K&S Update – Melissa's transition to motherhood while also maintaining her share of the K&S workload is going extremely well. Her son Chris is now almost five months old. He is a happy, healthy, rapidly growing young boy with a hearty appetite. Her husband Rob, a schoolteacher, who had the summer off has been tending to Chris as well as Melissa's exuberant parents.

Rob, Melissa and Christopher Paine

Paragliding in Santa Barbara, CA

Andy's latest adventures were taking paragliding lessons during the week of July 4th in Santa Barbara, CA and touring Stockholm and Copenhagen in Europe during Labor Day week. The week long training was fun but also challenging and a lot of work. We spent about six to seven hours each day in a park on the top of a hill overlooking the Pacific Ocean. We would spend a few hours each day practicing our kiting skills. This is a process where we would pull the parachute like gliders into the air and balance them, overhead. Kiting was a lot harder than it sounds. The fun part each day was launching off the hill and flying a few hundred feet down and practicing spot landings. Spending a few days in northern Europe and touring by foot, bike, train and boat was exciting. The people were very nice and the cities with their numerous historic buildings were beautiful.

Copenhagen, Denmark

We hope you have enjoyed reading our newsletter and look forward to talking to you soon.

Sincerely,

Andrew J. Krosnowski

Melissa Scott Paine

We have written and submitted for publishing a dozen financial articles. Thus far, six of the articles have been published in the *Washington Business Journal.* The article topics include 401(k) investing, budgeting, estate planning, and long-term care. To view the articles online go to **www.krosnowskiandscott.com** and click on the press center tab and then click on the article you wish to read.

In the website you can also view **"free financial reports"** that we will run for you by clicking on the tab. If you have any questions on investment or retirement planning strategies, please feel free to contact us. We hope you and your family are having a relaxing summer.

* Sources—American Funds Perspectives –A 75-year-old Fad (1926 to 2005)
** Sources—Morgan Stanley, Ned Davis Research (12/31/2005)
***Source—FactSet Research Systems (12/31/2005)
****Sources—FactSet Research Systems, Bloomberg LP (12/31/2005)

K&S

8500 Leesburg Pike, Suite 408 | Vienna, Virginia 22182 | 1-888-901-8310 | 703-506-6886

Andrew J. Krosnowski

K&S

Krosnowski & Scott LLC

Investment & Retirement Planning Specialists

Melissa A. Scott

Financial Fitness Fall 2006 Newsletter

"It's Hip to be Square."

The title of this Huey Lewis song is the theme of this edition of our quarterly publication. Looking back over the past ten years it must be fate that my partner Melissa and I began and are still working very closely together. Both of us come from modest middle class households, our parents are still married, we attend church, family and friends are very important to us, we are financially conservative and participating in sports has had a major impact on both of our lives. Our backgrounds have a direct effect on our investment business and our relationships with our clients. The loyalty that we have to our clients is no different than the commitment that our parents have to each other. The consistency of our communications to our customers can be traced to the work ethic that we learned from the discipline, hard work and sacrifice which was required to be successful in sports.

We both recommend "old school" investment strategies that emphasize a "value" approach. These conservative strategies involve investing in dull and boring companies and avoid more glamorous and risky investments such as hedge funds and precious metals or high fee programs like managed futures. We emphasize low costs and encourage our customers who have larger investment portfolios to seek out institutional (not retail) fee structures. We are shocked when we see investors, who invest with the Wall Street brokerage firms, frequently being charged two to three times higher annual fees. We seek to locate lower cost money managers that provide our clients attractive performance records and less risk than the managers of our competitors. Remember when discussing total annual fees, **"if there is a decimal in front of the number that is good. If there is a number in front of the decimal point we believe you can do better."** Our motto is **"low fees keep more of your assets in your account and enhance your chances of investment success. This increases our ability to build a long term relationship with you."**

On a $1 million portfolio, our annual fees are in the .60% range. Some of our competitors at the national Wall Street investment firms may charge 1 to 2.0% in annual fees. Annual fee savings of 1.0% is equivalent to $10,000. If you compound $10,000 at a 7.5% return over a ten year period that translates to over $141,000 in unnecessary fees.

