

Winter 2005

Weak Dollar Yields Unique Opportunities

By: Matthew L. Roop, CFP®, Portfolio Manager

One of the biggest stories in the financial markets this year has been the continued weakness of the U.S. dollar. You can hardly go a day without seeing a newspaper article or news broadcast related to the dollar and its value relative to other currencies. As a result, we, at Bedel Financial Consulting, are frequently asked what all the discussion surrounding the dollar really means. Here is an overview of the mechanics of currency markets and the implications a weak dollar environment has for investors.

When the dollar is referred to as “weak,” it means that its value has declined relative to another currency, such as the Euro. For example, let us assume the U.S. dollar-Euro exchange rate is \$1.20/Euro. This means that if you wanted to buy one Euro with U.S. currency, you would have to pay \$1.20.

Let us then assume that one month later the exchange rate is \$1.30/Euro. You would now need \$1.30 to purchase one Euro. Because you need more U.S. money to buy the same amount of Euros, the value of the dollar has weakened, or declined relative to the Euro. Conversely, if the exchange rate were \$1.10, it would then take less U.S. money to buy one Euro, and we would say the dollar strengthened, or appreciated, relative to the Euro.

It all goes back to supply and demand

Why does the value of the dollar fluctuate? The simple answer is supply and demand. Just as the prices of stocks change based on the supply of and demand for their shares, the value of the dollar fluctuates based on the supply of and demand for American currency.

One of the primary factors affecting the value of the dollar is U.S. interest rates. Historically, foreign investors have been eager to buy Treasuries because they are considered a “safe” investment. To purchase Treasuries they need to exchange their currency for U.S. dollars, thus increasing demand for the U.S. dollar and causing it to appreciate. Lately, however, foreign investors have been shying away from Treasuries in favor of other investments because of the low interest rates Treasuries currently offer.

A weak dollar is not all bad

There are benefits to a weakening dollar. For U.S. companies that sell their products overseas, a weak dollar makes their products less expensive compared to those of foreign producers. Moreover, it also makes foreign goods imported into the U.S. more expensive compared to domestically produced goods. An increase in demand for domestically produced goods often spurs investment in new plants and equipment by U.S. companies, as well as investment in new jobs. This scenario is the primary

driver of a strengthening economy. The downside is that foreign products, as well as services, such as hotels and meals, will be more costly, making international travel more expensive for Americans.

The weakening dollar also presents opportunities for U.S. investors. As the weak dollar increases demand for U.S. products both here and abroad, that demand translates into higher sales and profits for the companies producing these goods. This, in turn, increases the demand for, and the price of, U.S. stocks.

Another opportunity for investors is ownership of foreign stocks, which can be achieved cost effectively through a mutual fund. Appreciation of these securities, or the dividend payments they make, can be augmented by a decline in the dollar. For example, let us assume you buy one share of Toyota when the exchange rate is \$1/125 yen. Let us also assume that the share price of the stock does not change, but the dollar weakens to \$1/100 yen (the same dollar buys less yen). In this case the stock did not go up; however the movement in the currency resulted in the investment appreciating by 25 percent.

While the weak dollar presents some unique opportunities, it is important to note that the trend will not last forever. Eventually the dollar will strengthen and the benefits everyone is currently enjoying will come to an end. Since no one can predict when that will happen, we believe the best financial policy is to maintain a diversified portfolio that includes international investments. This allows you to benefit from favorable trends with a minimum of risk and worry.

Contact Matthew Roop if you have questions or would like additional information regarding this topic.

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From Elaine Tying Up Loose Ends



Here we are just a few months into the beginning of another new year. Once again we have the opportunity to wipe the slate

clean and begin anew, if only symbolically.

In the world of finance, the beginning of each year is also a time for tying up all the loose ends from the past year—filing records, reviewing strategies and completing tax returns.

Speaking of tax returns, when you prepare your taxes be sure to include the fees you paid in 2004 for financial planning and investment management services on your Schedule A in the “Miscellaneous Deduction” section along with any tax preparation fees. And remember, it is not too late to make a contribution to your IRA for 2004.

As Bedel Financial Consulting begins its 17th year of service, we want to thank each one of you for trusting us with your financial planning and investment management. We appreciate your business and cherish the relationships we have with you. Remember that all of us are here to assist you in any way that we can.

