

# Fee-Only Portfolio News

## Mutual Fund Manager Spotlight

Over 4,000 Mutual Funds are screened every thirty days to identify good mutual funds, and replace the weak performers in the portfolio.

### PIMCO TOTAL RETURN

Manager Bill Gross is something of a legend...his performance record is unsurpassed among bond fund managers. He shows savvy and an intuitive talent for navigating the fixed-income markets. His performance numbers place the fund in the top quartile, while his risk profile remains exceedingly low. His effective duration is short at 3.91 years, and he shops for quality, with average quality at "AA".

This mutual fund has recently become the largest in the world, with assets exceeding \$72 billion. Because it is so popular, PIMCO charges retail customers a 4.5% up-front sales charge for the privilege of owning the Total Return fund.

Fortunately for our investors, the "D" shares in our portfolios have no up-front sales charges. This no-load share class is available exclusively to investors whose advisors have a relationship with TD Waterhouse Institutional Services.

We look forward to fine performance from PIMCO, which replaced Western Core Asset. This lessens our maturity from 11 years to 6 years, in anticipation of rising interest rates stemming from an economic recovery.

Manager Bill Gross was awarded the Morningstar Fixed Income Manager of the Year for both 1998 and 2000. Headquartered in Los Angeles, PIMCO is recognized as the leading authority for fixed income worldwide.

*A Quarterly Summary of Performance and Changes*      Issue 8 July 2003

## Improved Portfolios—New this Qtr !!

At Russell Hawkes Associates, we strive to continually improve the performance and safety of the money placed in our care.

Diversification is the key to safety. The financial markets go up and down dramatically enough, without adding the risk of individual stocks or bonds and the possibilities of volatility beyond the averages.

It is for this reason that we seek to enhance the amount and nature of the diversification in our accounts.

Many novice investors will defend their hodge-podge portfolios, saying that because they own 4 mutual funds, they MUST be diversified. What we tell these people is that having multiple funds does not necessarily mean they have achieved diversification.

If the overlap in holdings is extensive, and the holdings are from largely the same

asset class, they have not accomplished their goal. One fund would have done just as well as 4 similar funds.

We have always paid attention to buying funds of distinct and different assets classes. Only now, our attention to diversification has gotten deeper by a level or two.

Every mutual fund manager, if you look closely, has an identifiable niche within which he picks his stocks. Some managers look primarily to old line brick and mortar manufacturing, while another manager may find the information economy his favorite place to shop.

On the surface, 2 mutual funds may fall into a "large cap growth" category, but delving deeper will reveal two very different stock portfolios. The brick and mortar manager may own 35% in manufacturing sector, while the information



*Peyton, Rhonda, and Russ*

manager may own only 12% in this sector and 35% in the information economy.

Obviously, these two apparently similar growth funds will perform substantially different than one another.

It is for this reason that our portfolios contain both. On the surface it may seem redundant, however a closer look will reveal an enhanced diversification that will produce a more stable portfolio in the long run.

We will continue to enhance the performance and stability of your account in the future, as new and more effective ways to evaluate managers and mutual funds becomes available.

## Allocating Your Assets: How we do it !!

Asset Allocation is defined as how a pool of assets is divided up. Everyone needs a combination of stocks, bonds, and cash.

For young people, this combination would likely contain more stocks, as young people have more working life to allow their

portfolio to mature. Older people would have more bonds, as they probably need income and can weather market drops with less patience.

Russell Hawkes Associates utilizes the model allocations provided by SEI, a Philadelphia-

area consultant. From their collection of over 20 models, we select 6 which fall along the risk spectrum, from growth to income.

Professional allocation techniques can optimize the performance of invested assets.

## Ultra Conservative Portfolio

This portfolio consists of 100% bonds, and is intended as an alternative to CD's and other fixed income vehicles.

Investors using this portfolio should expect very modest volatility, along with modest returns.

The risks associated with this portfolio are interest rate risk, and inflation risk.

Over the short term, interest rate fluctuations effect performance. Over the long term, inflation poses a risk to the real returns as living costs increase.

### Current Allocation

Govt Bond	59%
Intermediate Bond	30%
Short Term Bond	9%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of return

	<u>3 mo</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 yrs</u>
	3.41	10.90	11.40	8.44
<b>B*</b>	<b>2.83</b>	<b>9.37</b>	<b>8.86</b>	<b>6.18</b>
<u>Best/Worst Time Periods</u>				
	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 yrs</u>	
Best	6.71	19.32	11.40	
Worst	(6.10)	(5.32)	4.00	

#### 3 year standard deviation

4.36 vs 3.03 B\*

*Past performance is hypothetical, and does not intend to either show actual client experience, or guarantee future results. Results include change in share value and reinvestment of distributions, but not advisor fee. The principal value and return on an investment in the portfolios will fluctuate so that an investor's share may be worth less than their original cost when redeemed.*

*There are no sales, transaction, or trading charges associated with any of the funds used in these portfolios.*



### Changes since last quarter

## Capital Preservation Portfolio

This portfolio consists of roughly 20% stocks and 80% bonds. It is intended as a very conservative portfolio, with emphasis on preservation of principal.

