

**Krosnowski & Scott, LLC**  
Investment and Retirement Planning Specialists

*“Serving the needs of corporate employees at Verizon, Exxon Mobil, AT&T, and more.”*

**FINANCIAL FITNESS- SPRING 2005 NEWSLETTER**

**“The Song Remains the Same”**

As much as the financial markets change each year they remain the same. As W.C. Fields once said, “the only thing that is guaranteed in the stock market is that it will fluctuate.” The current state of the financial markets today has some eerie parallels to the flat market investors experienced from 1968 to 1977. Rising energy prices and interest rates stifled economic growth during the decade of the 1970’s. During this time period investors who were invested in high dividend paying stocks fared much better than those who did not.

- I. **Back to Basics-** Whether you are young or old, not only do high dividend paying stocks provide investors with more income, there’s a good chance that the Price to Earnings (P/E) ratio of these companies are lower than the market average. This could be a good thing because market research shows that over a recent thirty year period companies with lower P/E ratios had better performance with less risk or volatility than more growth oriented companies that had higher P/E ratios than the market averages. The beauty of these value companies is that they tend to be in stable established industries that are less vulnerable to wide price range fluctuations than more sexy and glamorous industries such as technology and telecommunications.<sup>(1)(2)</sup>
  
- II. **The Tortoise Approach to Investing-** Companies that pay healthy dividends and have a history of increasing their dividends may be a powerful force within one’s investment portfolio. As a general rule, their prices typically fluctuate less than the overall market. As time passes by and these companies increase dividend payments, the stock prices slowly grow following the dividend growth trend. As a result, we feel investors chances of success are greater by investing in companies that pay above average dividends and have low P/E ratios. This is consistent with our Northwest Quadrant approach, which we focused on in our last newsletter. Based on commentary from several investment analysts, we continue to encourage global diversification. The valuation of companies outside the United States continues to be attractive.
  
- III. **Investment Efficiency-** In Chapter 2 of his book “**Stocks For The Long Run,**” Wharton Business School Professor Jeremy Siegel discusses modern portfolio theory and the “**efficient frontier.**”<sup>(3)</sup> The theory illustrates the lowest risk point on a linear curve between differing combinations of bonds and stocks while achieving the highest possible return over 10, 20 and 30 year time periods.<sup>(2)</sup> Over a recent 200 year period the efficient frontier was approximately:

- 60% bonds/ 40% stocks for 10 year periods
- 40% bonds / 60% stocks for 20 year periods
- 30% bonds / 70% stocks for 30 year periods

In 2003, one of the money managers we have managing assets for our clients spent \$130 million on 7000 research visits in 50 different countries throughout the world.<sup>(4)(5)</sup> Over the past five years the money manager has shifted assets from the 15 year to the 30 year efficient frontiers in the balanced portfolios they manage. We feel having your assets actively managed by one of the leading money management firms in the world could improve your chances of investment success by putting you in a better position to take advantage of the ever changing risk/reward relationship between stocks and bonds.

IV. **Industry Outlook-** Many of our clients work or have retired from *Exxon/Mobil* (\$57.74) and *Verizon* (\$34.97). We thought that since many of you own shares in these companies, you may be interested in the market outlook for these industries.

**A. Energy/ Oil Sector** - During the stock market downturn that we recently experienced to the present, oil and energy stocks have provided consistent returns as a result of steady increases of revenue and earnings. The (P/E) ratios of the big oil companies, such as Exxon Mobil, BP Amoco (\$61.23) & Chevron Texaco (\$53.21), are lower than the S&P 500 and dividend yields are higher. The stocks of these companies provided double digit returns over the past three, five, and ten years outperforming the S&P 500 with less risk or volatility. OPEC has already started to increase output levels to meet rising demand, and we expect to see international oil and gas pipelines increase over the coming years. Saudi Arabia recently announced a \$50 billion budget to upgrade their oil field production facilities. We feel that dividend paying stocks will continue to perform well over the next few years. As the dollar continues to strengthen versus the euro, analysts foresee the price of oil stabilizing in the \$35-\$40 range over the next few years. Currently, these companies are working on forming attractive partnerships with emerging international projects. Environmental and political risks remain big concerns for the oil industries, especially with the recent government approval to open the Arctic to oil exploration and production. We expect the price of oil per barrel to remain volatile and unpredictable over the next several months as a result of the ongoing war and increased energy consumption by China and India. In advising *Exxon/Mobil* employees on investing their 401k/Savings Plan assets, our greatest concern is determining how much *Exxon/Mobil* stock to own and what amount to diversify into other investment options. The future outlook for *Exxon/Mobil* stock is very bright; however prudent financial advice dictates that one should not put all of their investment eggs in one basket.<sup>(6)(7)</sup>