That includes the two newest additions to our staff. Kathryn J. Wagoner, CFP® joined us in January, and is taking over Shelly Willingham’s responsibilities as financial planner. While Shelly is soaking up rays in her new home in Arizona, Kathryn is assisting us with her more than ten years of experience in financial planning and investment management services. Matthew L. Roop is a CFP® and has a MBA with an emphasis in Finance and Investments. He has also successfully completed one of the three exams for the Chartered Financial Analysts (CFA) designation. We are pleased to welcome Matt as a portfolio manager.

Matt wrote this issue’s feature article—a recap of the “weak” U.S. dollar, one of the biggest financial stories in 2004. Bill Wendling provides an in-depth discussion on the advantages of the Charitable Gift Fund. Those of you thinking about making charitable contributions in the future should find it beneficial. Julie Gilliam sheds light on two new laws that will impact almost everyone in “Industry News” and answers your questions about “free” credit reports and annoying credit card offers in our question and answer section.

As each of you tie up your own loose ends from 2004, remember that this is also a time of new beginnings.

Sincerely,

Elaine E. Bedel, CFP®

Client Dream — Client Reality A Wave of Good Intentions

By: Bill Wendling, CFA, Portfolio Manager

The call for relief aid from the recent Tsunami disaster was a dramatic example of how charitable gifts can make a huge impact in the lives of thousands of people. Many of our clients have charitable intentions and make frequent bequests to numerous charitable organizations. However, the costs and mechanics of setting up gifts through vehicles such as Charitable Trusts or Foundations can be discouraging.

Fortunately, other gifting vehicles exist that can be used to fund periodic, one-time and on-request gifts, such as a Charitable Gift Fund. It is quick to establish, very low cost and provides many of the benefits of the other vehicles.

A Charitable Gift Fund is an individual account containing monies donated by an individual and invested, therefore potentially earning more money for recipients, until they are gifted. The donor receives the charitable tax deduction in the year the gifted monies are placed in the Charitable Gift Fund,

but can choose to wait several years before the monies are disbursed to the designated charities.

From a financial planning perspective, Charitable Gift Funds allow clients to take a deduction in high taxable income years or take advantage of sharp share price increases in appreciated stock, while gifting to organizations on a regular basis. If you plan to retire next year, a tax deduction recognized this year could yield a larger benefit since you may receive the deductions at a higher marginal income tax rate. If you owned \$10,000 of a nicely appreciated stock, you could gift it all to the Charitable Gift Fund, receiving the high market value as the charitable deduction this year. You can then gift the proceeds over the course of several years. This is an effective alternative if you do not want to give as much as \$10,000 to charities immediately.

The Charitable Gift Fund is especially useful when you have significantly appreciated securities. For example, many Anthem policyholders received shares of stock at a zero cost basis through the demutualization that

occurred in 2001. Shareholders would owe a capital gains tax on the entire proceeds when they sell the stock. These shares make excellent gifting candidates since the donor would never pay any taxes on any gifted shares and the organization would receive the full value of the gift less any transaction costs for selling the shares.

With direct gifts of stock that have a high share price, you may have a problem giving an amount that is close to your intended gift value. With the Charitable Gift Fund, you can specify exact dollar gift amounts and each recipient organization would receive a check that it can use immediately. Since the organizations do not receive shares of a security, no transaction fees are assessed. Everybody wins! Please note that some Charitable Gift Funds do have minimums with regards to funding and gifting. For example, Schwab’s Charitable Gift Fund must initially be funded with \$10,000 worth of securities and each gift to a charity must be at least \$250.

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

Industry News

New Laws Have Widespread Impact

By: Julie Gilliam, Financial Planning Specialist



The Check Clearing for the 21st Century Act, or Check 21, eliminates float—those extra days you used to have between the time you wrote a check and the time the money was withdrawn from your account. In the past, you wrote a check at a store, the store deposited it at its bank, the bank credited the store's account, your check was physically transported to your bank and the funds were taken out of your account. Now, the store's bank will receive the paper check, create an electronic version and immediately send it to your bank electronically.

While banks are not required to implement Check 21 practices, the realized savings are a strong incentive, and most are doing so.

Banks are now allowed to destroy original paper checks after electronic versions are created. This poses an interesting question: How can you show proof of charitable contributions for tax purposes without cancelled checks?

