



Krosnowski & Scott LLC

Investment & Retirement Planning Specialists

Financial Fitness - August 2005 Newsletter

“Stuck in the Middle with You”

We will continue the musical theme from our last newsletter to begin our message to you. Drawing on our previous topic, “The song remains the same,” name two decades when the people of the United States were:

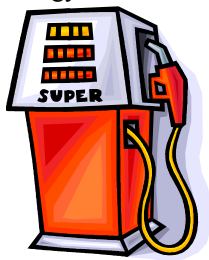
- Involved in an unpopular war in a relatively unknown foreign land
- Facing the threat of other countries developing nuclear weapons
- Concerned about the economic outlook and the prospects for the stock market
- Divided among their political views and influenced by the liberal media

If you guessed the current decade and the decade of the 1950’s, you are correct. During the period from 1950 to the present, the Dow Jones Industrial Average advanced from around 200 to the 15,500 range. Despite short-term pessimism, we believe the long-term outlook for the stock market continues to be bright.

I. Financial Market Outlook

Despite rising interest rates and energy prices, the U.S. economy thus far in 2005 is experiencing healthy growth. The uncertainty of how high energy prices will rise and the extent of the negative effect high energy prices will have on the U.S. economy has created a lid on the U.S. stock market. So far this year, the performance of the stock market has been relatively flat. Financial analysts are mixed on their views regarding energy prices. Some feel that prices are due to stabilize in the \$50 to \$60 range, while others feel that from a recent price of \$68 a barrel, crude oil prices could continue higher into the seventies. If and when energy prices stabilize, we feel there is potential for a rally in the stock market.

The reality of the energy price situation is that we have been spoiled over the past few decades. If the price of energy increased with inflation since 1980 to the present, crude oil would be trading at around \$90/barrel. It is our opinion that higher energy prices should be viewed as an opportunity rather than adversity. It is time for Americans to upgrade to more fuel-efficient automobiles as well as to emphasize government policies that call for greater use of alternative fuel sources, such as wind, solar and nuclear. More diversified fuel sources will enable our petroleum fuel supplies to last longer, reduce our dependency on OPEC and improve our national security.



II. Investment Advice

When reviewing strategies to invest your assets, we advise the following:

1. Education: With our assistance, develop an understanding of the investment basics and a personal investment policy statement, which incorporates your time horizon, investment objective and risk tolerance.
2. Keep It Simple: Invest where you feel comfortable. When you read your account statement you should have a conceptual understanding of each investment position in your account. Most investors do not need to have more than five to ten investment positions unless they are investing in individual securities.
3. Diversify to Manage Risk: Some of the investments we recommend spread assets across seven to eight hundred different stock and bond securities within one portfolio. These portfolios invest in value and growth, domestic and international, as well as large and medium size stocks.
4. Asset Allocation: Consider investing in three different baskets. The basket on the left represents investment in bonds and money markets for safety, income and liquidity. The middle basket represents

investment in both bonds and stocks for income and growth. The basket on the right represents investment in stocks for capital appreciation.

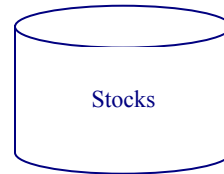
Safety, Income & Liquidity ⁽¹⁾



Income & Growth



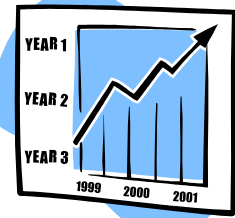
Capital Appreciation



5. **Monitor your Portfolio:** On a periodic basis, review your statements with your financial advisor and discuss any fine-tuning adjustments that may be needed. This ensures that your assets are being invested in line with your investment objectives. Every six to twelve months review asset allocation and performance monitoring reports. This procedure enables you to identify if any of your investments are underperforming their peer indices⁽²⁾ and if corrective adjustments are needed in your portfolio.

III. Company Outlook

Since many of our clients either work for or are retired from Exxon/Mobil and Verizon, we like to keep you updated on the current outlook for each company's stock. As a general rule of thumb, it is suggested to not invest more than 20% of your 401k Savings Plan in your company stock .



