

## 12/2/02 Market Comments

### New Bull Market or Bear Market Rally?

This is the crucial question as we enter December. I wrote October 1 that investors should be prepared for the next up leg. Shortly thereafter the DOW bottomed below 7300 (intra-day) and quickly recovered to the 7500 support level. I said that a bear market rally would likely take us up to around 8900-9000 before retreating again. We did some buying in our funds when the market was between 7600 and 7900. If you bought then, you could now be sitting on 20% plus gains. While I can't be sure, it is looking more and more like stocks have seen their bottom.

So what now? At Friday's close of 8896 the DOW is likely to encounter resistance as it tries to advance to 9000. If it falls back, it would probably retreat to around 8500 in a normal "backing and filling" movement.

If it can decisively break through 9000, we could see a return to a bull market. In this case a year-end DOW at 9500 or even higher would be possible. We are cautiously optimistic regarding this scenario.

The risks have not changed much: Negative earnings surprises, terrorism and Iraq head the list. Any major problems in these areas could send the market tumbling again. If a major negative event were to happen now, the DOW could test the October lows.

## Year End Actions

*(Procrastinators take note)*

If you haven't looked at your planning issues yet, get going before it's too late! You should discuss these and other ideas with your investment and tax professionals.

- 1) If you have capital losses, consider realizing those losses now by selling those stocks or mutual funds. You can then buy another stock or fund with similar characteristics or wait 30 days and buy back the same shares. Even if you do not have gains to offset, you will be able to carry forward the losses into future tax years, which could be helpful assuming the next few years are up years.
- 2) If you have appreciated stocks or other property and are considering charitable giving at year-end, don't give cash; give the property. That way you will avoid capital gains tax and get a full charitable deduction for the market value of your gift.
- 3) If you have money to invest and are in a high tax bracket, consider additional contributions to retirement plans. (IRA limits are now \$3000 per person. New retirement plans also offer higher limits for sole proprietors and small businesses.)
- 4) Or consider an investment in a non-retirement product that offers tax benefits. This is also a good strategy for people over age 70.5 who must take minimum distributions from retirement plans but do not need the money for their living expenses.
- 5) Accelerate tax-deductible expenses. *(Especially if 2002 income will be higher than 2003.)*
- 6) Defer taxable income. *(Especially if 2002 income will be higher than 2003.)*
- 7) **Start thinking now about 2003:** Retirement Plans, Tax-Advantaged Non-Retirement Investments, Section 529 College Plans, Capital Gains Management, Small Business Strategies, Charitable and Intra-Family Gift Planning.

***(For ideas on these and other financial matters, give me a call at 412-367-9076.)***

## A Word About Risk Management

Risk means different things to different people. A truck driver must contend with the risks posed by other drivers, equipment failure or fatigue. A moment's inattention and you can have a serious accident.

A scuba diver measures risk in terms of location, time, depth, rate of ascent, bottom configuration, wild life and equipment. Fail to manage these risks properly and you can die.

An ironworker confronts heights, tools, other workers and materials; a misstep and you are injured or worse. A mother must continually be vigilant for her children; an open cabinet, an unblocked stairwell or an uncovered light socket can pose serious dangers to a child.

Financial risks take many forms. The following table shows significant risks that I recommend you address early in 2003. I will be scheduling annual review meetings to begin at the end of January. I encourage you to consider these carefully. Check off those that you are sure you have covered. Put an X by those that need attention. Put a "?" by those

of which you are not sure.

Category	Status	Risk	Ways to Protect
<b>Risks to Income</b>		Job Loss (employee) - Layoff	Emergency Fund – 3-6 months bills
		Job Loss (employee) - Disability	Disability Insurance & Emerg. Fund
		Business Downturn (Owner)	Reserve Cash (Emerg. Fund), Line of Credit
		Business Closing (Owner)	Other Personal Assets, Plan to Market Skills
		Investment Assets Decrease (Retirees or others dependent on investment income)	Budget less than potential income. Emergency Fund. No debt.
		Not Enough to Retire On or Outliving Your Money	Financial Planning, Saving & Investing, Wise Management of Investments
		Taxes	Financial and Tax Planning
<b>Risks to Business</b>		Economic or Sector Downturn, Competition or Strategic/Tactical Error	Reserve Cash (Emerg. Fund), Line of Credit, Diversified Profit Centers
		Lawsuits	Errors & Omissions, Liability Insurance
<b>Risks to Health</b>		Sickness or Accident	Health Insurance & Emergency Fund
		Need for Nursing Home or Home Care	Long Term Care Insurance, Investments
<b>Risks to Property</b>		Auto Accidents	Auto Liability and Collision Insurance
		Home Accidents	Liability Ins. (often part of home/bus. ins.)
		Storm/Fire/Flood/Theft	Homeowners, business property insurance
<b>Risks to Life</b>		Accident or Sickness	Life insurance, investments, Financial/Estate Plans for Heirs and Business Continuation Plans (Business owners)
<b>Risks to Investments</b>		Stock Market Downturns and Crashes	Diversification, Planning and Professional Management. Avoid both greed and fear.
		Interest rate changes	Staggered Bond/CD Maturities, Diversification, Including Ownership of Stocks, Real Estate and other Assets.
		Companies going bankrupt	Diversification, Professional Management
		Taxes	Financial, Estate and Tax Planning