Investors using this portfolio should expect modest volatility, and modest returns.

There is interest rate risk, and some inflation risk. The stocks provide potential to overcome long term living cost increases.

### Current Allocation

High Quality Bond	40%
Med Qual In Bond	38%
Stock- Large value	8%
Stock- Large growth	8%
Stock- Small Blend	4%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of Return

	<u>3 mo</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	5.85	6.27	9.41	8.27
<b>B*</b>	<b>5.49</b>	<b>6.40</b>	<b>6.23</b>	<b>5.45</b>

#### Best/Worst Time Periods

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	8.18	20.13	13.95
Worst	-6.32	-5.06	5.00

#### 3 Year Standard Deviation

4.75 vs 4.20 B\*

## Income and Growth Portfolio

This portfolio consists of roughly 40% stocks and 60% bonds. It is intended as a conservative portfolio, with emphasis on income.

Investors using this portfolio should expect some volatility, and moderate returns.

Volatility should be less than stocks, with some growth too.

### Current Mutual Funds

Intermediate Bonds	43%
Stock- Value	15%
Int'l bonds	15%
Stock- Growth	13%
Stock- Foreign	8%
Stock- small growth	2%
Stock- small value	2%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of return

	<u>3 mos</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	6.55	4.37	6.95	7.71
<b>B*</b>	<b>8.24</b>	<b>3.25</b>	<b>1.78</b>	<b>3.82</b>

#### Best/Worst Time Periods

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3Yrs</u>
Best	9.17	21.62	15.51
Worst	-5.40	-3.19	6.55

#### 3 Year Standard Deviation

5.55 vs 7.30 B\*

*"Asset Allocation is the single most important investing decision you have to make. Your success depends on it"*



## Growth and Income Portfolio

This portfolio consists of roughly 60% stocks and 40% bonds. It is intended as a "balanced" approach, with slightly more emphasis on growth than income.

Investors using this portfolio can expect less than stock market volatility, and returns.

There is both stock and bond market exposure, with returns in excess of those available in the fixed income offerings.

### Current Mutual Funds

Intermediate Bond	8%
Stock- Value	23%
Stock- Growth	21%
Stock- Intl	12%
Bond- Intl	10%
Stock- small growth	2%
Stock- small value	2%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of return

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5Yrs</u>
	9.97	0.85	4.42	7.60

**B\* 10.47 (1.38)(2.34) 2.25**

#### Best/Worst Time Periods

	<u>3Mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	11.22	27.17	18.21
Worst	-7.74	-8.48	0.92

#### 3 Year Standard Deviation

9.90 vs 10.46 B\*



## Capital Growth Portfolio

This portfolio consists of roughly 80% stocks and 20% bonds. Because of its high % stock holdings, it is intended for long term growth, with little regard for income.

Stock market volatility should be expected nearly in full here, with long term growth of capital, and wealth in real terms.

### Current Mutual Funds

Stock- Value	30%
Stock- Growth	28%
Stock- Intl	16%
Bond- Intermediate	13%
Bond- Intl	5%
Stock- Small Value	3%
Stock- Small Growth	3%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of Return

	<u>3mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5Yrs</u>
	11.55	(2.02)	4.94	8.32

**B\* 12.80 (5.97) (6.37) 0.65**

#### Best/Worst Time Periods

	<u>3 mos</u>	<u>1 yr</u>	<u>3 yrs</u>
Best	14.55	33.79	21.71
Worst	-10.70	-11.72	1.98

#### 3 year standard deviation

11.40 vs 13.65 B\*

*"Patience is required and rewarded, each more so as your portfolio is positioned in stocks."*

## Pure Equity Portfolio

This portfolio consists of 100% stocks. It is designed for maximum wealth accumulation in real terms.

Investors using this portfolio should expect superior returns, and corresponding volatility in line with the stock market as a whole.

