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BWFA Advisor

RETIREMENT & ESTATE PLANNING ♦ INVESTMENT MANAGEMENT ♦ TAX SERVICES

Baltimore–Washington Financial Advisors, Inc.

Refinance: Is now the time?



By Greg Milsom,
MBA

How do you decide if refinancing your home mortgage makes sense? Factors to consider are your tax bracket, the length of time you plan to stay in your home, refinancing costs and, believe it or not, your current outstanding mortgage balance. The chart below was developed to answer this question and shows the net savings or cost you can expect 5 years after refinancing. Various outstanding principal balances are shown down the left-hand column, while the net change in current versus market interest rates is located across the top. For

example, if your outstanding mortgage principal balance is \$175,000 and market interest rates are currently 1% below your current rate, by refinancing you will save \$1,903 over 5 years.

You have probably heard that it only makes sense to refinance if the new interest rate is at least 2 percentage points lower than your current rate. This chart illustrates that the amount of your current outstanding principal balance is just as important as the new interest rate you could receive.

5-Year After-Tax Net Savings/ Cost of Refinancing

When does it make sense to refinance? It depends on your mortgage balance, not only the change in interest rates!

		REDUCTION TO CURRENT INTEREST RATE			
		0.50%	1.000%	1.50%	2.00%
OUTSTANDING PRINCIPAL BALANCE	\$300,000	1,097	5,782	10,435	15,053
	\$275,000	708	5,007	9,275	13,512
	\$250,000	318	4,231	8,116	11,972
	\$225,000	(71)	3,455	6,956	10,431
	\$200,000	(460)	2,679	5,796	8,890
	\$175,000	(849)	1,903	4,636	7,349
	\$150,000	(1,239)	1,127	3,477	5,809
	\$125,000	(1,628)	352	2,317	4,268
	\$100,000	(2,017)	(424)	1,157	2,727
	\$75,000	(2,406)	(1,200)	(2)	1,187
	\$50,000	(2,795)	(1,976)	(1,162)	(354)
\$25,000	(3,185)	(2,752)	(2,322)	(1,895)	

Assumptions: 15-year mortgage; \$3,000 refinancing fees are rolled into outstanding balance; 34% combined federal and state income tax bracket.

What's Happening at BWFA

Did you see **Saxon's** quote in the Baltimore Sun's "Dollars and Sense" column on Sunday, July 28, 2002? The article had to do with options available to shareholders of companies that are in bankruptcy. Eileen Ambrose, the finance editor for the Baltimore Sun, has quoted all of the principals of BWFA at one time or another.

Our **website** has several investment news articles that are interesting and timely. You can view those articles by going to www.bwfa.com.

We are sending **broadcast emails** to those people for whom we have an email address. These emails usually link you to our website, where you can find articles we have written and other similar items of interest. If you are not receiving these emails and would like to be included, please give us your email address.

Tax Services



By **Bob Cassel, EA** 

It's Time to "Fine-Tune" Your Retirement Plan

When was the last time you reviewed your retirement plan? We don't mean the value of your investments, we mean the type of plan you are in, your contribution level, the elections you made, and the overall appropriateness of that plan to your current situation. The Economic Growth and Tax Reconciliation Relief Act of 2001 made sweeping changes to everyone's retirement plans. Are you taking maximum advantage of your retirement plan options? We think it's time for you to come in for a tune-up.

Here are some of the changes made to retirement plans:

- ★ Your maximum contribution limits have increased. They vary by the type of retirement plan.
- ★ There are catch-up provisions for persons 50 years of age and older.
- ★ You can now rollover those older retirement plans (from previous employers), such as 401(k)s, 403(b)s, and 457s, to your current employer's retirement plan or to an IRA. Please see our warning at the end of this article.
- ★ You can also rollover IRA accounts into your current employer's retirement plan (assuming they allow these types of rollovers). Please see our warning at the end of this article.

Everyone who has a retirement plan should pay some attention to the changes and review their retirement plan features. We've attempted to identify the issues for two types of clients, those that are employees and those that are self-employed.

Employees of a larger organization usually have only one choice for their retirement plan, a 401(k), 403(b) or 457 plan. If you have one of those plans, your review should focus on the following:

- ★ Am I making the maximum allowable contribution to my retirement plan?