(1) Money market funds are neither insured nor guaranteed by the FDIC or any other government agency. Although the fund attempts to maintain a stable \$1 per share price, it is possible to lose money investing in the fund. It is important to be aware that bonds are subject to interest rate, inflation and credit risks. The value of bonds will fluctuate with market conditions. When redeemed, they may be worth more or less than their original cost. As interest rates rise, bond prices typically fall, which can adversely affect the performance.

(2) An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. Indexes are unmanaged portfolios and investors cannot invest directly in an index. The performance of an unmanaged index is not indicative of the performance of any particular investment. Investments offering the potential for high rates of return also involve a higher degree of risk.

A. Verizon Company Stock

Unfortunately, the stock price of Verizon (\$32.31) is languishing in the low thirties.

This is a result of the fierce competition with the cable companies. Dividend yields on RBOC's are in the 4-5% range, which we believe to be attractive historically. We recommend holding shares for now, enjoying the dividend and considering diversification strategies if and when the stock recovers to the \$40/share range.

B. Exxon/Mobil Company Stock

Exxon/Mobil (\$59.07) has announced that it intends to increase its share repurchase program. This action, combined with rising energy prices, provides, in our opinion, a very optimistic outlook for the stock over the next 12 to 18 months. We continue to encourage Exxon/Mobil employees who have over fifty percent or more of their total net worth invested in company stock to review diversification strategies. Some of you may have too much of a good thing. The long-term benefits of balance and diversification to efficiently manage risk should not be overlooked. Please feel free to contact us for a free asset allocation review.

IV. Our Services

Know your Investment Fees

If you have assets invested with another firm, we may be able to lower your annual fees. But how much would it pay off in the long run? **Example:** Two investors initially invested \$1,000,000 and earned an 8% gross return over a ten-year period. Investor A paid .6% in annual fees, and Investor B paid 2.0% in annual fees. At the end of the ten-year period, Investor A would potentially have over \$250,000 more assets than Investor B.

Remember- the more of your assets that remain in your account by keeping your fees low, the greater your chances of investment success (it is our opinion that investors with over \$500,000 in assets should be paying less than 1.0%

in total annual fees). The more successful you are over the long term, the more successful we are. The prosperity of our business is based on building healthy, long-term relationships with our clients. This starts by focusing on clients and service and keeping your annual fees low.

Please contact us for a free fee analysis. If you have assets invested with another firm, we can show you how we can potentially lower your fees, improve your returns and lower your risk, and how this will positively affect your assets over the long term ⁽¹⁾.

V. Nutrition and Health

“Go Bananas”

If you want a quick boost of energy when you're feeling tired, there's no better food than a banana. This fruit contains natural sugars and fiber, and adding it to your diet can help prevent a substantial amount of illnesses and conditions including the following:



(1) This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment or class of investments. Taxes and transaction costs have not been considered. Actual results will vary. Investments offering the potential for higher rates of return also involve a higher degree of risk. Rates of return will vary over time, particularly for long-term investments.

6. Bananas are high in iron and can help prevent anemia
7. High in potassium and low in sodium, bananas are the perfect food to beat high blood pressure
8. Bananas have proteins that are known to make you relax, improve your mood and make you feel happier
9. Bananas contain a natural antacid which provides soothing relief from heartburn and ulcers
10. Eating bananas regularly can reduce your risk of death by strokes by as much as 40%
11. Potassium in bananas helps manage stress by normalizing the heartbeat, sending oxygen to the brain and regulating your body's water balance
12. High in vitamin B, bananas help calm the nervous system

