

Financial *Visions*

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The Market in Review

Investors heaved a sigh of relief when the closing bell rang on Wall Street for the final trading day of the year 2000. Our Millennial roller coaster ride had begun with investors' enthusiastic about a stock market that remained the longest running bull market in modern times. As the roller coaster climbed ever higher during the first quarter we witnessed record market levels and company valuations. On March 10 the NASDAQ reached an all-time closing high at 5048.62. Just as we were settling down to enjoy our ride, we began the first set of downhill drops. In late March and in the wake of Fed Chairman Alan Greenspan's ominous series of interest rate increases, investors began to think about and talk about a slow-down. Simultaneously, we began to notice signs of slowing growth in terms of lower corporate profitability projections. That downward trend accelerated in the second quarter and the drop became even more precipitous in the third. To make matters worse, companies were reporting actual earnings that were far lower than those they had projected earlier, putting a number of them at risk of losing credibility with Wall Street analysts.

One of the biggest downturns of the year took place in the Internet sector as investors began to take a more discriminating look at those virtual companies whose market valuations had reached such towering levels at the beginning of the year. A number of Internet startups were forced to close their doors as investor sentiment was changing rapidly. Rejecting unreasonable business models, the public was no longer willing to support companies that had no idea when they might achieve profitability. As new money from the formerly generous capital market was no longer available, the struggling dot coms were forced to close. Evidence of the Internet catastrophe was reflected in the Goldman Sachs Internet Index which was down 70% for the year.

January 1, 2000 to December 31, 2000 Performance of Selected Indices**

NASDAQ Composite Index	-39.29%
Dow Jones Industrial Average	-6.18%
S&P 500 Composite Index	-10.14%
Salamon Investment Grade Bond Index	11.59%
Lipper International	-15.37%
Russell 2000	-4.20%

Source: InteractiveData Corp.

As in any year, newsworthy events effected a stock market that does not deal well with uncertainty. The megamerger of America Online and Time Warner had investors waiting an entire year for Federal regulatory approval. The antitrust case against Microsoft remains unresolved to this day. And who will ever forget the Presidential election of last year? That roller coaster ride took us plummeting down the steep tracks to year end resulting in the Dow Jones Industrial Average

Continued on page 2

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Continued from page 1

recording its first losing year in a decade and the NASDAQ experiencing its worst loss in its thirty year history. The NASDAQ fell more than fifty percent off its all-time high in March and almost forty percent for the year.

We come now to the current state of the market. As this article is being written on January 3, the Federal Reserve has just lowered the Fed Funds rate one half point to six percent, the first rate cut in two years. There had not been a fifty basis point cut in interest rates since December of 1991. The reduction instantly reduced the pessimism that had held a firm grip on the markets during the first few trading days of the new year. This scenario closely resembles the economic environment of 1995, when we experienced the first interest rate cut of that time. With investors suddenly feeling that the Fed was on their side, the Dow rose twenty percent in the following twelve months.

The Fed's action is certainly a positive development. We expect that it will stimulate the rapidly decelerating economy that we have experienced over the past six months. Clearly, the Fed's focus is no longer on preventing inflation, but rather on maintaining and extending the longest economic expansion on record. The question now is, when will the Fed implement the next rate reduction? The current reduction took place between regularly scheduled meetings, and the next scheduled meeting is January 30-31. Since there is no scheduled meeting in February, will the Fed consider an additional reduction at that time or will they choose to wait for the March meeting?

This month brings a new business-friendly administration to Washington, D.C. George W. Bush takes office during a time of budget surpluses, the first President to do so in over forty years. This will result in lower demand for borrowing by the Federal Government and should free up significant amounts of capital. That capital can be applied toward increasing the long term productive capacity of the economy. The market, however, will be watching to see how the new administration deals with the equally divided Congress. Will the extended hand of bipartisan cooperation work towards accomplishing goals of the new President or will we find the government locked in a virtual stalemate?

