

FINANCIAL FOCUS

VOLUME 1, ISSUE 1



JIM RICHARDSON

Vice President

Investment Officer

Contact us today to learn more about how we can help you achieve your financial goals.

INSIDE THIS ISSUE:

**Understanding the
Investment Process**
Page 2

Cyclical Stocks
Page 3

**Beware of Financial
Fraud: "Phishing"**
Page 4

Managing Your Retirement Income

Whatever your hopes and dreams for retirement, the reality is that the income that replaces your wages will prove to be the key to attaining the quality of life in retirement that you envision. Social Security is a start. A pension from the company retirement plan may augment that income. But managing the income from your investments will require a more active role. Below are some key decisions you'll need to make.

When to make your moves

Will you make changes in the kinds of investments you have when you retire? Many people want to increase their share of income-producing investments or seek less risk.

It is impossible to predict the best time to move from one particular investment class into another (from stocks into bonds, for example). One recommended strategy is to shift investments gradually, perhaps over two or three years. This kind of "transitioning" reduces the impact of the market environment at any one point in time. Keep in mind, however, that you shouldn't follow the process too strictly. Taxes and transaction costs will need to be factored into the equation.

Where to withdraw from

Some of your retirement income will be paid regularly and automatically (Social Security benefits, for instance). But if you need additional income to meet your expenses, which of your investments should you tap?

From a tax perspective, withdrawing money from an IRA doesn't make sense if it isn't necessary. Your investments earn tax-deferred income, and that's too valuable to give up if you don't have to. (At age 70 1/2, you will, by law, have to begin regularly scheduled withdrawals.)



Instead, many professionals suggest setting up a "spending account." A spending account is made up of liquid assets—for example, a money market fund. The account will provide a source of additional income to meet your regular expenses when other sources are insufficient. The rule of thumb is to keep enough in the account to meet one year's expenses. Of course, the amount in the fund will fluctuate as you make withdrawals and additions to the account.

How much to withdraw

How much can you withdraw from your retirement money each year and make sure that enough remains available to last the rest of your life? During the bull markets of the '90s, some suggested that you could withdraw 5% to 6% a year without eating into your principal. One study published last year in a financial planning journal kept to that number. But others are putting the rate at a more conservative 3% to 4% range.

But more than figures will enter into your decision. How comfortable you are about having enough to last through retirement, the expenses associated with your retirement activities, and your feelings about how much you want to leave to your heirs also may influence your decision.

Securities provided by UVEST Financial Services, member NASD/SIPC. UVEST and Carter County Bank are independent entities.

Not FDIC Insured	Not Bank Guaranteed	May Lose Value	Not Bank Deposits
Not Guaranteed by Any Government Agency			

Understanding the Investment Process

Successful investing is never haphazard. An orderly, disciplined approach is necessary for successful management of your investment assets. It's a step-by-step process, starting with the assessment of your goals and needs.

Information gathering and analysis

Then you need to look beyond your investment portfolio to your retirement plan interests, real estate, life insurance and annuities. By looking at what you currently hold, you will be able to determine better the direction that your investing should take.

The next step is to define your goals and needs. This process involves asking yourself a series of questions. To begin, what are the short- and long-term financial objectives that your investment portfolio needs to meet? Capital to improve or expand your practice? College education funding for the children? Building a solid financial foundation for your retirement years?

What is the time horizon associated with your objectives? If, for example, you have a need for cash in the near term, your portfolio should include sufficient liquid and low-risk (and low-return) investments. If, like many investors, you are investing for the long term, you may want to lean more heavily on a variety of equities—investments that may be somewhat volatile but over the long term may offer a better return. There are other questions to ask. What circumstances make you very different from other investors? Do these circumstances affect how much current income you need from your portfolio? What portion of that income, if any, should come from tax-exempt investments?

The risk factor

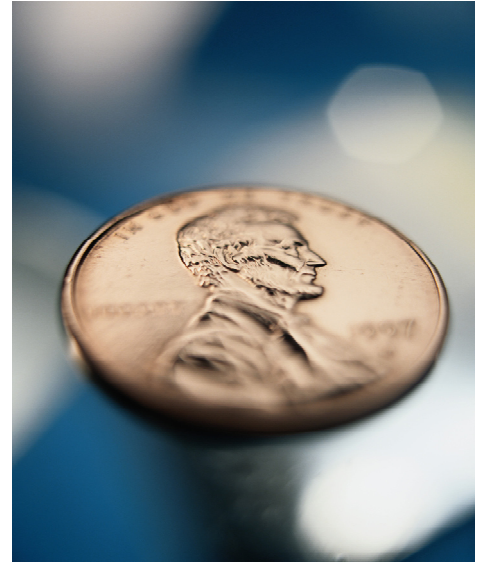
Once your goals are established, there's a wide range of investment opportunities from which you may choose. The next step you must take is to determine whether a particular investment is right or wrong for you. Several factors will come into play, one of the most important of which is the risk associated with that investment.