VI. About us

Lessons Learned from Climbing Mt. Kilimanjaro

During the two weeks from July 23rd to August 7th, my friend Dave and I joined nine other people from the mid and northwest U.S. on an REI Adventure trip to Tanzania. Tanzania is a country on the central eastern African coast, on the southern border of Kenya. During the first week of our trip, we spent five days hiking the 19,300-foot mountain. We started off from the main gate of the park at an altitude of around 6,000 feet and covered an average of eight to ten miles, ascending 2,000 to 4,000 feet each day. We ended our first day at Mandara Hut (8,800 feet). There are five different terrains we passed through, from the dense green misty rain forests at the beginning to the red dirt and rock (almost Mars like environment) near the top of the mountain. Our guide, Peter Mato, who grew up at the base of the mountain, was climbing the mountain for the 517th time with our group! Age 41, he stands around 5 feet tall. His warm, friendly and enthusiastic personality greatly enhanced the trip for everyone.



By the end of the second day, we were at Horombo hut (12,400 feet elevation). On the third day we finished an acclimation hike up to around 14,400 feet and then came back to Horombo. At this altitude the plants were more shrub like (4-6 feet tall) and there were white and yellow flowers everywhere. The stars at night were numerous and bright. The sunrises and sunsets were beautiful, with the snow-capped mountain summit looming off in the distance.

On the fourth day of our adventure we hiked around 8 miles up to Kibo hut (15,500 feet), where we arrived around 2pm. After playing cards and writing in our journals, we had dinner and went to sleep at 6:30pm.

We got up at 11pm that evening, had breakfast, and at midnight began our final day of hiking to the summit under the cover of darkness. We were dressed in four layers of clothing with a waterproof outer shell and wore headlamps for night vision. The temperature was around thirty degrees. The key to successfully hiking up the mountain is to go at a very slow, steady pace so your body can adjust to the high altitude. At around 3pm, we reached an altitude of

17,000 feet and I began to have lingering headaches, which continued for the next seven hours. All I wanted to do was to reach the summit and return to the lower elevation of Horombo hut as soon as possible.

We reached Gilman's Point (18,700 feet) around 6am that day. The sun was rising and we could see it was going to be a beautiful, sunny day with clear blue skies. Below us you could see the dormant volcanic crater. We continued hiking another hour and a half and reached the summit at Uhuru Peak (19,300 feet) at 8am. After taking some pictures at the top of the mountain, we began our descent, which included beautiful views of the glacier and the dark, evil and majestic looking Mawezi Mountain (16,500 feet) across the valley from us. It was strange to be at such high altitude that we were looking down at the clouds. We had hiked up to what is called "the roof of Africa." We hiked back down the mountain to Kibo hut around 11am, gathered our belongings and hiked back to Horombo hut where we arrived around 5pm that afternoon. During the hike back to Horombo, every thousand feet we descended you could feel the headaches and the altitude pressure releasing from your body. We drank bottles of Coca-Cola to celebrate our accomplishment. Over a twenty-four hour period we had hiked up over 7,000 feet to the summit and back, and covered over twenty-four miles. We were all exhausted and relieved when the hike was over.



During the second week of our trip, we went on a safari through the Ongorongoro Crater, Serengeti plains and the Lake Manyara regions. On the game drives we saw many beautiful animals and landscapes. You can view pictures from the trip at: http://photos.yahoo.com/kands_africa



We are excited to announce that our website is currently in development and is expected to be completed in September. The address will be: www.krosnowskiandscott.com. Please visit our website and let us know what you think!

In closing, we are experiencing a flat stock market this year as a result of rising energy prices. We appreciate your patience and understanding. Since many of you are either retired or planning to retire, we encourage you to invest as much of your assets in the middle basket we discussed above, as your comfort level will allow. Lower risk, balanced portfolios are managed to protect your assets during stock market declines and provide income and growth potential. Just as hiking to the top of the highest mountain in Africa requires a slow, steady, patient approach, these same characteristics carryover to success in the financial markets.

We hope you and your family are in good spirits as we look forward to cooler, dryer fall weather.

Sincerely,

Andrew J. Krosnowski
Senior Financial Consultant
AKrosnowski@1stallied.com

Melissa Scott Paine
Financial Consultant
Mscott@1stallied.com

Prices are as of the close of business 9/26/05. Prices are subject to market fluctuation