



Krosnowski & Scott LLC

Investment & Retirement Planning Specialists

Financial Fitness - Fall 2005

Fixed Income Rates⁽¹⁾:

Money Market – 1.2%

Two Year CD – 3.5%

Ten Year Treasury Note – 4.5%

Stock Market Indices⁽²⁾:

Dow Jones Industrial Average – 10,886

S&P 500 Index – 1,270

Russell 2000 Index – 684

(1) Rates from: www.banxquote.com (as of 12/15/05); (2) Rates from: Yahoo Finance (as of 12/15/05).

“It’s not what you make; it’s what you keep.”

Time keeps ticking and ticking away. Rush, rush, rush. I have got to get my priorities in order - work, hobbies, family, exercise, diet. There never seems to be enough hours in the day. One of our greatest challenges is to find a healthy balance in our daily lives spiritually, mentally and physically. In our investment practice, we try our best to provide our clients with a broad range of financial planning advice that spans from investments to tax and estate planning. We feel that the better we do our job in striving to help you meet your financial goals, the greater your peace of mind.

Navigating the ever changing financial markets requires patience and a steady hand. Historically, the majority of investors’ returns occur during twenty days or three and a half weeks each year. It is impossible to predict when those days will be. In our opinion, the key to success in the stock market is to be invested over the long term and to ignore short-term fluctuations.

We attempt to take a common sense approach when advising our clients. If you go to a physician, he or she may tell you three things. If you exercise, eat a healthy diet, and sleep well your chances of being healthy will rise exponentially. In a similar fashion, we advise investors to be disciplined, diversified, tax efficient and cost conscious. We also encourage investors to save some money when they can and to not spend foolishly. We feel that if you do these things you may be more likely to be successful financially.

Investment Strategy Overview

Modern Portfolio Theory (MPT)- MPT is an investment philosophy that seeks to maximize investor’s efficiency by combining asset classes such as bonds and various types of stocks including value and growth, domestic and international, and large

and small cap whose price movements are not directly correlated (i.e. they move in different directions part of the time). By diversifying your assets across these investment categories within your risk tolerance and investment objectives, MPT seeks to provide investors with more consistent returns and less risk or price volatility than more concentrated less diversified portfolios. We try to incorporate MPT into all of our clients investment accounts.

There is no certainty that any investment strategy, including Modern Portfolio Theory, will be profitable or successful in achieving investment objectives.

Financial Market Trends- After five years of what we believe to be underperformance, domestic Large Cap Growth stocks may be cycling back into favor. Having outperformed most asset classes over the past five years, domestic Small and Mid Cap stocks could, in our opinion, be market performers over the next few years. Valuations of foreign stocks (ex-Japan) continue, according to a MSCI study issued on 12/03/04, to be attractive (PE ratios are lower and dividend yields are higher than domestic stocks). Consistent with MPT mentioned above, we continue to encourage investors to emphasize diversification globally as well as across all asset classes.

Energy Sector Outlook- Having recently interviewed three petroleum industry executives and after reading numerous articles on the topic, the following are our findings and opinions regarding the future of the energy sector:

Energy sources such as hydrogen fuel cells, solar panels, and ethanol may not be the answer to solve the energy supply shortfall our nation is currently experiencing. It takes more petroleum to create the solar panels and to convert the corn into ethanol than the resulting output from the new energy sources. Until there is a more positive cost/benefit relationship for these energy sources and those of hydroelectric and wind power may continue to depend on fossil fuel sources.

The key for the future security and well-being of our country is for all Americans to work toward being energy independent. The concept sounds simple and easy but it is not. Strict environmental regulations may need to be relaxed to some degree so our energy companies can increase domestic oil refining capacity. This could reduce spikes in energy prices when there are supply disruptions. No longer can we justify shooting down new energy projects by saying nimbly, "not in my back yard." We feel the federal government is going to have to adapt and create meaningful incentives for individuals to consume less energy and for corporations and state and local governments to increase alternative fuel sources.

For example, France generates 70% of their electricity from nuclear power, while the U.S. generates just 20% of it's electricity from nuclear sources. The federal government could offer residents within fifty miles of newly built nuclear power plants an energy subsidy and create legislation that encourages electric utility companies to increase their output of nuclear energy by building new power plants. The knock on nuclear power generation is how do we properly dispose of the nuclear waste. France must be doing something with it's nuclear waste so can we. Post hurricane Katrina we have begun to see energy prices begin to subside. Many analysts feel that crude oil prices will

eventually stabilize in the \$35 to \$40 per barrel range over the next few years. If this occurs it might be good for the outlook for the stock market.

Fitness & Health- “Turn off the TV and turn on your life.”

Just as actively reading books exercises the brain and keeps your mind sharp, a daily walking routine can enhance both your physical and mental well-being. Benefits include; getting out of the house, breathing in fresh air, seeing pretty landscapes, increasing blood circulation, burning calories and feeling a sense of accomplishment when you are finished. Walking is also a good activity to share with your loved ones. It provides a good environment to get away with your spouse and spend some quality time together and talk in a relaxed environment. Start modestly with short walks of one to three miles every other day and then try to build up to five to ten mile walks daily. This low impact exercise is easy on the body and provides a great way to clear your mind and enjoy the great outdoors!