Are you the kind of investor who is at ease with upswings and downswings in the market? Or are you the kind of investor who is apt to spend nights worrying when the market makes a sudden downturn? In other words, you must determine your investment "comfort level."

Structuring your portfolio

Each asset class—stocks, bonds, cash equivalents—has its own expected rate of return and its own risk characteristics. You must develop the appropriate investment mix of assets that satisfies your tolerance for risk, is in harmony with your objectives and needs, and fits your time horizon, income needs and tax picture. This balancing process includes an analysis and measurement of the risk and returns of different classes of investments that you might choose, as well as a projection of the potential interactions of risk among those classes. This analysis is critical to structuring your portfolio effectively.

This process will help you develop a diversified portfolio by mixing different asset classes in varying proportions. The process is



The important first step is to take a thorough personal financial inventory of your investment assets.

dynamic. When an allocation calls for a 5 to 7-year bond fund, the fund continues to provide that maturity range.

Further, you must keep a vigilant eye on your portfolio, ascertaining that the rates of return, relative to the investment mix, fall within the range that you have established. Continuing research for new investment opportunities also plays an important part in the monitoring process. What's more, a review and rebalancing of your portfolio may be called for when personal circumstances (such as marriage, loss of a spouse or retirement) dictate.

Not FDIC Insured	Not Bank Guaranteed	May Lose Value	Not Bank Deposits
Not Guaranteed by Any Government Agency			

Cyclical Stocks: *Ins and Outs, Ups and Downs*

A company can provide outstanding goods or stellar services. It can be well run by a board of directors and officers who choose the best and the brightest of employees, who, in turn, manage day-to-day business operations with skill and finesse. With such potential for success, it seems as if purchasing shares of this business would provide a good investment opportunity, right? It might. Then, again, it might not.

As everyone knows, even a successful company's earnings and, ultimately, the value of its shares are influenced by a variety of external, economic factors, some companies more than others. The latter are especially sensitive to the business cycle and are categorized as cyclical stocks.

Identification and prediction

In a nutshell, a business cycle is defined as a predictable, long-term pattern of alternating periods of economic growth and decline. The cycle involves among other things, interest, inflation and unemployment rates. A rise in any of these factors usually depresses profits. A drop usually spells good news.

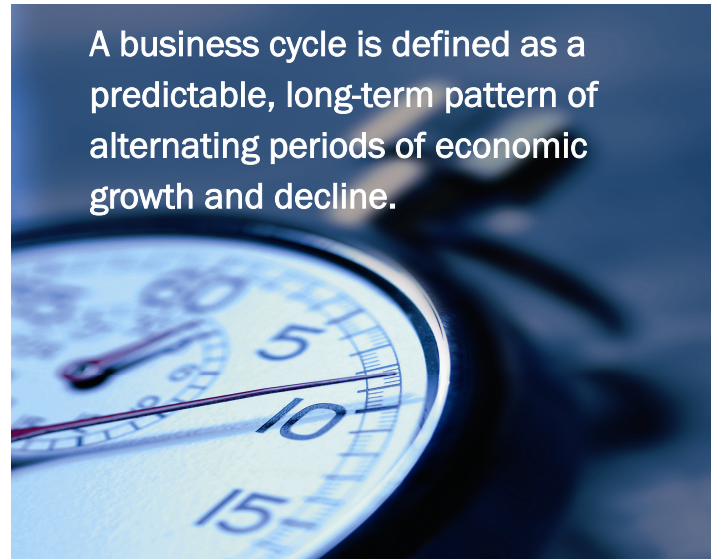
It's relatively easy to identify cyclical company stocks. They are the stocks of businesses that depend heavily for their success on the condition of the economy as a whole. Often, these businesses produce luxury and big-ticket items (think new cars, expensive vacations). Or they offer goods and services for home construction and leisure-time activities. Or they serve markets that are tied to capital-equipment spending.

The stocks of automobile manufacturers are cyclical stocks because buying a car is very often discretionary. The purchase may be accelerated or delayed based upon one's personal finances—which, very often, are a reflection of how the economy is doing. Shares in companies in food industries—the staples of one's diet, that is—are not. Everyone has to eat.

