Lesjak Planning CORPORATION

The Advisor

FALL 2004

Market Comment

> **"For a nation to try to tax itself into prosperity is like a man standing in a bucket and trying to lift himself up by the handle."**
>
> **- Winston Churchill**

Every four years at this time of year we are bombarded with political promises and continuous election commercials. What makes it even worse is that the news stations have to dissect each debate or candidate's speech to tell us what they meant, as if we were not capable of figuring it out ourselves. Although the election process in this country can be exasperating, others are not so fortunate to pick their own leaders. Be sure to exercise your right to vote.

In regards to our economic strength in America, all indicators are pointing to a gradual strengthening in both corporate health and unemployment. It seems that the economic numbers of previous months are consistently being revised upwards as we move through the year. Corporate strength is measured by their earnings which are either paid out to shareholders as dividends, used to repurchase their own stock, or reinvested back into the business.
It is important that corporate earnings continue to grow, especially for smaller companies, since seven out of ten workers are employed by small companies. No matter what the outcome of the election is, incentives for the small business need to be kept as a priority since the economy and employment will go as they go.

Analysts point out that over the past six or seven months, corporate America is strengthening while attention has been diverted to rising interest rates, the price of oil, Iraq and the Presidential elections. While each of these identified diversions has an impact on the economy and therefore the stock and bond markets, they are nonetheless short term distractions. As the equity markets have bounced in a range since early spring, corporate earnings have risen nicely. Rising earnings amid flat stock prices lowers the price earnings ratio which over time has been a major statistic in measuring whether a stock is overpriced. The analysts we talk to suggest that the average stock PE ratio is between 14 and 17. The average ratio over time is around 15, so a case can be made that the current market is fairly priced. In comparison, the December 1999 PE ratios averaged between 30 and 35 with many telecommunication and tech companies over 100. The Federal Reserve is continuing its policy of raising interest rates very gradually to avoid hurting business' cost of capital while also keeping inflation in check. These interest rate increases have been expected and accepted by the markets. Bonds have held up surprisingly well despite all of the doom and gloom that was predicted at the start of this year. Although the bond principal is still at risk during rising interest rate periods, this cycle has come gradual enough to give bond managers time to adjust their portfolios to limit the downside and increase the income. Since this cycle of rising rates may continue for some time

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yet, you need to be careful about the timing of bond purchases and their duration.

The effect that Iraq, Russia, and the barrage of hurricanes have had on the price of crude oil has been dramatic and front page news. Every time the price recedes, it seems a catastrophic event occurs to fan worries about capacity and reserves. Shortages caused by the evacuation of drilling rigs due to hurricanes have been the last to blame for prices reaching $50 a barrel. These rigs are once again fully operational and any shortages will disappear, assuming the hurricanes have mercy. We are told that as supplies and production stabilize, the price of crude oil should recede to more acceptable levels.

The stock market has proved to be a very fickle animal in its history and there has never been a system devised that can accurately predict its movement for any reasonable time period. This point in history is no different. During the highest points in the market in 1999, enthusiasm was sky high and money flowed to overpriced stocks with no earnings potential. Everyone wanted into equities. Currently, the market is priced very fairly and many companies have fallen to prices that historically can only be called bargains. Day after day there are disturbing events in the media that have had the investing public sitting on their hands and their wallets. This is evidenced by the very low trading volume on the exchanges since early April. No one wants to buy. What may go down as the greatest mystery of all time is why, only in investing, do people want to buy at the highest prices and avoid shares like the plague when they have been reduced to a fraction of their highest cost.

One thing we know for certain is that Mr. Market surprises the most people at the most unexpected times. While investors sit waiting for the election to end, oil prices to decline, etc, etc this very well may be one of those times the surprise comes early and prices rise to reflect the positive environment mentioned above. The only time tested way to help avoid the emotional highs and lows in investing is to invest regularly. No one knows where equities will be in six or twelve months from now, but a balanced portfolio of quality companies has proven over time to provide very competitive returns. Don't be distracted by the noise.

Health Savings Accounts

Health Savings Accounts came into law in 2004 and provide an alternative solution to saving for health care costs. Deductible contributions can be made to the HSA where the money can be invested and grow tax free. Subsequently, qualified distributions for medical expenses are redeemed tax free. Non-qualified distributions will be taxed as ordinary income along with a 10 percent penalty. This certainly sounds appealing; however there are eligibility requirements and limits on contributions.

First, the individual must be covered under a high deductible health insurance plan. For self-only coverage the annual deductible must be between $1,000 and $5,000. The range for family coverage is $2,000 to $10,000. The plan must not pay covered expenses until the annual deductible is met, except for preventative care.

Second, the individual may not be covered under any other health insurance plan including a spouse's plan, parent's plan, or Medicare.

Third, the individual claiming the deduction cannot be a dependent on another person's tax return.

The maximum contributions depend on your high deductible insurance plan and type of coverage. For self-only coverage the limit is the lesser of your annual deductible or $2,600. Family coverage limits are set at the lesser of your annual deductible or $5,150. Additionally, if you are between the ages of 55 and 64 you can add an extra $500 for 2004.

An added benefit is that the HSA is portable and will remain with you if you change jobs. Of course, you must maintain your eligibility. Also, balances unused for the current year are carried forward to the next. Lastly, the HSA can pay for qualified Long-Term Care premiums or spouse and dependent Medicare Part A & B premiums.

To determine if this is best for you entails an analysis of various health plans, your eligibility, and spending patterns. If you wish to discuss this further please give us a call.

Tax

Tax Cuts Clear Congress

Congress recently approved a tax relief package to extend three popular middle-class tax cuts over the next several years. The legislation keeps the per child tax credit at $1,000, retains the expanded 10 percent income bracket and continues to provide tax relief for married couples.

