

Fall 2004



By: Bill Wendling, CFA, Portfolio Manager

Another year is almost at a close, which means it is time for many of us to do some last minute shopping, home and auto winterizing and year-end financial planning. While you will not find us offering insights into plasma TV prices, or flushing your radiator, we will remind you of planning strategies that can save you money. Whether the savings translates into a high-end TV is up to you. We hope you find the following tips helpful:

In This Issue

Feature	1
Savvy Money-Saving Strategies	
From Elaine	2
Appreciating Lifestyles	
Your Questions	2
Stock orders: Market or Limit?	
Industry News	3
Client Reporting Takes Front Stage at BFC	
Client Dream — Client Reality	3
Long-term Care: A Look at Group Coverage	
Corporate Calendar	4

Special IBJ Insert

Elaine was recently profiled in the Women in Business section of Indianapolis Business Journal. We have included a copy of the profile for your information and enjoyment.

Savvy Money-Saving Strategies

Take a tax loss on investments. Sell investments for a loss and use the tax losses to offset realized capital gains and up to \$3,000 of your personal income. You can carry any leftover tax loss into future years. Be careful not to violate the Wash Rule, which does not allow you to deduct the loss if a substantially identical asset was purchased 30 days prior to or 30 days after the sale of the investment. We will work with your tax preparer to use this strategy for reducing your overall tax liability.

Make charitable contributions. If you gift low cost basis assets, the charity can sell the asset without owing any capital gains taxes and you can deduct the fair market value of the gift. "Charitable Gift Accounts" allow you to gift an asset and receive a charitable deduction this year, but direct the proceeds to your choice of charities over multiple years. Essentially, you can accelerate your next few years of charitable contributions and help lower your taxable income this year. This would also be a useful strategy if your low basis stock has appreciated nicely and you want to "lock-in" the high price.

Reinvest your minimum distribution. Individuals who are age 70 1/2 or older in 2004 are required to distribute a minimum amount from their retirement accounts to avoid a 50 percent penalty. If you are 70 1/2 or older, and do not need to use the distribution to meet your cash flow needs, we usually transfer the distribution to an investment account in November or December. Waiting until the end of the year allows the earning to continue to accrue in the retirement account for the majority of the year. This strategy minimizes taxable income.

Maximize your employer or self-employed retirement plans, as well as your IRA contributions, for a

greater deduction on your tax return. If you are age 50 or older, a catch-up provision allows you to contribute even more. For IRAs and some self-employed retirement plans, you have until April 15, 2005 to make the contribution for the 2004 tax year.

Gift money or assets as part of your overall estate plan. You are allowed to gift up to \$11,000 per year to as many individuals as you would like without having to file a gift tax return. A married couple can gift up to \$22,000 (\$11,000 from each spouse) to each individual. For many of you, it is more appropriate to gift investment assets instead of cash to children and grandchildren. We will help you select the securities that are most appropriate to accomplish their overall strategy.

Defer the receipt of taxable income, such as a bonus. If you have the option of choosing when you will receive income, we can help you compare the impact on your anticipated tax bracket in 2004 versus 2005 and to act accordingly. You should also consider using a deferred compensation plan to defer the recognition of next year's income and the earnings on the income until a future date.

Pay your final estimated state income tax payment early. Paying the tax before the end of this year may increase your tax deductions.

Buy tax-deductible supplies now. If you are self-employed, you can lower 2004 income by stockpiling supplies before year's end. Additionally, the purchase of computers and other office equipment, up to a certain dollar amount, can be listed as an expense rather than a depreciable asset.

Contact Bill Wendling if you have questions or would like additional information regarding this topic.

From Elaine Appreciating Lifestyles

I survived! Here is the proof! In my last newsletter I promised you stories and pictures of my adventures in Peru where my friend Karen and I went biking and hiking in August. Here we are with Machu Picchu in the background. It was a wonderful experience and I recommend it to everyone.



Our trip, although great fun, did make one thing crystal clear: There is a sharp contrast in lifestyles between Peruvians and Americans. While most of us are aware of this at one level, the first-hand experience is dramatic.

