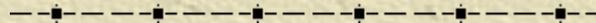


*Changing Seasons—
In our lives and In our markets*

Hosted by
Evelyn Zohlen and Neta Gagen



Our conversation today:

- ✦ Welcome and Housekeeping
- ✦ Preparing for Life's Most Difficult Decision
- ✦ Is Traditional Asset Allocation Still Relevant?
- ✦ Current Financial Hot Topics (2 quickies)

Who is this woman & why is she smiling?



What is Life's Most Difficult Decision?

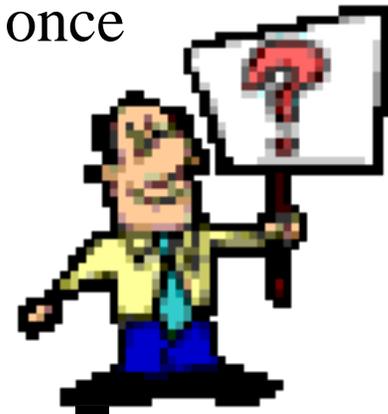
- ✦ Do I (or does someone I love) need assistance in their daily living?
 - How do I know?
 - What can I do about it?
- ✦ If so, what type of assistance?

Message to take home today—

- ✦ Think and talk about it **NOW**
- ✦ Discuss it with your spouse and children
- ✦ Seek counsel
- ✦ Decide what you would like your living circumstances to be before the need arises
- ✦ Revisit your decision from time to time but hold yourselves to it
- ✦ Go on record! (more on this in a moment)

When & How Does this Need Happen?

- ✦ The need sneaks up on us and the signs are sporadic and gradual
 - The stairs don't get steep all at once
 - People don't start talking softer all at once
 - Your appetite doesn't disappear all at once
 - The laundry doesn't pile up all at once
- ✦ Know the signs for you!



First Level of Care Needed When—

- ✦ One or more Instrumental Activities of Daily Living become difficult

Instrumental Activities of Daily Living

- ✦ Using the telephone
- ✦ Managing medications
- ✦ Moving about outside
- ✦ Shopping for essentials
- ✦ Preparing meals
- ✦ Doing laundry
- ✦ Doing light housekeeping



First Level of Care Needed When—

- ✦ One or more Instrumental Activities of Daily Living become difficult
- ✦ Living alone in family home may become lonely and increasingly devoid of the normal motivations of life
- ✦ Think about this now before it occurs!
 - How are you going to make the determination that the motivation or capacity to live your daily lives has diminished and you might need to make changes?
 - What changes to your living circumstances do you need?
- ✦ Let others know your thoughts
 - Encourage them to tell you when they think you are approaching this stage in your life
 - Go on record!



Second Level of Care Needed When—

- ✦ One or more Activities of Daily Living become difficult

Activities of Daily Living

✦ Bathing



✦ Dressing

✦ Toileting and Personal Hygiene

✦ Continence

✦ Transferring (to/from chair, car, commode, etc.)

✦ Eating (inability to prepare food and/or feed yourself)

✦ Ambulating (impaired mobility)



Second Level of Care Needed When—

- ✦ One or more Activities of Daily Living become difficult
- ✦ Need assistance in these areas and perhaps help from trained staff in personal care
- ✦ Think about increasing support you receive in your living arrangement
- ✦ Fortunately, decisions you made for first level of care can place you in a community that readily allows you to move on to a greater level of assistance.

Third Level of Care Needed When—

- ✦ Cognitive Impairment—highest need for care
- ✦ If this occurs in conjunction with any loss of ADLs, as often happens, need for care is substantial
- ✦ Family caregiver is often unable to shoulder and survive the burden of this level of care
 - Not unusual for cognitively impaired to outlive the caregiver due to the stress placed upon the caregiver

The Bottom Line

- ✦ Don't place your children or loved ones in the position of making this decision for you
- ✦ Make them yourself ahead of the need and stick to your decision!
- ✦ Go on record!



Position Yourself to Make Life's Most Difficult Decision

✦ Life Style and Circumstances Audit

- Create a baseline for yourself that will allow you to recognize the changes you experience in the aging process
- If you recognize changes as they occur, you can anticipate when you need to modify your living circumstances
- Allows you time to explore alternatives to your current lifestyle and understand next steps

Life Style and Circumstances Audit

- ✦ Introduction – why you are preparing the audit and how you want it to be used
- ✦ Current Lifestyle – describe what about your current lifestyle gives you pleasure so you recognize when that joy diminishes
- ✦ Activities of Importance and Meaning
- ✦ Physical Circumstances – description of your current health
- ✦ Fiscal Circumstances – describe current financial circumstance to be aware of changes in financial capacity

Life Style and Circumstances Audit

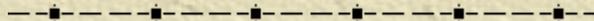
- ✦ Instrumental Activities of Daily and Independent Living – review what you've just written and make a list of things that you must be able to do to carry out those activities
- ✦ Triggers for Making Changes in Your Living Circumstances – describe what could trigger a change in your living circumstances
- ✦ Your Next Stop – this last paragraph describes what you see to be your next set of physical circumstances and your next set of living circumstances

See Sample Audit for ideas but don't copy it!
Build on it and make it your own!

