

Fee-Only Portfolio News

Mutual Fund Manager

Spotlight

Each issue we highlight one of the mutual fund's managers currently being used in the Fee-Only portfolios. Over 4,000 Mutual funds are screened every thirty days to identify good mutual funds, and replace the weak performers in the portfolio.

WESTERN CORE ASSET

This is one of the best core bond funds tracked by Morningstar. It has outperformed 95% of it's peers without taking big risks. In fact, it invests only in investment-grade bonds, and it's duration is within one year of the SLAB index. It also carries a low .40 expense ratio; an important factor when shopping for bond funds.

Managed by Legg Mason, it carries a \$1 million minimum investment. Fortunately, we were able to use our aggregate buying power to get our clients into this solid bond offering.

Year in and year out, Western Core Asset has delivered. They point out that their duration strategy, sector allocation, and yield curve positioning explain the success. Over the past 10 years, they have averaged 7.99%, nearly 1.2% greater total return than their index.

Should interest rates move higher, this fund, with it's longer-than-average duration, could produce some volatility. But it is a small price to pay for this bond fund gem.

A Quarterly Summary of Performance and Changes

Issue 4 July 2002

Does investment performance matter?

Silly question, huh? Of course it matters how our investments perform. We all want to increase our wealth when we make investments. So....are our investments good or bad? Compared towhat?

From 1998 to 2000, if you told me you had a basket of technology stocks, I would have scolded you for a mere 50% return per year....that is bad performance (taken in context with the group). On the other hand, if you tell me you had a basket of quality bonds yielding 6%, I would praise this performance when inflation is less than 3%, and scold it when inflation is 10%.

So you see how performance numbers are relevant only in the appropriate context.

So, Peyton, what is the "appropriate context" when I look at the performance of managed portfolios? Well, there are 2 major variables: portfolio makeup and manager selection.

Let's look at portfolio makeup first.

Good performance in portfolio makeup means the composition of the portfolio is right for you; a comfortable blend of stocks and bonds, well diversified among asset classes. Your portfolio will meet your goals, and you'll be patient through the ups and downs.

Good performance in manager selection is determined by comparing average managers to your own. Are yours performing better than average? Beginning this issue, we'll compare our portfolios side-by-side with a benchmark consisting of average managers in every asset class (stocks, bonds, etc.). This will illustrate the performance difference between identical portfolios of average versus our hand-selected mutual fund managers.

We'll take responsibility for good mutual fund selection,



and you can judge for yourself whether our performance is good or bad.

You, however, must take responsibility for whether or not the portfolio selection we are managing for you is appropriate. Are you sleeping OK or should we review things? . These deep dark nights are when you should reach out if you feel unsure. Sometimes a session with your advisor will renew faith.

Other times a new portfolio assignment, and financial plan alteration, will provide the reduced volatility that you need to stop fretting over the moves of the stock market. After all, we are here to enjoy our money, not obsess on it.

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 06/30/2002

<u>Rate of return</u>				
	<u>3 mo</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 yrs</u>
	1.99	6.18	8.34	8.22
B*	1.30	5.36	5.42	5.14

Best/Worst Time Periods

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3 yrs</u>
Best	5.82	16.25	10.18
Worst	-4.89	-3.59	4.47

3 year standard deviation

3.95 vs. 2.55 **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

Core Fixed Income: Stein Roe change to Western Core Asset

Large Co Value: Ameristock change to MFS

Small Co Growth: ARK changed to Bjurman Micro

Int'l Bonds: Black-rock change to Payden

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 06/30/2002

<u>Rate of Return</u>				
	<u>3 mo</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	(0.91)	2.91	7.30	8.90
B*	.56	1.58	4.25	5.93

Best/Worst Time Periods

	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	8.19	19.20	13.73
Worst	-5.66	-3.99	5.33

3 Year Standard Deviation

4.46 vs. 4.30 **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 06/30/2002

<u>Rate of return</u>				
	<u>3 mos</u>	<u>1Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	(3.00)	0.63	6.81	8.98
B*	(3.60)	(2.45)	1.55	5.10

Best/Worst Time Periods

	<u>3 Mos</u>	<u>1 Yr</u>	<u>3Yrs</u>
Best	9.81	22.16	16.45
Worst	-4.28	-1.93	5.59

3 Year Standard Deviation

5.61 vs 6.72 **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 06/30/2002

	<u>Rate of return</u>			
	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yr</u>	<u>5Yrs</u>
	(5.30)	(1.91)	6.07	9.64
B*	(5.37)	(7.34)	(1.06)	4.52

	<u>Best/Worst Time Periods</u>		
	<u>3Mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>
Best	13.70	28.04	19.95
Worst	-6.59	-1.73	4.75

	<u>3 Year Standard Deviation</u>	
	8.09	vs 9.68 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 06/30/2002

	<u>Rate of Return</u>			
	<u>3mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5Yrs</u>
	(7.56)	(4.43)	5.63	10.46
B*	(8.19)	(11.89)	(3.43)	3.92

	<u>Best/Worst Time Periods</u>		
	<u>3 mos</u>	<u>1 yr</u>	<u>3 yrs</u>
Best	17.40	33.47	23.15
Worst	-9.08	-5.67	3.64

	<u>3 year standard deviation</u>	
	10.76	vs 12.73 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 06/30/2002

	<u>Rate of Return</u>			
	<u>3 mos</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>
	(9.62)	(6.77)	5.21	11.14
B*	(10.67)	(15.86)	(5.55)	3.29

	<u>Best/Worst Time Periods</u>		
	<u>3 mos</u>	<u>1Yr</u>	<u>3Yrs</u>
Best	20.69	38.36	25.88
Worst	-11.36	-11.13	0.86

	<u>3 year standard deviation</u>	
	13.29	vs 15.44 B*





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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.

ATTENTION NEW YORK RESIDENTS

IMPORTANT CHANGES COMING SOON TO LONG TERM CARE INSURANCE

The New York State Partnership for Long Term Care is an agreement between residents and the state. Many people, when a nursing home stay is imminent, transfer assets and set up elaborate trusts to "spend down" and qualify for Medicaid, thereby protecting their savings. This has been rendered largely ineffective through close scrutiny of these trusts and "look-back provisions" that reverse these asset transfers.

Instead, NY residents can purchase a partnership insurance policy. This policy contains certain benefits that, once they are exhausted, make you eligible for Medicaid no

matter what assets you have. This eliminates the need to spend down before the state will pay for a nursing home.

In light of the recent budget crunch, there is a plan in the works to raise the benefits (and cost) of these "certified" contracts. This means that buying a Partnership policy now will save 25-50% of the annual costs of protection.

So.....if you have been "on the fence" about buying a Long Term Care Partnership contract, be aware that the same benefits will cost 25-50% more at some future (unknown) date.

Long Term Care: Who Needs it?

In a nutshell, you should purchase a Long Term Care Contract if you have assets worthy of the annual cost of a policy.

Protecting \$100,000 in assets at the cost of \$3-4,000 per year does not make financial sense. Spending that to protect \$500,000 begins to make sense.

For those with high net worth, it can be a good strategy to set up a health care trust to pay for the policy and receive benefits. This protection strategy can remove assets from the estate at death, and provide private pay status when entering a nursing home.



PICKING MUTUAL FUNDS

Using a state-of-the-art computerized process, we screen over 14,000 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.