Picture this. Life in the remote village we visited was primitive. Villagers live in one-room huts, no larger than 150 square feet, built of mud bricks and covered with thatched roofs. There are dirt floors and no glass windows or front doors. We visited with a family of four who share their one-room home with the two-dozen guinea pigs they raise for food and income. They walk for three days to get to a larger town where they

can sell their produce and guinea pigs and secure provisions. No one in this family owns a vehicle, and there are few in the village. In the countryside, most of the farmers still till the ground with plows and oxen or cattle, although we saw a few early-model tractors.

Ironically, although transportation has not made inroads there, cell phones are prevalent, helping to leapfrog their ability to communicate with one another.

It is a hard life, but the villagers seem to enjoy their simple existence, nonetheless. They welcomed the novelty of our visit and performed ancient dances for us while wearing brightly colored, traditional clothing, made from fabric that they wove themselves. It was quite a touching celebration.

As Americans, we so often lose sight of how complex and comfortable our lifestyles really are.



Something else we sometimes tend to overlook is solid preparation for year's end. Our feature article discusses strategies for saving money as this year comes to an end. This information should be helpful to all of you. Industry News focuses on client reporting, one of the services we use to communicate with you, and our Client Dream – Client Reality section gives you some perspective on group coverage for long-term care. Finally, we delineate the differences between market orders and limit orders in Your Questions section.



As always, if you have any questions, please do not hesitate to call us. Remember how fortunate you are as you enjoy the upcoming holiday season.

Sincerely,

A handwritten signature in cursive script that reads "Elaine".

Elaine E. Bedel, CFP®.

Your Questions Stock Orders: Market or Limit?

By: Dawn E. Morley, MBA

Q: *What is the difference between market orders and limit orders?*

A: A market order is an order to buy or sell a stock at the current market price. Orders are executed at the best price currently available. The disadvantage of a market order is that you could pay a

lot more than you intended. If you place a market order for a stock and suddenly the price jumps \$10 a share, your trade will execute at the higher price.

A limit order is an order to buy a specific number of shares at or below a specified price, or to sell it at or above a specified price (called the limit price). A limit order trade is generally more

expensive than a market order trade. You can instruct your broker to place a limit order that is good for one trading day (Day Order) only or for an extended period of trading days (Good Til Cancelled Order).

Contact Dawn E. Morley if you have questions or would like additional information regarding this topic.

Industry News

Client Reporting Takes Front Stage at BFC

by: Dawn E. Morley, MBA

Providing sound financial advice is of prime importance in our industry, but Bedel Financial Consulting (BFC) also places a high priority on providing top-quality client service. One of many services we provide is client-friendly reporting.

BFC's reports are a key communication tool representing the firm, its investment professionals and the work we do for clients and prospects. While BFC cannot always control the capital markets and how they affect your portfolios, we can control how we communicate with you.

Here is some information that will help you get the most out of the reports.

Investment performance. The mathematics of performance measurement is comprehensive and complicated. Standards are governed by the CFA Institute.

BFC utilizes one of the industry's best accounting software programs to assure our performance calculations are correct. One key element in the calculations is the reporting of annualized versus cumulative returns.

Returns for timeframes longer than one year must be reported on an annualized basis. For example, if BFC has managed \$100,000 for you and we earned 10 percent the first year, you now have \$110,000. If we earn another 10 percent for you the following year, you now have \$121,000. You have earned \$21,000 on your initial \$100,000, or 21 percent. However, we cannot report a since inception return of 21 percent. We must report it annualized, which means the annual return for both years is 10 percent. Further complicating the annualized return are deposits and withdrawals from the portfolio, which require additional complicated calculations.

Client-friendly reporting. BFC has revised our quarterly reports. Even



though the same information will be included, our new format makes it even easier for you to quickly identify and review the important facts. On one page, asset allocations and the returns for the quarter, year-to-date and since inception for each investment account are clearly itemized with appropriate totals. Your personalized letter will contain general market comments, appropriate index returns and account-specific comments.