The various factors at play all appear to point, however, to the reality that the market has become more rational than it was a year ago, when Alan Greenspan characterized it as having "irrational exuberance." As so many of the new economy stocks have fallen by the wayside, we are reminded that the basics of sound investing have not changed. The market will reward those companies whose price valuations are based on the fact that solid management is important and that earnings do matter. For the long term investor, last year represented a speed bump that slowed us down, but it should not deter us from continuing our disciplined approach of sound investment principles including rational asset allocation and long term planning.

Chestnut's market perspective reflects the opinion that the economy will continue to move ahead this year due to the stimulus of interest reductions. These should in turn pull the stock market along and provide returns in line with historical averages. Over the next several months, however, we won't be surprised to see the markets continue to putter along since the benefits of interest reductions will need to trickle through the economy to the point at which they begin to affect those corporate earnings reports. We remind our clients that stock market euphoria from rate cuts may be short lived since the very next round of earnings reports will continue to reflect the previously depressed economic climate of interest rate increases. Nevertheless, individuals may again see some additional discretionary income from lower credit card and mortgage costs. Lower home equity loan rates will now make it possible to purchase items that had been put on hold. Even though it may be early summer before the economy reflects the benefits of current Fed action, we are very optimistic about the prospects for a positive year in terms of stock market performance.

**"The ability to absorb risk is not
how much money you have,
but how much time you have"**

Chestnut News

Welcome to the inaugural edition of our newsletter, Financial Visions, created and published right here at Chestnut. Our newsletter is actually the first of several innovations we are announcing in this issue. We also want to let you know about some great things that are in the offing.

At the beginning of April we will be relocating our main office to Four Executive Boulevard, Suite 203, in Suffern, New York. It is less than five minutes from our existing location. Our phone numbers will remain the same. Our new spacious office will afford us, among other things, a 4,000-square-foot facility which will comfortably (and elegantly!) house additional Certified Financial Planners, expanded support staff, a seminar room and a client services department whose explicit mission will be to meet our clients' financial planning needs.

We are pleased to announce a valuable addition to our planning family. Mark Laifer, Attorney at Law, will be right here in the office with us serving your legal and estate planning needs. For the past seven years Mark has headed up our legal department from his New York City office. We are delighted that he will soon be close by every day to tend to the legal needs of our clients.

An office seminar series for our clients is also in the planning stages. Its express purpose will be to provide small-group financial instruction and to provide answers, in a non-formal and relaxed setting, to the general financial questions that clients ask most frequently. So stay tuned! We will keep you informed about these and other exciting things we are planning for this new year. As always, we look forward to working with clients old and new in the months ahead.

IRA Contributions

Are you still considering whether or not to make an IRA contribution for the year 2000? Do you wonder whether it should be a Roth IRA or a traditional IRA? Please remember that a new IRA must be set up and funded by April 15 of the calendar year following the year to which the contribution applies. The deadline for contributions to existing IRAs is the same, April 15. There are many factors to consider when determining what is best in your situation. We encourage you to contact us if you need any assistance in making your IRA decision.

The phase-out ranges that apply to traditional and Roth IRAs for tax year 2000 are as follows:

Modified Adjusted Gross Income (AGI) Phase-Out Range For Deductible IRA Contributions:

If taxpayer or Married Filing Jointly (both are active participants) in a Qualified Retirement Plan

Joint \$52-62,000

Single	\$32-42,000
Married Filing Separately	\$0-10,000
If spouse's is not an active participant in a Qualified retirement Plan	

New Adjusted Gross Income Test	\$150-160,000
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Roth IRA-Modified AGI Phase -Out Range

Joint	\$150-160,000
Single	\$ 95-110,000
Married Filing Separately	\$ 0- 10,000

Rollover to Roth IRA-Modified AGI Phase-Out Range

Married Filing Separately	Rollover not permitted
Married Filing Jointly	\$100,000
Single	\$100,000

Yes, It's Tax Time Again

It seems like only yesterday that we were all worrying about the Y2K bug while preparing to deal with the first tax season of the new millennium. Y2K caused hardly a ripple and the year 2000 just flew by. So here we are into another year's tax reporting season. It seems that even without Y2K jitters each new tax season brings with it a high level of anxiety. Much of that antsy feeling can be avoided with a bit of foresight and some carefully laid groundwork.

