

Market Comment

In a few of our past letters, we have talked about the changing idea of retirement. The actions of the stock and bond markets this year support our thoughts about asset allocations for retirees. With the major indexes either down or up fractionally for the year, one might assume that this was not a year to be in equities at all. If you would have made the decision at the beginning of the year to move to bonds or cash, you would have been disappointed there also.

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Interestingly enough though, well managed mutual funds have regularly outperformed the major indexes (Dow Industrials, S&P 500, NASDAQ) during previous periods of stagnant performance. Professional management has the ability to find the out-of-favor stocks that present opportunity in these markets. Even if only held for a short period.

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These re-occurring events over history helped reinforce the need for retirees to hold equity securities in their portfolios. Data tells us

that the greatest danger to a retiree's

portfolio over 25-30 years is not necessarily loss of principle, but the eroding of purchasing power. Every year that goes by reinforces the fact that a man or woman who retires at age 62 will face upwards of 30 years of income needs.

Actual history tells us that it will be very important how portfolios are allocated over that long of a time period. Although we know that bonds help reduce volatility over various periods of market instability, we also know that they alone are very unlikely to even keep up with inflation. Equities, on the other hand, have outpaced inflation by three or four times over the past eighty years. However, while equities have grown sixty times in the last sixty years, they have also averaged a 30% decline one year out of every five.

So, the challenge is to find an allocation that will return enough to provide sufficient income after inflation and taxes, while also providing stability to the portfolio to allow for emotional comfort. The decision for the retiree will be 1.) How much market volatility can I take, 2.) Will I work longer to accept less volatility in my portfolio which will produce less income, 3.) How much do I want to leave in the way of inheritance for my heirs?

We are entering a new era with over 60 million baby boomers entering an age where this will be their main priority.

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Retirement income has also changed in that employer retirement plans will most likely be taken in lump sums versus the guaranteed monthly lifetime pension payments of the last generation.

Much of the success of these portfolio allocations will depend on the ability of retirees to avoid the mass moves, by emotional and uninformed investors, out of the markets during a decline and jumping in at high points of euphoria. The selection of experienced portfolio managers along with disciplined asset allocation is vital to the overall stability during the market cycles.

Market Summary Year to Date

Dow Industrials	-1.33%
Dow Transportation	+6.47%
S&P 500 Index	+1.57%
NASDAQ Composite	+0.98%
Russell 2000	+2.05%
International	+6.64%

Roth IRA Conversions

As we approach the end of the year, it may be a good idea to explore the possibility of converting a portion of your Traditional IRA's to a Roth IRA. There are two substantial advantages to owning a Roth IRA. First, withdrawals are tax free as long as you wait until age 59 ½ and own the Roth IRA for at least 5 years. Second, there are no required minimum distributions at age 70 ½ as there are with Traditional IRA's. Therefore, if the situation is right we may be able to avoid significant taxes down the road giving your monies a greater opportunity to continue growing.

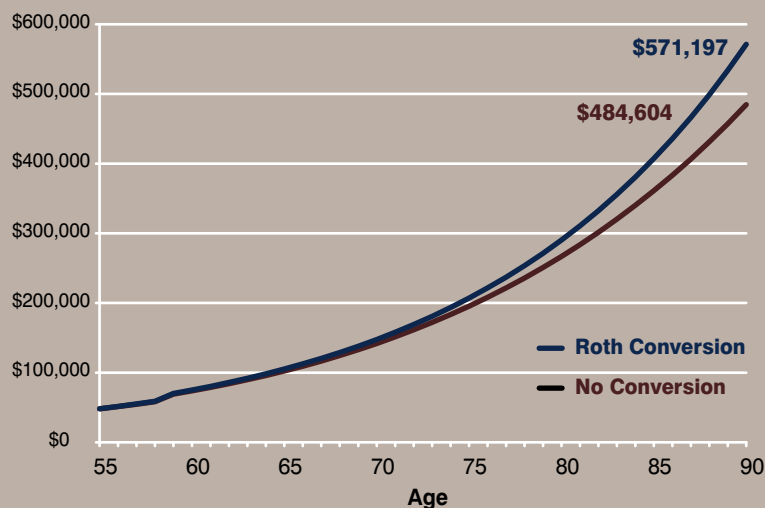
This planning strategy is not right for everyone. Initially, anyone who has a modified adjusted gross income greater than \$100,000 is not eligible for the conversion. Further, we must consider your current taxable situation versus what we expect it may be into the future. If we determine your tax bracket will be the same or higher in the future, then a Roth Conversion now may be worthwhile. Subsequently, if your tax bracket is expected to be lower, then a conversion may not be best. Why, you ask?

Converting a Traditional IRA to a Roth IRA triggers a taxable event. The proceeds from the conversion are considered taxable income in the year of conversion. For example, converting \$50,000 this year to a Roth IRA can trigger \$10,000 in taxes assuming you are in the 20% tax bracket. With that in mind, we need to run the numbers and determine if you would be better off with the conversion or not. Also, keep in mind if we are able to offset your "conversion income" with other ordinary losses then we may be able to minimize the impact on your taxes.