We believe the Wall Street firms try to justify these higher fees by offering additional services such as mortgage, tax, insurance and estate planning. We provide financial planning services, some of which are free. If necessary, we can refer you to specialists such as CPA's and estate planning attorneys. We advocate a lower cost a la carte "pay as you go" approach versus charging you higher annual fees.

Unfortunately, building wealth in the stock market is a dull and boring process. It can be like watching grass grows. Here are some of the keys in out opinion to investment success in the stock market:

1. After establishing your time horizon, risk tolerance and investment objective, **select an asset allocation mix that matches your comfort level.** We utilize two excellent asset allocation references; the "efficient frontier" concept which Wharton Business School professor Jeremy Siegel illustrates in his book "Stocks For The Long Run" and Ibbotson Associates "Asset Allocation: Stocks and Bonds, risk and return, 1970 to the present chart." This process entails deciding what percentage of your assets to invest in bonds and stocks. Many experts feel that asset allocation is the most critical element of asset management. Asset allocation seeks to maximize the performance of your investment portfolio using diversification and disciplined investing. However, using an asset allocation methodology does not guarantee greater or more consistent returns, or against loss: rather it is a method used to manage risk.

2. **Be patient and remain disciplined**. The one thing that is certain in the stock market is that it will fluctuate. The key is to be constantly invested in the market. This we believe will enable you to benefit from the result of a series of higher highs and higher lows as the market slowly struggles upward over the long term Do not let short term stock market fluctuations affect your long term goals and objectives.

3. **IRA Distribution Rates**—If you are receiving income distributions from an IRA, depending on your personal situation we encourage a maximum 5-6% withdrawal rate so your assets have the potential to grow to protect you against inflation. In our opinion, a moderate withdrawal rate allows your assets to last longer than receiving distributions at higher rate each year. If you find that your income needs are changing, please let us know so that we can help you devise a strategy for the future. Sometimes it may be necessary to go back to work either full or part-time to make up any income deficiencies. Also, if you have rental property you may want to consider using the equity as another income source. Unfortunately, if you withdraw assets from your IRA at a rate greater than 5 to 6%, you might run the risk of depleting your assets. We can review strategies with you to assist you in adapting to any changes in your situation.

4. Observe the stock market and monitor your portfolio as frequently as you wish. **Our advice is to focus on your portfolio value on a quarterly basis and to make special note of your value at the end of each year.** If you are investing for the long term and your assets are properly allocated then frequent changes in your portfolio may be unnecessary. Assets invested in managed portfolios are monitored by the portfolio managers daily.

5. Investing in healthy companies that pay dividends and have a history of increasing dividends may improve your investment efficiency.
- Since 1926, reinvested dividends have accounted for nearly forty percent of domestic large company stock returns*
- Dividends dampen stock portfolio volatility since they are not directly affected by market conditions. A study from 1985 to 2005 illustrates that dividend paying stocks had nearly 15% more return and close to 33% less risk than non-dividend paying stocks.* *
- From 1975 to 2005, the following is a performance review of various stock categories from worst to best:
  - Non-dividend paying stocks (a $100 investment grew to close to $600)
  - Dividend payers with no change in dividends (a $100 investment grew to approximately $1300)
  - Dividend growers and initiators (a $100 investment grew to nearly $3400). ***
- We feel that a growing dividend is more favorable than a steady dividend—not only for the increase in income but also as an indication of a company's financial discipline and for greater price appreciation potential.
- **The global dividend difference**—during the period from 1999 to 2005 US companies paid out approximately 32% of earnings as dividends and grew their dividend payout ratios by around 10% annually. Many foreign countries such as Greece, Brazil, Taiwan and Indonesia, for example, have greater stock dividend growth rates and payout ratios than those in the U.S. This may suggest a more favorable investment environment overseas.**** Investments in foreign securities may be affected by currency fluctuations, differences in accounting standards and political instability. These risks are more significant in emerging markets. While the manager attempts to minimize many of these risks, these funds may not be appropriate for all investors.
- We believe dividend investing is a time tested, simple and easy to understand strategy for successful long-term stock investment.