Whether you prepare your own tax return or work with a professional preparer it is important to get started early. Gather your tax-related information and schedule an appointment with your accountant or preparer as soon as you've got everything together. Procrastination is your worst enemy. Often you will discover that you need additional information or documentation; if you've given yourself some lead time you'll do away with that last minute pressure.

One of the most persistent problems in preparing tax returns is making sure that you have the proper cost basis and date of acquisition of investments that you may have sold during the past year. The cost basis of mutual funds can be a problem. Over the past few years many funds have been reporting the cost basis of funds sold on year-end 1099 client forms but not to the IRS. However, if you have been in a fund for a long time the initial cost data may not be readily available. If you do not have all the necessary statements you will

have to contact the mutual fund company and request a transaction history in order to determine the cost basis. If you leave yourself adequate time you can avoid the anxiety of meeting the tax deadline.

Did you sell your primary residence this past year? If you did, it will be important for you to know your cost basis. The tax laws allow an exclusion of \$250,000 of gain if unmarried and \$500,000 if married and certain other conditions have been met. However, many people have lived in their homes for a very long time. The low original cost may mean a large tax on the capital gain. So it's important to document any major improvements such as a deck, a pool, an extra bath or a garage you have added to your home over the years. The cost of these enhancements should be added to the initial purchase price to determine the overall cost basis of the home you sold. That total is what you should use when you calculate your actual capital gain.

Was a child born during the past year? If so, have you obtained a social security number for the child? If a return is filed without a tax identifying number for each dependent child, the filer of the return is subject to a penalty.

There are many details to consider when compiling your tax data. This short article cannot possibly cover them all. Whether or not your tax returns are prepared by our firm, please ask us to send you a useful checklist of items that will help you gather your tax information.



Social Security Full Retirement Age

As many of our clients approach retirement age, one of the questions they ask is when they may qualify for full Social Security payments. For many years the age at which full benefits would be paid has been age 65, although reduced payments may begin at age 62. Beginning with individuals born in 1938 and later, however, this age (known as the full retirement age, or FRA) will begin to increase, reaching age 67 for individuals born in 1960 and later. The below listing indicates this progression.¹

<u>YEAR OF BIRTH</u>	<u>FULL RETIREMENT AGE</u>
1937 or earlier . . . . .	.65
1938 . . . . .	.65 and 2 months
1939 . . . . .	.65 and 4 months
1940 . . . . .	.65 and 6 months
1941 . . . . .	.65 and 8 months
1942 . . . . .	.65 and 10 months
1943 - 1954 . . . . .	.66
1955 . . . . .	.66 and 2 months
1956 . . . . .	.66 and 4 months
1957 . . . . .	.66 and 6 months
1958 . . . . .	.66 and 8 months
1959 . . . . .	.66 and 10 months
1960 and later . . . . .	.67

¹ Source SSAWebsite, www.ssa.gov, 06/07/00

Annual Social Security Statement

Because Social Security benefits are based on a worker's earning record, it is important to ensure that all earnings are accurately recorded on a worker's Social Security records. The Social Security Administration (SSA) sends an annual Social Security Statement to each worker age 25 and older and not currently receiving Social Security benefits.¹ The annual statement is automatically mailed approximately one month before a worker's birthday. An individual's earnings record may also be checked by completing Form SSA-7004, "Request for Earnings and Benefit Estimate Statement."² Once completed, Form SSA-7004 should be mailed to the Social Security Administration, P.O. Box 7004, Wilkes-Barre, PA 18767-7004.³

¹ If a worker's FRA is age 67, retirement at age 62 will reduce the monthly benefits by approximately 30%

² Available on the SSAWebsite at www.ssa.gov or by calling (800) 772-1213

³ Source: SSAWebsite; Office of the Chief Actuary, "Illustrative Benefit Tables." 05/25/00