The tax package also extends for one year current relief from the alternative minimum tax and 23 other more obscure tax breaks. The total cost of the tax relief was put at $131.4 billion dollars over the next 10 years.

Lesjak Planning

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

Market Summary
Year to Date

Dow Industrials	- 2.05%
Dow Transportation	+ 12.69%
S&P 500 Index	+ 2.71%
NASDAQ Composite	- 1.61%
Russell 2000	+ 6.42%
International	+ 4.36%

Annuities in Perspective

Elsewhere in this newsletter comments have been made about emotional investing. Lately, we have had the opportunity to witness the results of what we feel was investment advice given to take advantage of market fears. A rash of new clients we are working with have been sold tax deferred annuities when the markets were bottoming in 2001 and 2002. Most annuities we are reviewing are of the fixed type which pay a higher "bonus" rate the first year and then reduce in the following years to the market rates. These bonus rates are meant to lure you away from bank CD's, bonds or equities but have a very high cost. Most of these policies lock you into a penalty period of ten years or more with early withdrawal penalties of 10 - 15 percent of the contract value. We have even seen some with lifetime penalties that never end! When these investors are asked why they would ever sign for such a contract, they usually reply that they had no idea of the severity of the penalties.

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Fixed annuities have been around for many years and have a place for a select group of retirees. This newer breed though seems to be designed to highlight upfront benefits while minimizing any downside or costs. With interest rates so low, most of these contracts that came out in 2001 with a first year rate of 7-8 percent are now paying the minimum in the contract of 3-4 percent. We can only speculate that the popularity of these contracts is driven by a very generous commission schedule. Be very careful if presented with a proposal for any type of annuity. They are very costly to get out of if you decide later that they are not for you.

Equity index annuities have also been popular since the market decline. They are marketed to offer the upside gains of the stock market with none of the downside risk (remember the saying if it sounds too good to be true…?). All of these types of contracts place limits on upside potential as well as guaranteeing against loss. Be sure you fully understand these formulas before signing.

In considering a tax deferred annuity, you have to understand what they are meant to do. They are used to defer the tax on gains from the year earned until a time in the future when they are withdrawn. The idea was that if you were in your working years and you were in the higher tax brackets of say 28-35 percent, you would defer paying taxes at those higher rates until you retired and your taxable income; thus your tax rate would decline say to the 15-20 percent bracket. In the past these worked well when the brackets were high. Since we have had a series of tax cuts over the past decade or so, the benefits of deferral have been reduced dramatically especially if you consider the capital gains tax rate.

Using an index annuity as an example - Assuming you have earned income of $80,000 which puts you into the 28 percent tax bracket, every dollar gain that you withdraw will be taxed at 28 percent. Under current capital gains tax rates, if you held the assets in an index fund outside of the annuity and kept it for at least one year, any withdrawals would be taxed at the maximum capital gains rate of 15 percent. While there was a time when these types of contracts were beneficial, the current tax code and the severity of the newer penalty periods makes them hard to justify. Be sure to call us if you or someone you know would like an opinion on an annuity proposal received.

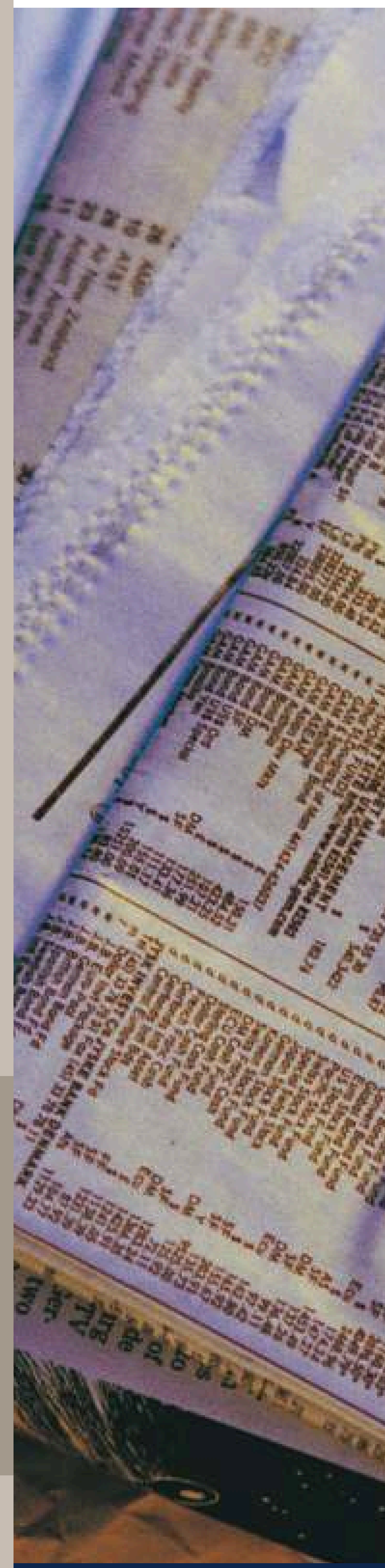
Investment Advisor's Act

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.

LPC Charity Golf Classic

On September 16, 2004, Lesjak Planning successfully held its First Annual Charity Golf Classic. 72 golfers participated in a 4 person scramble outing, with several skill contests, including a Hole in One competition. **We would like to extend our thanks to all of the players and sponsors who made this year's $10,000 donation to the Alzheimer's Association possible**. To view pictures of the event visit us on our website at www.lesjakplanning.com. Click on “Welcome” and then on “LPC Charity Golf Classic” and enjoy the pictures. We look forward to seeing everyone at next year's outing and also hope to increase the number of participants.

A relaxing day of golf and fun was had by all!



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