### Current Mutual Funds

Stock- Value	36%
Stock- Growth	34%
Stock- Intl	20%
Stock- Small Value	4%
Stock- Small Growth	4%
Taxable Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of Return

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	13.51	(4.64)	3.79	8.37

**B\* 14.92 (10.13) (9.83)(0.87)**

#### Best/Worst Time Periods

	<u>3 mos</u>	<u>1Yr</u>	<u>3Yrs</u>
Best	17.82	40.56	25.20
Worst	-12.19	-15.88	0.40

#### 3 year standard deviation

13.77 vs 16.35 B\*



## Sustainable Income Portfolio \*(NEW!)

This portfolio consists of roughly 30% stocks and 70% bonds. It is intended as an income generator for retired investors seeking a sustainable source of portfolio income. Investors using this portfolio can expect less than stock market volatility, and returns.

There is both stock and bond market exposure, with returns in excess of those available in the fixed income offerings.

### Current Mutual Funds

Domestic Bonds	60%
Foreign Govt Bonds	13%
Large Cap Growth stock	10%
Large Cap Value Stock	10%
Foreign Stock	3%
Small Cap Stock	2%
Money Market	2%

### Performance Summary

As of 06-30-2003

#### Rate of return

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5Yrs</u>
	6.03	5.03	7.88	8.38
B*	5.75	5.35	4.53	4.80

#### Best/Worst Time Periods

	<u>3Mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	9.90	24.18	16.56
Worst	-6.27	-4.74	5.74

#### 3 Year Standard Deviation

4.86 vs 4.19 B\*



#### S&P 500

As of 06-30-

2003

<u>YTD</u>	(3.15)
<u>3mo</u>	(3.15)
<u>1yr</u>	(24.75)
<u>3 yr</u>	(16.09)
<u>5yr</u>	(3.76)
<u>10 yr</u>	+8.46

## Introducing the New Sustainable Income Portfolio

One of the most difficult dilemmas in investing is deciding how much income can be drawn from an asset pool without depleting it. This is especially evident in today's down markets, when selling stocks is the last thing we want to do when the market is this low.

So what do we do? Retired investors in particular are depending on a regular income to make ends meet, and yet we know from the planning process that you'd better have some principal growth, to offset future inflation.

Today's interest rates are pitifully low. This is good news for homeowners, who experience savings when buying a home or re-financing. It is bad news, however, for investors looking for yield from their investments. Yield can be defined as the income stream that is enjoyed from a given asset without selling any principal. The highest yields are from

Corporate High Yields Bonds, where company performance is required to pay off the high interest loans (bonds) to bond holders. A risk that investors are paid for in higher yields. Much less interest (Yield) is paid by the US Govt for its guaranteed bonds.

Our goal in developing the sustainable Income Portfolio was to make enough of a commitment to bond holdings to produce a 4% yield without ever having to sell stock shares. The remaining amount (currently about 30% of the portfolio) would then be used to purchase stock. This portion of the portfolio will then grow with the stock market, and allow increased principal (and income) as the years go by.

As the interest rate environment changes, we will adjust the bond holdings to maintain the 4% income. Hence, the Sustainable Income name!



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*Fee-Only Portfolios are designed to provide cost-effective asset management to investors of all stripes. Russell Hawkes Associates Inc is a fee-only advisor to the Portfolios. They use only no-load products, and are never driven by the incentives that commissions offer.*

*TD Waterhouse is retained as the custodian/trustee to the Fee-Only Portfolios. As a very large mutual fund "supermarket", they offer access to thousands of mutual funds from one portal. OnLine Access is provided.*

*Using a system of screening each month, the best mutual funds are selected for use in the Fee-Only Portfolios..*

*Portfolios can be assigned to each investor through a simple self-administered needs test, or a full financial plan prepared by the Advisor.*

**BONDS: The Party's Over: Have YOU changed YOUR holdings??**

All good things must come to an end. Bond investors have basked in the lucrative returns of the bond market for over 3 years, enjoying double-digit annual returns while the stock market tumbled.

For balanced investors with some bonds, the bond portion of their portfolio saved the day, and buoyed account values.

The party, however, is distinctly OVER. If

the U.S. economy, as some predict, emerges from the doldrums and exhibits extended growth, interest rates will rise, and bond prices will fall at the same time.

What can investors do? Well, they can 'shorten up'. This means that they reduce the maturity dates of the bonds they own. At Russell Hawkes Associates, we have already taken care of that for you, as part of your portfolio manage-

ment service.

You should be concerned about assets not under our domain, such as your 401(k) plan at work.

Our suggestion is that for the bond portion of your 401(k) plan, you switch from bonds into stable value fund, if they don't offer a short-term bond fund alternative; and most don't. This will save a lot of losses when interest rates rise again in the future.



**PICKING MUTUAL FUNDS**

Using a state-of-the-art computerized process, we screen over 4,000 mutual funds every month.

The Fee Only Portfolios contain only those whose five year performance places them in the 10 percentile for high returns, low risk, consistency, and low volatility.

Those who fail to meet the test of time are replaced.