Questions?

Next:

Is Traditional Asset Allocation Still
Relevant?

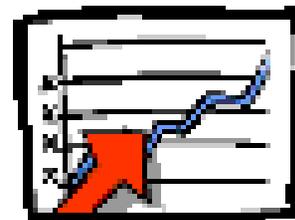


Is Traditional Asset Allocation Still Relevant?

- ✦ In a flat to moderate market, is traditional asset allocation still a good idea?
- ✦ What role should alternative investments play in a portfolio? And, what the heck are they, anyway?
- ✦ What about hedge funds? Am I missing something big?

What is Asset Allocation

- ✦ Identify various asset classes, their historic returns, and their correlation (how they move or don't move together)
- ✦ Establish long term investment objectives based upon investor goals and risk tolerance
- ✦ Allocate (diversify!) investor portfolios among the various asset classes to achieve stated objectives



Examples of Asset Classes

✦ Stocks

- Large company
- Small company
- Foreign developed
- Foreign emerging

✦ Cash Equivalents

- U.S. Treasury bills
- Money market funds
- CDs

✦ Fixed Income (Bonds)

- Government
- Corporate
- Municipal
- Foreign
- High Yield

✦ Alternative Investments

- Real Estate
- Commodities

Stocks – corporate ownership

✦ Characteristics

- Returns through dividends and capital appreciation
- Tax management opportunities
- Higher volatility

✦ Types

- Large vs. Small
- Growth vs. Value
- Foreign vs. Domestic



Fixed Income – corporate “loaner”-ship

✦ Characteristics

- Returns through interest payments and price increase due to interest rate changes
- Interest payments generally taxed as income
- Lower volatility

✦ Types

- Government vs. corporate
- Municipal
- Foreign vs. domestic
- High Yield

✦ Cash – generally included in the fixed income allocation

Alternative Investments

Hold that thought!

But first, let's talk about why traditional asset allocation still works...

Neta?

- ✦ Slide that describes the virtues of asset allocation???
- ✦ Give me specifically what you want and I'll try to insert it

Periodic Table of Asset Classes



| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|----------------|--------|-------|--------|-------|-------|-------|-------|--------|--------|-------|--------|--------|--------|-------|-------|
| Highest Return | 9.17 | 59.90 | 34.98 | 74.86 | 16.15 | 40.09 | 37.04 | 36.94 | 28.58 | 66.42 | 31.04 | 40.59 | 9.82 | 78.39 | 33.17 |
| | 7.82 | 50.26 | 27.67 | 46.87 | 15.92 | 37.57 | 22.96 | 33.75 | 22.94 | 33.16 | 10.10 | 34.22 | 3.60 | 74.48 | 33.07 |
| | -3.11 | 48.05 | 20.16 | 34.39 | 8.06 | 33.30 | 22.36 | 33.38 | 20.34 | 32.83 | 5.88 | 18.04 | 1.63 | 69.05 | 30.63 |
| | -10.56 | 42.96 | 16.05 | 32.94 | 3.91 | 30.63 | 19.97 | 25.79 | 11.95 | 32.19 | 3.95 | 12.36 | -3.70 | 60.88 | 27.33 |
| | -17.94 | 34.76 | 15.13 | 28.61 | 3.38 | 26.66 | 19.06 | 24.08 | 9.15 | 28.41 | -3.08 | 8.98 | -6.00 | 57.81 | 25.94 |
| | -20.39 | 30.46 | 11.41 | 24.52 | 2.66 | 15.31 | 17.43 | 19.66 | 8.42 | 27.31 | -6.40 | 3.85 | -11.72 | 56.26 | 20.69 |
| | -21.63 | 23.84 | 7.64 | 20.19 | 1.32 | 12.24 | 10.21 | 7.87 | 4.85 | 21.04 | -9.09 | -2.37 | -14.01 | 39.16 | 19.15 |
| | -22.55 | 14.63 | 7.17 | 20.16 | -0.33 | 11.55 | 6.34 | 5.25 | -2.33 | 6.99 | -11.39 | -2.71 | -14.11 | 36.43 | 17.74 |
| | -23.21 | 12.50 | 3.50 | 15.14 | -2.03 | 10.27 | 6.04 | 2.05 | -7.94 | 4.69 | -12.26 | -11.88 | -15.64 | 36.18 | 16.75 |
| | -23.44 | 9.75 | -9.86 | 10.07 | -2.16 | 5.60 | 5.20 | 0.31 | -10.04 | 4.37 | -13.36 | -15.44 | -19.87 | 28.69 | 10.87 |
| | -26.12 | 5.82 | -11.85 | 8.78 | -3.19 | 2.68 | 4.39 | -11.59 | -17.00 | 0.39 | -13.95 | -17.81 | -22.10 | 4.30 | 3.04 |
| Lowest Return | -27.41 | 5.60 | -20.59 | 2.90 | -7.31 | -5.19 | 4.06 | -16.86 | -25.33 | -2.57 | -30.60 | -21.21 | -30.28 | 1.02 | 1.19 |