6. **Pension Protection Act of 2006**
Recently, President Bush signed into law the Pension Protection Act of 2006. This law is designed to protect workers who are in defined benefit plans and enable workers to become more educated regarding their current retirement plans. The following are some of the key issues discussed in the 900 page document.

Defined Benefit
- Requires employers to meet 100% funding target beginning in 2007. Companies that currently are at the 90% funding level will be able to phase in to 100% over 5 years while those that are below 90% must meet target immediately. All fund short falls will need to be corrected within seven years.

- Provides a more permanent interest rate to more accurately calculate pension benefits with the minimum interest rate used being 5.5%
- Prohibits employees from increasing benefits, paying out shutdown benefits from Pension plan assets or paying lump sum distribution if a plan is less than 80% funded, unless benefits paid for immediately
- Restricts the use of deferred executive compensation arrangements for employers with severely under funded plans.
- Raises premiums paid by employers to the PBGC (Pension Benefit Guarantee Corp.)
- Ensures the cash balance pension will remain a part of the defined benefit system
- Provides workers with more substantial disclosure about the status of their pension plan

Defined Contribution Laws
- Allows employers to provide workers with access to a qualified investment adviser who can inform them of diversification & investment strategies
- Adds additional fiduciary and disclosure safeguards for workers
- Encourages employers to adopt automatic enrollments where the worker can opt-out if necessary
- Makes permanent the contribution limits and catch-up limits for IRA and qualified pensions
- Gives taxpayers the option of split tax refunds in which they may choose to deposit a portion of their federal tax refund directly into an IRA
- Waives the 10% early penalty for military reservists and national guardsmen who are called to active duty for at least 180 days and may be repaid within 2 years of distribution
- Allows tax-free rollovers from an IRA or pension to the deceased owner's non- spouse beneficiary
- Allows disabled individuals without earned income to contribute to an IRA
- Ensures the affordability of long-term care and health care

7. In Donald Trump's book **"How to Get Rich,"** he discusses concepts and philosophies which we feel support the advice that we are trying to provide you. The following are a few excerpts from his book:
- Stay focused, be optimistic, but always be prepared for the worst.
- Only invest in things you understand and with people you know and trust. Be cautious when considering investing in complicated programs such as hedge funds. Some of the best investments are the ones we don't make.
- Don't be fooled by instant success stories. The suddenly popular classical musician did not achieve greatness over night. Only after many years and numerous hours of painstaking practice does a musician become successful. The process of building wealth for most people is no different; it takes plenty of time and patience.

Health & Fitness—"Stretching releases tension and relaxes your body."

If you experience tightness or stiffness in your neck and shoulders or your lower back, here are a few suggestions to help you expand those compressed vertebrae in your spine that frequently cause discomfort:

1. Swimming—Participating in this low impact activity for 30 minutes one to two times per week lengthens the body and provides immediate stress relief to your back. You do not have to be Mark Spitz to benefit from swimming. If you are not a good swimmer, swim one length of the pool and walk one length of the pool to recover and then repeat the process.

2. "Bend it Like Beckham"—No we are not talking about soccer. Bending your back in concave and convex positions will enable you to improve flexibility and make your spine more limber.
- **Toe touches**—Keeping your legs straight and slowly bending at the waist and holding for a few seconds as you reach for your toes is a good concave stretching exercise for the back.
- **Back bend**—Laying on your back on a small exercise ball (45 centimeters in diameter) with both your hands and feet on the ground, push your abdomen toward the sky. You only have to push your back about a half inch up off the ball. *(If you have structural damage in your spine, you should consult a physician before performing these exercises. We are not licensed physicians.)*