Predicting a business cycle, however, is not as simple. What's more, the rise in value of cyclical stocks usually leads the business cycle by six to ten months. In essence, many of the prices of cyclical stocks may start dropping while the economy is still seemingly healthy or start rising several months before the country comes out of a recession.

Value and timing

How can investors determine which cyclical stocks are deserving of being added to their portfolios? Benjamin Graham, author of the 1934 classic *Security Analysis* and widely considered the



A business cycle is defined as a predictable, long-term pattern of alternating periods of economic growth and decline.

father of value investing, maintained that an investor should consider purchasing a cyclical stock based upon its average earnings over the previous ten years, the length of a typical business cycle. Although not a guarantee of success, using this time frame would, at least, give the investor a rough idea of how the value of a company's shares have tracked the business cycle.

Looking back at the early 1990s from the early years of the 21st century, we could see, at first, an economy in poor shape (partially a result of an uneven recovery from recession around the time of the Gulf War). Then came the bull market and a robust economy, followed by economic instability in the latter phase of that ten-year time period. According to Graham's theory, then, an investor who considered an investment in a cyclical stock, say in 1999, and calculated average earnings before making a decision, was likely to have made the better choice, rather than one who looked just at current earnings.

An invitation

Buying shares of cyclical companies can be profitable for the investor willing to do the research and then make an educated guess about the future of the economy. For the investor who is willing to jump in and out of cyclicals, as he or she anticipates a surge or a drop in the economy. Purchasing shares in cyclical companies is probably not for the neophyte or part-time investor. Cyclicals are more likely to be prospects for a place in the portfolio of investors who are in the markets for the long term and who feel relatively comfortable assuming some degree of risk.

Not FDIC Insured	Not Bank Guaranteed	May Lose Value	Not Bank Deposits
Not Guaranteed by Any Government Agency			

Beware of Financial Fraud: “Phishing”

The National Association of Security Dealers (NASD) continues to warn investors and consumers about “phishing”, a scam that uses spam e-mail to lure investors into revealing confidential information

These scams seek to gather passwords or PINs, or other types of personal information. Often the e-mails falsely claim to be from brokerage firms, banks or other services that investors are likely to use.

According to some estimates, scam artists are able to convince up to 5% of e-mail recipients to respond to them. And, alarmingly, the number and sophistication of phishing scams are continuing to increase dramatically, according to the “anti-phishing workgroup” (www.antiphishing.org).

Here’s what to look for

Scam e-mails may use the names of real people, or legitimate-looking addresses, authentic-looking logos or graphics, links to pages of a bona fide Web site and official-looking fine print or references to laws. This seeming authenticity lures the investor into providing sensitive information, usually by requesting that he or she send a reply e-mail or click on a link to a Web site that mimics a legitimate site.

To lower an investor’s guard, he or she may be told that: an account will be closed unless information is updated; the investor’s identity must be verified because the account is being used by a third party in violation of the law; because of a technical update, the account must be reactivated; or recent law changes require users to identify themselves.

NASD offers several tips, developed by the Federal Trade Commission, to help prevent you from becoming a victim of phishing or other online identity theft:

- If you receive an e-mail that warns you, with little or no notice, that an account of yours will be shut down unless you reconfirm your billing information, do not reply or click on the link in the e-mail. Instead, contact the company cited in the e-mail using a telephone number or Web site address that you know to be genuine.
- Avoid e-mailing personal and financial information. Before submitting financial information through a Web site, look for the “lock” icon on the browser’s status bar. It signals that your information is secure during transmission.
- Review credit card and bank account statements as soon as you receive them in order to determine whether there are any unauthorized charges. If your statement is late by more than a few days, call your credit card company or bank to confirm your billing address and account balances.
- Keep your personal and financial information secure online. Make certain that your computer system is up to date with the latest security patches and use antivirus and spy ware detection software. Firewall software should thwart intruders from getting access to your PC over a network. Never download software or files from an unknown source.

Report suspicious activity to the FTC. Send the actual spam to uce@ftc.gov. If you believe that you’ve been scammed, file your complaint at www.ftc.gov, and then visit the FTC’s Identity Theft Web site (www.ftc.gov/idtheft) to learn how to minimize your risk of damage from identity theft.

You can find more information about phishing or other identity-theft scams by reviewing the investor alerts available at www.nasd.com.

CONTACT US TODAY

Jim Richardson

601 East Elk Avenue

Elizabethton, TN 37643

Phone: 423.543.2131

Email: james.richardson@uvestmail.com

Not FDIC Insured	Not Bank Guaranteed	May Lose Value	Not Bank Deposits
Not Guaranteed by Any Government Agency			