Contact Dawn E. Morley if you have questions or would like additional information regarding this topic.

Client Dream — Client Reality

Long-term Care: A Look at Group Coverage

By: Julie Gilliam, Financial Planning Specialist

Concern for the cost of care in later life is increasing as the "baby boom" generation enters its second 50 years. Seventy percent of Americans who live to age 65 will need some form of long-term care. 90 percent of long-term care services are custodial, i.e. providing assistance for daily activities, and therefore not eligible to be paid by Medicare.

Home health care is utilized for an average of 4.5 years before a nursing home is required. The average home health care need is 50 hours per week. If assistance is needed around the clock, the cost can be triple that of one day in a nursing home. Given this trend, it is important for a long-term care policy to provide both home health care benefits and nursing home benefits.

We recently reviewed several employer policies. Here is what we found.

Generally, a choice in nursing home coverage (dollars per day) is offered, but coverage for other forms of care is

not as flexible. For example, in most policies home health care reimbursement is limited to 50 percent of the daily nursing home amount.

The waiting period to qualify for coverage is usually 90 days, which is reasonable. There is frequently a choice to be made concerning the lifetime maximum payout of the policy, ranging from three years to your lifetime, although some policies offer only a five-year limit. When you leave the group (retirement, job change, etc.), you are normally allowed to continue the policy at the same premium level. Overall, a reasonable policy may be the result.

Concerns

However, we have one major concern with most group policies. Typically, an automatic inflation rider is not an option. We prefer a five percent annual compound inflation adjustment, in which the daily amount provided by the policy is increased by five percent each year. Medical costs are rising rapidly, and this type of rider helps to absorb some of the increase.

Group policies tend to offer an option to purchase additional incremental insurance every few years if you are under a certain age and not currently claiming benefits. However, providing the option is not required, and the option may be withdrawn if the employee chooses not to take advantage of it when offered. One big disadvantage of a group plan is that as the employee ages, the cost of each new adjustment increases. While the premium is fairly stable for the initial base plan, the total premium can increase dramatically as the employee ages.

Since the provisions of group plans vary, it is important that you thoroughly review the policy to assess its advantages and disadvantages. We suggest that you compare the group offering to a private policy with a good inflation rider to understand your options. If you need assistance with this analysis, please contact us.

Contact Julie Gilliam if you have questions or would like additional information regarding this topic.

Corporate Calendar

Bedel Financial Consulting will be closed for business on the following days.

Year 2004

Thanksgiving – November 25

Day after Thanksgiving – November 26

Christmas Day – December 25 (on Saturday) –
will close on Friday Christmas Eve – December 24

Year 2005

New Year's Day – January 1 (on Saturday) –
will close on Friday New Year's Eve – December 31

We will reopen January 3, 2005

Memorial Day – May 31

Independence Day – July 4

Labor Day – September 5

Thanksgiving – November 24

Day after Thanksgiving – November 25

Christmas Day – December 25 (On Sunday) – will close on Monday December 26

Year 2006

New Year's Day – January 1 (On Sunday) – will close on Monday – January 2

Contact Us!

9190 Priority Way West Drive
Suite 120
Indianapolis, Indiana 46240
Phone: [317] 843-1358
Toll Free: [888] 843-1358
Fax: [317] 574-5999
Web: BedelFinancial.com

Our Staff

Elaine E. Bedel, CFP®
President
ebedel@BedelFinancial.com

Sue Coker
Office Manager
scoker@BedelFinancial.com

Cassi Canen
Administrative Assistant
ccanen@BedelFinancial.com

Julie A. Gilliam
Financial Planning Specialist
jgilliam@BedelFinancial.com

Dawn E. Morley, MBA
Portfolio Manager
dmorley@BedelFinancial.com

William J. Wendling, CFA
Portfolio Manager
bwendling@BedelFinancial.com

Shelly Willingham, CFP®
Financial Planner
swillingham@BedelFinancial.com