**B. Telecommunication Sector Outlook-** Telecommunication & technology stocks were all the rage back in the late 1990's. Companies seemed to spring up overnight promising a new direction for fiber optics and the growth of the wireless sector. Investors couldn't

purchase companies fast enough to experience the double digit and even triple digit returns. Five years later, only about 50% of the companies have survived the downward cycle of the telecomm bust. The investment returns of the largest telecommunications companies (VZ, BLS (\$26.39), FON (\$21.69), SBC (\$23.78)) have shown negative returns over a recent 5 year period. Fortunately, they are paying above average dividends. We have watched *Verizon* struggle to rise above \$42 over the last three years, as many employees have watched their stock options stay “under water” with the recent number of mergers and acquisitions within the industry (SBC buying AT&T (\$19.03), Sprint buying Nextel (\$27.52) & *Verizon* in a bidding war for MCI (\$25.70)). Due to the fierce competition within the industry and with cable companies, we feel that the prices of major telecommunications company stocks will be languishing over the next few years. If you are currently over weighted in *Verizon* company stock, you may want to reallocate a portion of your assets into some of the more diversified portfolio options within your 401(k) plan that may have better long term growth potential. You should also be aware that you may be able to do an “**in-service withdrawal**” from the *Verizon* Savings Plan and rollover assets to an IRA while you are still employed with the company. This will give you many more investment options to choose from than what is available in the Savings Plan. We feel that having a greater portion of your assets in more diversified, stock portfolios will provide you with less risk and more consistent returns.

- V. **Life After Retirement**- So, it’s finally here. The day you’ve been working for all your adult life: the day that you retire. But have you stopped to think about what your life will be like now? Previously you had obligations that kept your day busy, such as work and family. But now that your job has ended and your kids are all grown up, what will you do with your day? Take this time to reevaluate your life and decide how you really want to spend it. All it takes is a little planning and creativity to keep your retirement life just as interesting and active as always. Think back to the days before you had all those commitments- what were your dreams? Use this as a starting point to discover what you truly enjoying doing. Here some options:
- **Take a class**: It could be anything from writing to painting to ballroom dancing. Think of something you always wanted to learn but never had the time. This is the time!
  - **Travel**: Of course everyone dreams of spending their retirement days traveling the world, but you have to be realistic about your financial capabilities. Look for last minute deals from online travel sites such as Expedia and Travelocity. Also look for trips specifically designed for seniors. This is a great way to travel on a budget and a schedule specifically designed for you. It’s also a great way to meet other retirees. And don’t forget to ask about senior discounts at hotels, restaurants, airlines and more.
  - **Volunteer**: Now is a great time to get involved in community. What better way to give back then to spend your time helping those less fortunate. This is also a great way to meet people and get out of the house! Look for opportunities through your church, community, or local non-profit organizations.

- **Teach a class:** You've just spent decades learning and practicing a skill, so why not put it to good use? Teaching a class is a great way to share your knowledge with others. Another great idea is to become a mentor. You have priceless insider information that you can share with a young person who will be more than eager to hear what you have to say.
- **Start your own business:** Starting your own business is a lot of hard work, but if you're passionate about something and not ready to completely stop working yet, this could be a great idea for you. Love to cook? Start a catering business. Have extensive business knowledge? Become a consultant. By being your own boss you can dictate how much you want to work and when you want to do it.

However you choose to spend it, retirement is a time to begin a whole new chapter in your life. Take some time to decide what you really enjoy, and what activities you can incorporate into your life to make it fulfilling and rewarding.

#### VI. **Capital Research and Management (CRM) Advisory Council Meeting-**

CRM is the parent company to one of our favorite money management firms. From April 18th to 20th, I was fortunate to have attended the CRM conference in the beautiful city of San Francisco. Our already high confidence level in their money management capabilities were enhanced by spending time with employees of this outstanding organization.