The IRS requires the check number, dollar amount, payee's name and date, and will accept the electronic check included in your statement as proof. If your bank statement contains all the above information, the electronic image may not even be necessary. If it is, you can obtain the actual electronic check from your bank.

It remains to be seen whether check forgery or fraud may increase due to the allowable document destruction, which also destroys associated proof (fingerprints, pen pressure, differences in paper texture, etc).

Keeping your bank statements organized so you can locate them and track all your potential deductions and carefully checking your account

statements for accuracy is even more important in light of Check 21.

Another new law allows you to deduct state sales taxes as an alternative to deducting state income taxes. People living in states with only a sales tax will now receive an additional federal tax deduction for taxes paid that tax payers in states with income taxes have enjoyed for years. This is only available on your 2004 and 2005 taxes. This means you "Florida snowbirds" will not only be able to avoid Indiana state income taxes by having your primary residence on the beach, you can now deduct your Florida sales taxes too!

So you do not have to keep track of yearly purchases, the IRS has created the Optional State Sales Tax Tables (Publication 600, downloadable from www.irs.gov), which include an average tax amount paid by people in each state, depending on their number of exemptions claimed and their Total Available Income. "Total Available Income" is defined as Adjusted Gross Income plus certain nontaxable income, such as tax-exempt interest.

In addition to the state sales tax table value, you can add local sales taxes paid if your locality has a sales tax. (Publication 600 offers a specific way to calculate this.) Excess state and local sales taxes paid on specific items such as new vehicles can be added to the table value. If you live in a state with state income taxes, you will need to compare the two tax deductions to determine which is most advantageous for you to take in any given year.

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

Your Questions

The Scoop on "Free" Credit Reports and Unsolicited Credit Card Offers

By: Julie Gilliam, Financial Planning Specialist

Q: I've heard you can receive "free" credit reports—how do I get one?

A: The Fair and Accurate Credit Transactions Act requires that each of the three reporting agencies—Equifax, Experian and TransUnion—provide a free credit report, once a year, to each person who requests one. Generally, a credit report costs about \$8 to \$10 per agency. Access to the reports is being phased-in gradually, based on location. Indiana residents become eligible on March 1.

You can request a report via Web (www.annualcreditreport.com), phone (1-877-322-8228) or mail. When you request a report via the Web, you are required to provide your social security number (SSN), but your information is encrypted for security purposes. You can view the report online immediately or it can be mailed within 15 days of receiving your request. If you would prefer not to provide your SSN online, you can print an official request form from the Web site and mail your request or call the toll-free number and request a report. In addition, you can choose to purchase your credit score at the same time you request your free credit report. Additional questions can be answered by the Web site's FAQ page.

Q: How can I stop receiving all those credit card offers in the mail?

A: Credit card companies purchase access to prescreened lists that each credit agency keeps. If you choose to opt out, the agencies must remove your name from these lists. You can call 1-800-5OPTOUT to remove your name from all three agencies' lists, or you can opt out online, by phone, or by mail through each individual agency. Instructions are available through each credit agency's Web site. You can

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ADV Form Request

As one of our clients, you have the opportunity to request the latest update of Bedel Financial Consulting, Inc.'s ADV Form Part II, as required by the Security and Exchange Commission. Please let us know if you would like to receive the latest version.

Your Questions

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choose to opt out for two years or permanently. If you select to opt out permanently, you may be mailed a confirmation form to complete and return. If, at any time, you would like to opt back in, you can use the same telephone number. You can also opt out through the Direct Marketing Association, which keeps its own set of lists for sale. Mail your request to: Direct Marketing Association; Mail Preference Service; P.O. Box 643; Carmel, NY 10512. You will need to include your full name and current address. With any of these opt-out options, it may take up to several months to notice a significant decrease in your junk mail level, as large mail-outs may already be in process with various credit card companies.

Corporate Calendar

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

May 31 — Memorial Day

July 4 — Independence Day

September 5 — Labor Day

November 24 — Thanksgiving

November 25 — Day after Thanksgiving

December 25 — Christmas Day (Sunday)

December 26 — Day after Christmas

Year 2006

January 1 — New Year's Day (Sunday)

January 2 — Day after New Year's Day

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