- ★ Do I have older retirement plans from previous employers that could be consolidated into one retirement account or an IRA?
- ★ If so, to which plan should I transfer the assets? Which assets might not be transferrable?
- ★ Is my beneficiary designation correct? (For example, if you have had an attorney draft beneficiary language for your retirement plan, does your human resource department have that language?)

Self-employed persons have additional questions to ponder:

- ★ Do I still have the correct type of retirement plan given the changes to the tax law?
- ★ If I have employees, is there a better choice of plans available to me that meets all of my goals?—for example, maximizing my contributions to my own account, minimizing my administrative expenses, and rewarding key employees.
- ★ Is it possible to close and consolidate some older retirement plans into a new plan that gives me fewer accounts to manage, less administrative headaches, and more flexibility?
- ★ What are the various deadlines for opening some of these new types of plans? Is there still time to make changes for 2002?

Because of the changes to the tax laws and their effects on retirement plans, we feel that this is the ideal time to visit us and let us "fine-tune" your retirement plan configuration. Let's make it hum.

Warning: Employees will probably not want to put an existing IRA into their employer plans, because of the additional cost. While 401(k)s and other plans are generally advantageous to employees, these plans do have administrative and investment expenses which are usually charged back against the earnings of the plans. Participants pay for these additional expenses, in the same way they pay for no-load mutual funds, in the form of lower returns. These expenses can be avoided with an IRA.

Investment Management



By Saxon Birdsong,
MBA

Buying High & Selling Low?

That's What Investors Seem To Do

Many independent investment professionals and academicians have observed that mutual fund investors consistently buy when markets are at their peak and sell when markets are at their bottoms. We can see that

observation is true by watching the net flow of money into and out of particular types of mutual funds. While this tendency to buy high and sell low is true of all different types of investors (bond fund investors, growth fund investors, value investors, muni bond investors, etc.), the data in this article is specifically about stock (equity) investors.

If this pattern is really true, shouldn't we be able to watch what the majority of investors do, and then just do the opposite? As we have all observed, this is easier said than done. Virtually all investors are euphoric at the top and scared at the bottom. At the bottom, investor attitudes are such that there is very little confidence that things will change anytime soon and, therefore, no impetus to invest.

Investor's Business Daily, in their August 27, 2002 edition, included a table which listed the 11 months with the highest monthly outflow of money from stock mutual funds. With the help of Bloomberg and Lotus, we were able to identify the market returns during the 12 months following the months with the largest outflows. The expanded table appears below.

The table is ranked by "As a % of Total," where "Total" is the value of all money invested in stock mutual funds. In October 1987, for example, investors withdrew \$7.45 billion from stock funds, which was 3.17% of the value invested in all stock funds. You can see that, on a percentage basis, that was about twice as much as investors pulled in the next highest period—July 2002.

The next column over shows what happened in the 12 months following the largest money outflows. In October 1987, for example, the table shows that investors who didn't sell earned a 9.08% return. As a matter of fact, except for the markets of the last two years, investors have always made money in the year following the months of large outflows.

We also note that investors tend to withdraw more money in the month of August. August is listed in the chart 4 out of 11 times, or about 1/3 of the time. This is not an accident, since August also has the lowest trading volume of the year. Lower activity generally means lower equity prices.

Of course, we don't know what is going to happen in the next 12 months. But we can observe that money flows out of equity funds and several other indicators of market sentiment are clearly pointed in the right direction.

	WITHDRAWALS IN \$ BILLIONS	AS A % OF TOTAL	PERFORMANCE NEXT 12 MONTHS
Oct. '87	(\$7.45)	3.17%	13.12%
Jul. '02	(\$49.00)	1.60%	N/A
Nov. '88	(\$3.03)	1.59%	30.77%
Aug. '88	(\$2.84)	1.49%	39.16%
Aug. '90	(\$2.75)	1.05%	26.85%
Sept. '01	(\$29.96)	0.89%	N/A
Mar. '01	(\$20.69)	0.57%	0.24%
Jun. '02	(\$18.04)	0.54%	N/A
Aug. '98	(\$2.84)	0.42%	39.81%
Aug. '01	(\$4.95)	0.14%	-17.99%
Feb. '01	(\$3.29)	0.80%	-9.51%