Highlights of the meetings were:

- Listening to market perspectives from Jim Dunton and Abner Goldstine, who have forty and fifty plus years of portfolio counselor experience with the company respectively.
- Dining in the renovated City Hall building which brought back Clint Eastwood "Dirty Harry" movie memories.
- Listening to guest speaker Gene Kranz, former NASA flight director, recant his experience in guiding the Apollo 13 mission back to earth safely kept us all on the edge of our seats (actor Ed Harris portrayed Gene in the movie "Apollo 13" with Tom Hanks). He talked about how critical the elements of leadership, trust and teamwork were for him and his staff to do their jobs successfully. Hearing him speak not only gave me goose bumps but it also reinforced why CRM has been so successful in managing assets. The knowledge, experience and team culture that exists within this organization is unparalleled in the industry. I cannot think of a better partner to help us navigate the uncertain financial markets in the future and to help bring calm when we are frequently dealing with stormy conditions.

VII. **"Cranberries are not just for the holidays anymore"-** When antibodies won't do the trick, these mighty little red berries are ready for action. According to Dr. Amy Howell, nutritional research scientist at Rutgers University, cranberries, unlike most other fruits, have both anti-bacterial and antioxidant activities. Studies show that the antioxidants in cranberries may help prevent heart disease and cancer. Consuming the

fruit may lower blood pressure, cholesterol and the oxidation of LDL cholesterol. What makes cranberries unique when compared to other fruits are its antibacterial properties that help prevent the adhesion to surfaces in the body. The anti-adhesion mechanism effectively circumvents the infection process and enables the body to flush bacteria from the system. Consuming cranberries helps prevent urinary tract infections and may also help prevent stomach ulcers and periodontal disease. Ongoing studies suggest that cranberries may also protect against the deteriorating effects of aging, particularly in area involving coordination and memory. Cranberry juice is thought to be the equal of red wine in its ability to inhibit the development of clogged arteries and blood clots. "Drinking cranberry juice each day will help keep the doctor away."

VIII. **New additions to our office** - We would like to introduce you to some new additions to our office. Joining us are **Sue Dastanlee** and **Megan Smoot**. Sue is our Operations Manager and will be available to answer any administrative questions you may have. She was born and raised in Burma and graduated from the University of Rangoon. Sue is married with two daughters, ages 6 and 7, and is currently a part time student at Montgomery College. She enjoys spending time with her family and swimming in her spare time. Megan is our new Marketing Associate. She grew up in Delaware and graduated from UNC- Wilmington last May with a Finance degree. Megan is currently studying for the Series 6 and Level 1 of the CFA. She plays field hockey and enjoys horseback riding.

We also have the brokerage team of **Carl Gay** and **Dinah Ladia** joining us. Carl has been in the business for over 32 years. Prior to joining First Allied in 1998, Carl was a Senior Vice President at Morgan Stanley. He was born and raised in Washington, DC and has his BA and MBA from George Washington University. Carl has advanced studies at the Wharton School of Finance. He is married with two sons, ages 28 and 35. Carl plays basketball and is a fan of the VA Tech Hokies. Dinah is Carl's operations manager. Dinah graduated from the University of Virginia and is Series 7 registered. She has over 10 years experience in operations and is a member of the Operations Advisory Council at First Allied Securities, Inc. Her interests include tennis, swimming, poetry and literature. Please join us in welcoming them to our Vienna, VA branch office!

As always good things come to those who wait. Just as you were rewarded for being patient in the fourth quarter of last year, we are hopeful that as energy prices begin to stabilize the financial markets will pick up during the later half of this year. In the mean time, we will continue to look to increase dividends and cash flow wherever possible. We look forward to talking to you soon and hope you enjoyed this edition of "**Financial Fitness**" and our title reference to the famous rock 'n roll band Led Zepplin.

Sincerely,

Andrew J. Krosnowski  
Senior Financial Consultant

Melissa Scott Paine  
Financial Consultant

- (1) Source: Ford Equity Research
- (2) Past Performance is not a guarantee of future results.
- (3) The use of any investment strategy, including the Modern Portfolio Theory, does not assure that any investment will be profitable or successful in achieving your investment objectives.
- (4) The American Funds, as documented in their brochure "What make us Different- Invest for the Long Term."
- (5) Investing in foreign companies and government involves considerations and potential risks not typically associated with investments in domestic corporations and obligations. Funds allocated in international/global/emerging markets could be subject to risks associated with changes in currency values, economic, political, and social conditions, the regulatory environment of countries in which the funds invests, as well as the difficulties of receiving current and accurate information.
- (6) All prices quoted are as of 3/31/05.
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Krosnowski & Scott, LLC  
888-901-8310 I 8500 Leesburg Pike, Suite 408 I Vienna, VA 22182

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