Steven G. Blum, Attorney At Law

Serving individuals and families by guiding them through every aspect of their financial lives.

March 1, 2004

Dear Clients and Friends,

This is the first edition of what we plan to be a continuing newsletter through which I can communicate with you on topics relevant to your financial well being. Our goal is to make this both useful and pleasurable for you to read. You feedback is actively solicited; let us know what will make this newsletter better for you.

WHAT IS GOING ON AT THOSE MUTUAL FUND COMPANIES?

Most of us have read a great deal in the popular press about scandals at mutual fund companies and brokerage houses. The most recent outrages are of two general types. In one, mutual fund officials allowed certain "special clients" (read: folks with a great deal of money) to trade shares of a fund long after the 4 pm closing time. The other scandal involves permitting some very large clients to "market time" by trading in and out of a fund over very short periods of time. Both of these behaviors are to the financial detriment of all the other investors in the fund. In the case of the trading after hours, it is the equivalent of allowing someone to steal from the other investors since the movements of some overseas markets could be used to predict the next day's prices. It has been likened to permitting someone to bet on a horse race after it is finished.

Many people have asked, "How serious were these misdeeds?" If the question is about how much an investor lost because of this cheating, the answer is not very much at all. The benefits of these transgressions were, in some cases, substantial but the cost is spread out over all the fund's investors. It has been estimated that the average customer in one of these funds may have lost less than a dollar. On the other hand, the size of the breach of duty is breathtakingly large. Investors entrusted these funds with their money. Some fund owners and executives answered that trust with abuse, violation of duty, and disregard of law. Equally dismaying, they exhibited an attitude that the clients' money is fair game to be used to enrich themselves. If the question is about whether the rules are being followed and fiduciary duties upheld, this is very serious stuff.

A lot of folks have been treating me like a man who has a crystal ball. After all, I have been warning for years to avoid doing business with financial firms that have interests sharply in conflict with those of their clients. Many of the companies now being called to task have long seemed more interested in making money for the company (themselves) than maximizing outcomes for their customers. Furthermore, much of the financial services industry has become fixated on hiding how they make their money. (You know, brokers whose services are "free"

Steven G. Blum, EdM, LLM, JD
801 Yale Ave, Suite 1212 / Swarthmore, PA 19081
Phone: 877-ASK-BLUM (1-877-275-2586) Fax: 801-437-3391
Website: www.stevengblum.com Email: stevenblum@stevengblum.com

and things like that.) They have lots of hidden ways to make money from their clients' money – all of which disadvantage their clients. A climate of profiteering and "anything goes" seems to just grow worse. As I have frequently said, choosing whom to avoid doing business with is one of the most important decisions in ensuring your financial future.

What is to be done? As I have discussed with many of you, careful analysis can help us choose those service providers least likely to put their own interests above those of their customers. None of the mutual fund companies that our clients invest with have, as yet, been accused of any wrongdoing. (Of course, one cannot know the future with certainty and I sure hope I am not tempting fate by mentioning this.) It is possible to make very good guesses, based on public behavior, sales strategies, and corporate structure, which companies may be overly influenced by their own profit motive. So we find that one of the most important maxims in investing is equally useful in deciding which companies to do business with: "if it seems too good to be true, it probably is."

HAPPY NEW YEAR

A new year has begun! Happily, it is not too late to take some year 2003 actions to brighten your future. For IRA, Roth, and some other tax advantaged retirement plans, you have until you file your 2003 tax return (April 15, 2004) to make your 2003 contribution. For most people, this is an extremely good deal. Remember maximum contribution levels have been raised to $3,000 per person ($3,500 if you are over 50). As for which type of deferred plan is best for your individual circumstances, please feel free to get in touch with me. Don't leave it till the last minute when the big rush is on!

To brighten someone else's future, many of us start the new year by making gifts to loved ones and to charity. Sometimes, with a little planning, we can improve the tax advantage you can obtain from your generosity. Please feel free to contact me before actually making your gifts.

ASK STEVE

Q: Since the recently enacted tax law changes have lowered taxes on capital gains and corporate dividends, should I continue to fully fund my 401(k)?

A: As with all investment decisions, this depends on individual circumstance. For the great majority of people, though, the answer will be: "Yes! Keep on Funding Those Retirement Accounts!" It is true that the law calls for taxing long-term capital gains and most corporate dividends at a maximum rate of 15%. An argument could be made that this makes non tax-deferred investments more competitive with those in tax advantaged retirement accounts. HOWEVER, remember these important factors: 1) to receive the long term capital gains rate, investments must generally be held longer than one year, 2) a 15% tax rate still leaves you with but 85 cents on each dollar of gain, 3) the power of compounding makes tax deferred investments very powerful – especially if they are started by younger people, and 4) tax deferred retirement accounts (such as 401(k), 403(b), IRAs, Roths, etc.) have the effect of coercing us to save for a time when we will probably need the money. If your employer matches your 401(k) contributions then don't even think about it… take full advantage of the match! Finally, it is worth noting that there is tremendous uncertainty surrounding the "Bush tax cuts". It seems prudent to bet that the long established Retirement Account tax programs are more likely to still be there a decade from now than are the new and controversial capital gain and corporate dividend tax cuts.