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|-------------------------------|--------|-------|--------|-------|-------|-------|-------|--------|--------|-------|--------|--------|--------|-------|-------|
| US Large Companies | -3.11 | 30.46 | 7.64 | 10.07 | 1.32 | 37.57 | 22.96 | 33.38 | 28.58 | 21.04 | -9.09 | -11.88 | -22.10 | 28.69 | 10.87 |
| US Small Companies | -20.39 | 48.05 | 20.16 | 20.16 | -2.03 | 30.63 | 17.43 | 25.79 | -2.33 | 28.41 | -12.26 | 18.04 | -19.87 | 57.81 | 19.15 |
| US Micro Cap Companies | -27.41 | 50.26 | 27.67 | 20.19 | -3.19 | 33.30 | 19.06 | 24.08 | -7.94 | 32.19 | -13.36 | 34.22 | -14.11 | 78.39 | 16.75 |
| US Large Value Companies | -22.55 | 34.76 | 16.05 | 24.52 | -0.33 | 40.09 | 19.97 | 33.75 | 11.95 | 6.99 | -6.40 | -2.71 | -30.28 | 36.43 | 17.74 |
| US Small Value Companies | -26.12 | 42.96 | 34.98 | 28.61 | 3.38 | 26.66 | 22.36 | 36.94 | -10.04 | 4.37 | -3.08 | 40.59 | -11.72 | 74.48 | 27.33 |
| REIT Securities | -23.44 | 23.84 | 15.13 | 15.14 | 2.66 | 12.24 | 37.04 | 19.66 | -17.00 | -2.57 | 31.04 | 12.36 | 3.60 | 36.18 | 33.17 |
| International Large Companies | -23.21 | 12.50 | -11.85 | 32.94 | 8.06 | 11.55 | 6.34 | 2.05 | 20.34 | 27.31 | -13.95 | -21.21 | -15.64 | 39.16 | 20.69 |
| International Small Companies | -17.94 | 5.82 | -20.59 | 34.39 | 15.92 | 2.68 | 4.39 | -16.86 | 9.15 | 33.16 | -11.39 | -17.81 | -3.70 | 60.88 | 33.07 |
| International Value Companies | -21.63 | 9.75 | -9.86 | 46.87 | 16.15 | 10.27 | 10.21 | 0.31 | 22.94 | 32.83 | 3.95 | -15.44 | -14.01 | 69.05 | 30.63 |
| Emerging Markets Companies | -10.56 | 59.90 | 11.41 | 74.86 | -7.31 | -5.19 | 6.04 | -11.59 | -25.33 | 66.42 | -30.60 | -2.37 | -6.00 | 56.26 | 25.94 |
| US One-Month T-Bills | 7.82 | 5.60 | 3.50 | 2.90 | 3.91 | 5.60 | 5.20 | 5.25 | 4.85 | 4.69 | 5.88 | 3.85 | 1.63 | 1.02 | 1.19 |
| Intermediate Fixed Income | 9.17 | 14.63 | 7.17 | 8.78 | -2.16 | 15.31 | 4.06 | 7.87 | 8.42 | 0.39 | 10.10 | 8.98 | 9.82 | 4.30 | 3.04 |

US Large Companies is the S&P 500 Index; US Small Companies is the Fama/French US Small Cap Index; US Micro Cap Companies is the CRSP 9-10 Index; US Large Value Companies is the Fama/French Large Value Simulated Strategy (ex. utilities); US Small Value Companies is the Fama/French Small Value Simulated Strategy (ex. utilities); REIT Securities is the Dow Jones Wilshire REIT Index; International Large Companies is the MSCI EAFE Index (gross dividends); International Small Companies is simulated by Dimensional from StyleResearch securities data. Includes securities of MSCI EAFE countries in the 10%-1% of ME range; market capitalization weighted; each country is capped at 50%; rebalanced semi-annually; International Value Companies is the Fama/French International Value Simulated Index; Emerging Markets Companies is the MSCI Emerging Markets Index (gross dividends); Intermediate Fixed Income is the Lehman Brothers Intermediate Government/Credit Bond Index.
 The S&P Data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of Russell data. CRSP data courtesy of the Center for Research in Security Prices, University of Chicago. Fama/French data courtesy of Fama/French. Dow Jones Wilshire data courtesy of Wilshire Associates Incorporated. MSCI data copyright MSCI 2005. All rights reserved. Lehman data courtesy of Lehman Brothers, Inc. US One-Month T-Bills courtesy of © Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated works by Roger C. Ibbotson and Rex A. Sinquefeld).
 Date of first use: July 18, 2005.

What are alternative investments?

✦ Commodities

- Basic tangible materials such as metals, timber, grain, cocoa, and pork bellies
- Historically, difficult to invest in this market
- Technology and market evolution now allow us to access it
- Available through limited partnerships and a few mutual funds

✦ Real Estate

- Investment quality includes multi-family, commercial, retail, industrial, and hospitality
- Excellent access through REITS
- Most of us have ample real estate exposure through our personal homes

✦ Hedge Funds

- Unregulated efforts to