Retirement & Estate Planning

BWFA launches new service for younger clients



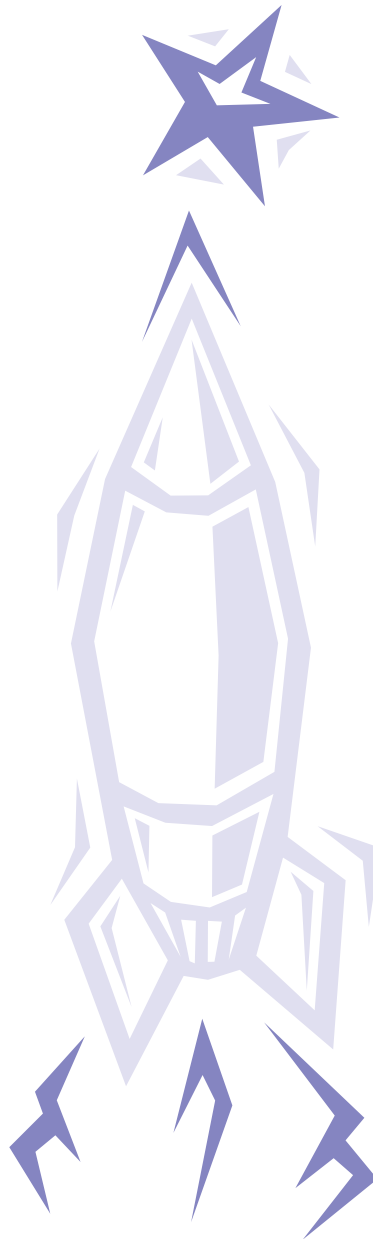
By Kim Anderson, 

John and Judy Green were a young couple in their early 40's with two children to get through college, a goal of retiring while still young enough to enjoy it, and a hodgepodge of investments and old

401(k)s that they had accumulated over the years. They decided to look for a financial planner who could help them get on track. They wanted to know if they were saving enough for retirement and needed a plan for paying for the college costs looming in their future. They also needed some help with their investments. They knew they wanted the objective advice of a fee-only planner, so they set up interviews with the few they could find in their area. The planners they interviewed showed them examples of wonderful, detailed financial plans that would address all of their concerns, and even those they hadn't thought of, such as ideas for lowering taxes. The problem was the fees for these plans started at \$4,000. While the Greens felt sure a comprehensive plan would be an investment that would likely "pay for itself," they just didn't have the \$4,000 available to pay for it. They returned home discouraged and not sure where to turn next.

This scenario is all too familiar. Here at BWFA we have been aware for some time that the needs of younger people are not well served by the fee-only community. While we have always had a policy here of trying to work with anyone that comes to our office and needs our help, we haven't had a service specifically designed for this group, until now.

As a result of its relationship with the APL Federal Credit Union and the needs of APL's



members, BWFA created a new financial plan called the Pre-retirement Plan. This plan is designed for people who are more than five years from retirement, and who do not have complicating financial issues, such as stock options, the death of a spouse, complex estate and trust issues, or their own businesses. This plan provides a general assessment of a client's situation and provides specific recommendations on how to secure and improve their financial future. The plan will tell people how much they need to be saving to meet their goals for retirement or college educations, and other goals, such as major home improvements or a vacation home. It will also provide recommendations about how to invest their money, ways to save taxes, and what should be included in their estate plan. Finally, the plan will review their life, disability and liability insurance to make sure the clients are properly covered. The plan is modular, so it can be tailored to the specific needs of a client in terms of price and content.

People in this age group have a significant need for financial advice and direction. However, they are also in the "highest consumption" stage of life with just about everything they are making going to raise their families and meet their daily living expenses. They often do not have the excess cash flow to afford good financial advice. At BWFA, we have created a financial plan that provides the elements most critical to this group: retirement savings, college funding, investments, and insurance. And we have kept costs low by providing bullet-pointed recommendations with only a few supporting graphs and spreadsheets.

This new service finally meets the needs of people like the Greens, providing objective, fee-only advice for pre-retirees at a price they can afford.