College 529 Savings Plans-

As many of you may be aware, several years ago the federal government created a new college funding vehicle called the 529 plan. The 529 College Savings Plan is designed for use to save for secondary education. Plan assets grow federally tax-deferred and earnings are distributed federally tax-free when used to pay for qualified education expenses. All states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. Unlike the Coverdell education account where there are income limitations for the owners, 529 plans have no income limitation. You can contribute up to \$12,000 per year as a single filer (\$24,000 per married couple), per account, up to a maximum lifetime contribution set by the plans.

There are several tax benefits to the owners. If you are a Virginia resident and account owner, you can deduct contributions from your state taxable income in the amount of \$2,000 per account. (The total deduction taken is \$115 per account per year). If you are 70 and older, there is an unlimited deduction amount for estate planning purposes.

The negative aspects are that the investment options can only be changed once per calendar year. The beneficiary can be changed once per calendar year. This could impact the chance of your child's ability to receive financial aid (tax advisor disclosure). If you are a parent or grand parent who has college tuition funding needs for children or grand children, the 529 College Savings might be an attractive investment program.

As with other investments, there are generally fees and expenses associated with participation in a 529 Savings Plan. In addition, there are no guarantees regarding the performance of the underlying investments. The tax implication of a 529 plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. The tax-free qualified withdrawals provision of these plans is scheduled to expire after December 31, 2010, unless new legislation is enacted by Congress.

Retirement plan assets

Exxon/Mobil Savings Plan Update- Many Exxon/Mobil employees are not aware that they may have balances that can be distributed from their 401(k) Savings Plan and rolled over into an IRA while they are still actively employed with the company. 401(k) Savings Plan balances that are available for “in-service” withdrawals include pre-1987 after-tax contributions and earnings, and post-1986 after-tax contributions and earnings. How can this benefit you?

1. **Potential to invest in better performing investments-** Many employees have been disappointed with the returns of the index investments that are available in the 401(k) Savings Plan (i.e. Equity Units, Balanced Units, Extended Market Units, International Equity Units). Rolling over your assets from the 401(k) Savings Plan to an IRA will provide you with actively managed portfolios that may improve performance.
2. **Many more investment options to choose from-** Investing assets in a self-directed IRA may give you access to numerous investment alternatives versus the eight that are currently available in the Exxon/Mobil Savings Plan.
3. **“Test drive the car before you buy it”-** Rolling over assets from the Savings Plan to an IRA now might enable you to establish a personal track record with selected portfolios with a smaller portion of your overall retirement assets. If you are satisfied with the performance of the investments upon retirement you may decide to rollover and invest a large position of your assets (pension lump sum and remaining Savings Plan balances) to rollover to an IRA, you will have a basis for deciding if you want to invest additional assets in your existing IRA investment portfolios.

Verizon News

Employee Update-

Recently, Verizon sold its directory services business and announced “retirement benefits changes.” The company continues to shed slower revenue growth business segments to free up cash to fund expansion in its more rapidly growing business segments, such as fiber optic networks. Our conceptual interpretation of the benefits changes are summarized as follows:

Pension:

- As of June 30, 2006, pension benefits will no longer accrue company contributions and will be frozen at the current service level (with 18 months added to the calculation). The pay credits system will be eliminated. Employees with ten years of service or more will continue to have the option of selecting between the two pension plans: average pay or cash balance.
- Employees with less than 10 years of service will have their benefits calculated under the Verizon cash balance formula.
- New hires are not eligible for a defined benefit plan.
- All employees will be 100% vested in the pension benefits of as that date.

Medical:

- Employees with a minimum of 15 years of service will have their retiree medical benefits calculated based on service through June 30, 2006, plus an additional 18 months.
- Employees with less than 15 years of service will not have any company subsidiary for retiree health care or life insurance.

401(k) Savings Plan:

- Verizon will match up to the first six percent, dollar for dollar, of eligible employee pay.
- Based on company performance and at their discretion, the company may contribute up to an additional .50 cents on the dollar, up to the same six percent of eligible pay.

Adventure- “Melissa’s Trip Down Under.”

In late August, my husband Rob and I celebrated our first anniversary in Australia. We spent five days in Sydney seeing various sights from the Opera House and Darling Harbour to the Blue Mountains up in the hills outside Sydney. We saw various animals at the Taronga Zoo and Featherdayle Wildlife Park including wombats, koalas and kangaroos. From there, we flew to the Outback to see the famous Uluru (formerly called Ayers Rock) and the Olgas, which are rock formations that appeared in the middle of the desert and have Aboriginal significance. The last stop on our tour was to visit a good college friend of mine who lives in Brisbane. We visited her parents who live in Surfer’s Paradise on the Gold Coast and visited the “Australian Zoo” home of the famous Croc Hunter Steve Irwin. One interesting observation while in Australia was the cost of gas. The price of petrol is extremely expensive costing over \$2 a liter. Many modes of mass transportation run on natural gas rather than petrol to cut down on costs.

We hope you and your family have a new year filled with good health, happiness and prosperity.

Sincerely,

Andrew J. Krosnowski
Senior Financial Consultant

Melissa Scott Paine
Financial Consultant

P.S: Our website was recently re-launched at www.KrosnowskiandScott.com, please check it out and let us know what you think.

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