



Financial Solutions

Direction to Help You Explore Your Dreams, Reach
Your Goals and Discover Peace of Mind

First Quarter 2006

Greetings,

Topics in this newsletter concern risk, investments, and disaster planning.

Please find enclosed your annual copy of our privacy notice. It is also time to remind you that you have the right to have a copy of Financial Solutions' most recent version of ADV Part II, our official document on file with the State Corporation Commission in Richmond. It explains which services we provide and which we do not. It also explains our compensation practices. Financial Solutions filed an amended copy of the ADV Part II in late September. If you wish to have a copy, please call the office and one will be sent to you by certified mail.

During 2005, we updated our private, encoded office networking system and are satisfied with its security level. We use several software programs, including Ad Aware and Norton Antivirus, to protect our privacy and yours.

We are in the process of acquiring software so that we can send you reports on any investments you hold through us with Ameritrade Advisor Services. We are working on the data management to be able to send 2005 year-end reports soon and quarterly reports thereafter.

We are also in the process of adding additional services and personnel and will have information about these additions in the next newsletter. As always, our focus is on our mission to improve quality of life. Financial Solutions believes the way to do that is to help you achieve your goals.

A Little Extra Confidence— We are happy to announce that John passed the board examination to become a CERTIFIED FINANCIAL PLANNER™ in November. We were notified in January that he met the work experience and educational and ethical standards that the board requires.

Pundits- No one can predict with a high level of accuracy what any of the various markets (bonds, stocks, commodities, currencies, etc.) will do in the next year or two. The expert opinions that will eventually be flouted as amazingly correct predictions are now only guesses that have a chance of coming true. As we all know, something is going to happen- and whoever guesses right can claim to be a winner!

The pundits are talking about the real estate bubble and are divided over whether housing prices will drop suddenly or ease gradually. It is NOT true that you can't lose money in real estate. It is time to be cautious.

Other question marks include the flattening of the yield curve in the bond market, energy prices, and both natural and unnatural catastrophes. The natural types may be expected to continue at an alarmingly high rate. Studies are conclusively confirming that recent weather extremes are highly correlated to global warming. We support research and practical efforts to reverse this alarming trend.

Investment Strategy- The most important factors for having enough money in retirement or for any other goal are saving enough on a regular basis and holding on to what you have saved. We strongly suggest careful budgeting, spending and savings planning. **As always, the best investment and risk protection strategy is diversification according to your risk tolerance.** It is foolish to put all eggs in the proverbial basket. No matter the size of your portfolio, you need to divide your funds among asset classes, subclasses and account types. For example, large-cap funds are an asset type, value-oriented and growth oriented funds are subclasses, and 401(k), IRA, Roth IRA and standard taxable are account types.

If you are an investor with small accounts, you might be better off in “balanced,” “life strategy,” or “target-retirement” type funds that will keep your account diversified automatically without the increased cost of holding many funds. Generally speaking, an \$11 stock/etf or \$18 mutual fund trading cost might be reasonable on an investment of at least three thousand dollars but might be high on lesser amounts. The larger your account, the more you might benefit from an increased number of funds, but there is a point of diminishing returns at which you realize very limited increases in profits with definitively increased costs.

Tying Your Risk Tolerance to an Optimized Portfolio

As many of you know, we use a top-of-the-line, scientifically measured 25-question assessment to provide you with a thorough risk profile and a “risk level” assignment from one to seven. You take our risk profile assessment on paper or online. We process it, review the results with you, and show you several risk management concepts. Then we work closely with you to modify your profile based on your needs.

After we review your risk profile together, we design a portfolio that you will feel comfortable with in the majority of “down” markets, a portfolio that should provide a reasonable long-term rate of return for your level of risk. Technically speaking, we will create a statistical model with 95% and 99% confidence intervals that your returns will fall at or above your lowest risk tolerance.

Over the past few months, we have researched a broad spectrum of stock, bond, balanced and commodity mutual funds and ETFs (stocks designed somewhat like mutual funds) to develop five diversified model portfolios that run a continuum from low risk to high risk. These model portfolios are designed for risk profile numbers two through six since 98% of the population falls into those profile levels. The model portfolios are intended to provide the highest potential diversified return for your personalized level of risk and should be adjusted to meet your personal preferences.

