull market math led people astray in the late 90s. People were just too optimistic about very unrealistic earnings assumptions. **Now investors are paying attention to earnings, but in the process they are ignoring a very important and favorable factor in stock pricing—interest rates.**

Any investment must be judged against competing investments. Because interest rates are so low, the earnings of many stocks now compare very favorably. This is Bear Market Math 101, as Phil Diamond our Chief Investment Strategist, would call it. Think of interest rates as an equalizer of a stock's fundamentals and its share price. When interest rates are high, the fundamentals of a company have to be very good to be competitive with less risky interest-bearing investments. Today's low interest rates have shifted the equalizer much closer to the fundamental side, so that it only takes a slight improvement in a stock's fundamentals to have a very positive effect on the stock's prices. Of course, if interest rates go up, the reverse is true.

So, to recap, we come from the school that earnings and fundamentals really do matter, along with a host of other fundamental considerations. They are what influence a stock's price. But they must be taken in context, especially with competing interest rates. So the next time you hear that "PE ratios are high," remember that a stock with a PE ratio of 16 in a 4% environment is very good by historical standards, and is a much better deal than one with a PE of 12 in an 8% interest environment.



THE KELEMEN-WAY ADVANTAGE

Ron Kelemen and Mary Way are Certified Financial Planner™ certificants and jointly serve their clients as a team. Their fee-based practice focuses on wealth planning and management for professionals, business owners, and retirees. Together, they have developed The Planning Vision Process® and several other unique processes. They are both advisory associates of The H Group, Inc., one of the largest independent fee-based registered investment advisory firms in Oregon with 16 professionals and over $240 million under active management. They are also registered with Financial Network Investment Corporation, (unaffiliated with the H Group, Inc.) a national broker-dealer with offices throughout the United States, Member SIPC.

About Ron Kelemen, CFP®

In practice since 1981, **Ron Kelemen, CFP®** is a contributing author of the definitive book on retirement planning: *Ways and Means: Practical Answers from America's Foremost Financial Advisors and Retirement Planning Attorneys*. His other contributory book, *Strictly Business–Planning Strategies for Privately Owned Businesses,* is now available from Ron or Quantum Press. He is a Board Member of the Willamette Valley Estate Planning Council, active in several local charities, and is frequently quoted in the press.

About Mary Way, CFP®, CPA

Mary Way, CFP®, CPA is a professional team member on Ron's team for over eight years. She is also a non-practicing CPA with 16 years experience in banking, business, and finance. She is active in Salem Rotary, the Financial Planning Section of the Oregon Society of CPAs, The Oregon Financial Planning Association, and The Willamette Valley Estate Planning Council.

Team Update

This was one of the most organized 4th quarters that we can recall. We completed the IRA minimum distributions, in-kind stock transfers to charities, tax-planning estimates, and update meetings for our "snowbird" clients well before year-end. We also got the carpet replacement underway and made significant improvements to our database.

Nalani (Lani) Moore joined us in late November. She covers the phones in the morning, does all the scheduling, keeps stuff away from Ron, and backs up Debbie. Lani has two college-bound teenage sons at home. She is active in her church and she just finished a landscape design course. She and husband Jim hope to begin sketches for landscaping their new home soon.

Debbie Renggli assumed Wendy Werner's job as Client Services Manager. (Wendy moved to Portland and now works for an associate of ours with The H Group, Inc.). She and husband Bob are camping out in a small apartment until their new home is completed. It put a whole new meaning into the word "cozy" when her son and daughter came home for the holidays.

Mary Way attended the Oregon CPA Society's financial planning conference, evaluated new planning software, and kept her nose to the grindstone getting our important client year-end activities completed ahead of schedule. In between, she and husband Steve managed a couple of trips to the Oregon Coast and started working on furniture selection for their home. (Her donation cup is at the front desk!)

Ron was quoted extensively in *Portland Magazine* and facilitated a Strategic Coach workshop in Chicago. He and wife **Kathy** finally adjusted to their two daughters' absences—Shanti at Boston University and Skyler in Italy, just 18 miles from the big earthquake. But the real bright spot in their lives has been Feruza Esanova, their exchange student from Uzbekistan. There is something special about showing a grateful young adult her first waterfall, ocean beach, old growth forest, fall foliage at Mt. Rainer, high school prom, Christmas lights, or even an American supermarket for that matter.

Thank you for your referrals, continued confidence, friendship, and business in 2002. We wish you the very best for 2003!

Start Your New Year with Four Powerful Questions . . . continued from page 1

Once you have brainstormed questions #2-4, prioritize them into the top three in each category. Just listing them really helps you think. But if you really want to turbo charge the process, write one "best first action" to deal with your top three dangers, opportunities, and strengths. So, you have a form that looks something like the sample on the front page.

So, what does this have to do with financial planning? Everything! The essence of investment management and financial planning is goal setting because so many goals have a financial price tag to them. If you don't know where you are going, any old road will take you there. So, think about what you really want in life, plus your dangers, opportunities, and strengths along the way. It is a great first step toward progress, happiness, and financial security. Happy New Year!

THE H GROUP, INC.
The Kelemen-Way Financial Perspective

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ADDRESS SERVICE REQUESTED

MISSION STATEMENT

Our mission is to help you reduce your financial dangers, focus on your opportunities, and then provide a plan and a path to help you achieve your goals. We do this by building upon your strengths, employing our unique processes, and then taking steps to increase the certainty that the job gets done right and on time.

Our Values

We exist as an enterprise solely because we create value for clients, each other, and our community.

We put our clients' interest first and honor client confidentiality.

We make recommendations in the context of the client's overall situation, based on current and sound planning principles.

We are client-centered with a high emphasis on proactive service, integrity, respect, and dependable execution.

Time is important to our clients. Thus, we have a bias toward action, speed, and communication.

We make it easy for clients to do business with us.

We are a team, responsible to our clients and to each other.

We value and treat with respect the professionals, vendors, and other organizations that enable us to serve our clients.

We work hard, but laugh a lot and enjoy what we do.