A look at the accompanying chart illustrates the potential benefits of converting to a Roth IRA. In this example, we are starting with \$50,000 and assuming a 20% tax bracket. The "Roth Conversion" line is the after-tax value of the Roth IRA with a 7% annual return. Keep in mind, the taxes for the conversion would total approximately \$10,000. The "No Conversion" line is the after-tax value of the Traditional IRA, reinvested required minimum distributions, and taxes that would have been paid for the conversion growing at 7% annually.

While this example is relatively straight forward, most situations will require a more comprehensive evaluation. Because of the issues that need to be considered, it is essential we deal directly with your CPA to determine what is best for your situation. Please give us a call if you wish to discuss this topic in greater detail.

Converting to Roth IRA



Lesjak Planning

Our business depends on you and your satisfaction. We appreciate your referrals in the past and in the future.

Health Benefits for Retirees

Recently, a large automotive company announced plans to cut health care benefits for their union retirees. This announcement, along with other high profile cases has many retirees throughout the country wondering if they are next. The health care landscape has been changing radically for the past several years. With costs increasing rapidly, corporations are finding ways to reduce or eliminate benefits whenever possible.

The most vulnerable group of retirees is not the union retirees, like those affected above, but rather former salaried employees. Recently, courts have consistently allowed employers to reduce or eliminate benefits on non-union retirees. Even those who have been retired for several years or were promised their benefits in writing are being affected. As long as your health care plan has the proper technical language included in your plan document, then employers reserve the right to alter your benefits whenever they see fit.

As for union retirees, this most recent case is not the norm. Typically, the courts ruled in favor of the union employees based on the collective bargaining agreement. However, a few are lobbying the courts that the language in those agreements is too vague and the employer still has the right to alter benefits at their will. Presently, this argument is getting mixed results in the courts.

If your former employer goes bankrupt then you will simply lose out. The Pension Benefit Guarantee Corporation will help protect a portion of your future expected pension payments, but has no effect on your health care benefits. Those familiar with the steel industry woes know all too well the affects of losing your benefits due to a mismanaged company.

A large number of retirees are seeing the premiums on their benefits rising dramatically. One reason is that at least half of employers established ceilings on what they will pay for retiree's coverage. The caps do a good job of protecting the employers from rising health care premiums while passing the additional costs on to you.

As if rising premiums weren't enough, the new Medicare prescription drug coverage laws do not help out much either. Actually, many employers are dropping their

In Fond Memory...

On September 29, 2005, we lost a dear wife, mother and friend, when Gertrude Lesjak passed away. Many of you knew Gert from the various company functions, including the Holiday Brunch, in which she will be remembered for how she greeted all with her friendly smile. Gert was instrumental in the formative years of the business, with her support and endless encouragement. Over the years, Gert made long lasting friendships with many clients, as evidenced by the outpouring of condolences and cards. We all appreciate your support through this difficult time. Gert was truly a wonderful person and we will miss her dearly.

– John, Dave and Mike

prescription drug benefit for the retirees who qualify for Medicare. Others are continuing their coverage in exchange for money from the government. That's right, the government will subsidize employers for continuing to provide prescription drug benefits based on the employer's aggregate group of retirees. This was intended as an incentive for employers to continue providing prescription drug benefits.

In response, employers are eliminating benefits for selected groups of retirees (i.e. the riskiest) and still collecting money from the government, according to the Centers for Medicare and Medicaid Services. For example, one large corporation cut its retiree liabilities by \$4.1 billion with its recent announcement while expecting to collect the same amount over time from the federal government in subsidies.

It may be prudent for you to inquire with your employer as to the availability of Health Savings Accounts (HSA's). As we described recently in one of our newsletters, these types of high deductible insurance plans provide a way to reduce your premiums and possibly grow monies intended for health care costs tax free. Keep in mind there are many eligibility requirements and limits on deductible contributions that need to be taken into consideration.

Quick Hits

Congratulations are in order for Nathan Gist. Nathan has successfully completed all the requirements necessary to hold the Certified Financial Planner designation. We are excited with the addition of Nathan to our planning staff as we continue to grow in hopes of meeting all your needs.

The flow of capital into the U.S. continues to rise. Reports for this past August reflect total capital inflows of \$91.3 billion, an increase of \$3.8 billion from the previous month. The increase, which is the highest in over a year, was mostly due to shifting investment patterns towards U.S. equities along with foreign interest in U.S. Treasury debt and corporate bonds.

For those of you who missed it, we had an outstanding time at our 25th Anniversary party at St. Clarence's. Clients, friends, and associates came together to celebrate the relationships built over the years. We are grateful for you bringing us into your lives to help make your goals come true. Pictures of the party can be seen on our website at www.lesjakplanning.com.

Dave and Diana are the proud new grandparents of their first grandchild Sarah Rose Walton who was born to their oldest daughter Rebecca and her husband Don. Feel free to congratulate Grandpa and Grandma whenever you get a chance.

Investment Advisor's Act

The Investment Advisor's Act requires that as a management client, you be offered the annual opportunity to obtain a copy of Part II of Form ADV filed by Lesjak Planning Corporation with the Securities and Exchange Commission. A copy will be sent to you at no charge upon request.

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