Let’s look at an educational resource developed to show you how your risk level might be tied to a portfolio with a very high level of performance.

Educational Risk/Return Diversified Portfolio Table

This table is a demonstration and not a solicitation or offer for investments. It is a) approximate b) based on only the last ten years of historical statistics, from 1/1/1996 to 12/31/2005, and c) unlikely to be indicative of future returns. These returns are almost as high as portfolios based on past results can be designed. We did include a few funds that have underperformed because we expect them to outperform in the near future. The time period used included a major bear market from late 1999 to late 2002, so we feel risk indicators are reasonable. For planning purposes, we suggest reducing the historical 10-year return in Column E by 1-3% in .5% increments, starting with -1% for Level 2 and working up to -3% at Level 6. We do not wish to over-project potential growth.

Level	Description	Approximate Risk of Loss per Year at <u>95%</u> Confidence Level (10 Year Data)	Approximate Risk of Loss per Year at <u>99%</u> Confidence Level (10 Year Data)	Approx. <u>Maximum Historical</u> 10-Yr Return Per Yr
2	Very Conservative	0%	-3.71%	7.47%
3	Conservative	-3.16%	-9.43%	9.38%
4	Moderate	-4.73%	-12.37%	10.55%
5	Growth	-7.83%	-17.66%	11.83%
6	Aggressive	-8.98%	-19.43%	11.92% (with no individual. stocks)

While we can make no predictions or guarantees about the risk or return of any of the various investment markets, we believe that our use of qualified historical trend analysis may provide a better level of understanding and confidence about the relative scale of your portfolio performance compared to the general stock market. I (John) will continue to look at future trends and manager capabilities rather than to past performance alone and to keep track of each recommended stock or mutual fund carefully. You can rest assured that I will advise you in the same way that I would advise my mother or any other close relative if she were at the same level of risk with which you feel comfortable. **It is certainly possible, however, for markets to have more extreme conditions that could take any portfolio outside a planned comfort zone.**

Disaster Recovery/Business Continuity Plan - Recent disasters in other parts of the country have affected some of our friends and their family members. Preparedness should be on all our minds. Here are some things we can do before trouble strikes:

Evacuation Safe or Box – It's a good idea to have a fireproof and waterproof safe to store and protect your valuables and important papers. For evacuation, you will need something portable. Buy a sturdy box in which to put items for evacuation. Consider including backup money, important papers such as your financial plan, passport(s), insurance and estate planning documents, a list of creditors (include address, account numbers, and phone numbers), and backup copies of your insurance video and computer hard drive(s). In the

event that you have to leave immediately, you have a box to transfer to and go. It probably won't have everything you will need, but you can rest more comfortably knowing you have the essentials.

Scanning- For non-original documents you will eventually need if destroyed by fire, flood or other disaster, a wonderful way to retain copies is electronically. You may be able to do this yourself with your computer and printer/scanner and reasonably priced software such as Paper Port. Financial Solutions started scanning important client documents in 2005, with disaster planning as one of the reasons. If you misplace a copy of an important document you provided to us, we will generally be able to provide you with a replacement copy.

Contacts- After Katrina, many people had no idea where members of their families had gone. How will your family stay in contact if a disaster separates you? The Red Cross suggests that you plan local meeting spots, one near your home and one outside your neighborhood. Have an out-of-state contact person and make sure everyone in the family knows the name and phone number. Young children will need this information repeated periodically. Our local Red Cross chapter can provide "Your Family Disaster Plan" and an "Emergency Preparedness Checklist."

Flood Insurance –Storm surges from hurricanes Katrina and Rita flooded areas not considered at risk for flooding. The ensuing water damage was not covered by homeowner's insurance policies. We highly recommend considering coverage in light of recent and forecast extremes in global weather patterns.

Take Time - Take time to work; it is the price of success. Take time to think; it is the source of power. Take time to play; it is the secret of perpetual youth. Take time to read; it is the foundation of wisdom. Take time to be friendly; it is the road to happiness. Take time to dream; it is hitching your wagon to a star. Take time to love and be loved; it is the privilege of the gods. Take time to share; life is too short to be selfish. Take time to laugh; it is the music of the soul. – Anonymous

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