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RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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Advance Directives – A Most Important, Yet Simple Aspect of Estate Planning

Advance directives are formal instructions carried out in the event that you become unable to take care of your financial affairs due to disability or illness. Having these in place are important for people of any age.

First is the durable power of attorney. This document gives another person the power to act on your behalf in the event you are unable. You can make it as broad or limited as you desire. While many people have an attorney prepare this document, many can find a sufficient pre-printed, state-approved form at a good office supply store. You select a person that you trust, usually a family member, who can execute your financial affairs, such as pay bills, sell property and transact business on your behalf. Without such a document, your bank, securities firm or title company will not accept any instructions from your family. In fact, your family would need to go to court and receive a ruling to act on your behalf. This can be an expensive, slow and unnecessary process.

The other more common document is the health care power of attorney, which empowers another to make medical decisions when you cannot. For example, someone may need to decide which procedure would be best in discussion with your doctor, or whether a certain operation should be performed. Do not confuse this with a living will, which is a document normally used to communicate your specific instructions regarding life-sustaining measures.

As you can see, having these documents prepared and others delegated to assist you is critical. These must be prepared in advance and any responsible adult of any age should have these in force.

If you would like a referral to attorneys who are knowledgeable in these matters and that can assist you, please give us a call.

Long-Term Care – The Facts Reveal Many Misconceptions

The Health Insurance Industry Association has released its study of *Who Buys Long-Term Care Insurance in 2000*. The facts from this report reveal many commonly held myths:

- *Long-term care insurance is for old folks.* The fact is that 1/3 of all people who obtain long-term care insurance are under age 65. Many people realize that debilitating illness creating a need for long-term care can happen at any time and at any age.
- *Long-term care insurance is bought by people who are not financially sophisticated.* The fact is that buyers of long-term care insurance policies are on average wealthier than non-buyers.
- *The government will pay.* Non buyers of long-term care insurance are twice as likely to have this misconception than buyers of long-term care insurance. The fact is that Medicare pays only a fraction of long-term care expenses for, on average, a limited number of weeks.
- *Long-term care insurance is expensive.* The fact is that the average premium paid on long-term care insurance in 2000 was \$1677. This is only an increase of 12% from 5 years ago.
- *I would buy if the premium were deductible.* Non-buyers were 3 times more likely to be unaware that under many circumstances, premiums may be tax deductible.

- *I'll just have my kids take care of me.* Long-term care continues to be one of the largest single out-of-pocket expenses faced by seniors and their families. The fact is, many children do not have the time, and are unable to take care of an ill parent.

If you are not sure that you have all of the facts, you can get them for free in *The Shoppers Guide to Long Term Care*. Just check off on the coupon and we will be happy to send it to you.

Long Term Care Insurance – Even For Those With Illness

Don't assume you can't get insurance even if you have an illness. Companies vary tremendously in the way they look at common illnesses like diabetes, arthritis, heart attack, cancer, stroke, etc. There are different long-term care insurance companies which will accept people with many of the above conditions. The trick is to find the company that will accept your condition.

Each company has a list of "underwriting guidelines" that spell out which illnesses can qualify for coverage and under what conditions. Generally, these are only distributed to insurance agents and not to the public. Note also that these are only "guidelines" and not "rules" which can be important.

When an insurance company reviews your medical files, they make a subjective decision whether to accept or reject your application. Because these decisions are subjective, different companies will have different guidelines. Moreover, the data that your agent can provide on the application may positively influence the underwriter which can help in your favor. For example, a statement that you volunteer everyday, have never had a traffic ticket and are a master bridge player may indicate to the underwriter at the insurance company that your illness does not stop you from common activities, and may not be an important factor in the risk of providing you coverage.

How do you know which company looks more favorably at various illnesses? You must consult with an experienced independent agent who is familiar with many companies' policies. If you have a condition on which you would like some feedback about your insurability, mark it on the enclosed coupon.

In Search of "Good" Returns

Most investors are constantly looking for investments with a "good" return. In doing so, many are guessing and forecasting the future. No matter how well an investment has done in the past, you learn nothing about how it will do in the future, ("Buying Unloved Funds," Morningstar Commentary 2/21/01). Therefore, you can either select investments based on someone's guess about the future, or you can select investments based on a risk tolerance profile, which appear to be more reliable over time as a forecasting method ("Predicting the Future" Morningstar Commentary 9/1/95).

Now you can have your risk tolerance level determined, and more professionally select investments based on those with a risk tolerance profile in which you are more comfortable. Hopefully, in doing so, together we can select investments which coincide with your risk tolerances. This comfort level may help you stay in an investment program over a longer period of time, which might improve your chances for higher long-term returns.

Just return the reply coupon to arrange for a time to conduct a free risk tolerance profile.

Equity Indexed Annuities – Many Look Similar, But...

The numbers are not in yet for the year 2001, but investors snapped up over \$5 billion of equity-indexed annuities in 2000. These annuities provide a guarantee of principal just like a traditional fixed annuity. However, the interest rate credited each year is based on the performance of the S&P 500 index. If the market goes up, interest is credited to your account. If the market goes down, your balance will not decline below your original investment.

In comparing equity-indexed annuities, the feature to focus on is how each company credits the interest to your account. Insurance companies use the term "participation" rate to calculate how much of the S&P 500 index change will be credited to your account. Depending on the way the annuity contract is written, the investor may not enjoy all of the investment returns they could have otherwise.

Some companies use the average change in the S&P

500 index for the year in calculating your interest. In other words, they record the S&P 500 index on the first day of each month. So why would an investor choose an index annuity with averaging? Those investors may prefer a higher participation rate than "point-to-point" contracts, and would like to lower the volatility associated with the equity market.

Another feature which I recommend is the "annual reset" option, which locks in the contract owner's gain each year, as opposed to a three-, five-, or nine-year reset. With a longer reset option, any growth may not be realized during the vesting period. With the annual reset feature, if the investor earns a hypothetical 10% one year and the market falls the next, that 10% gain is locked in and becomes part of the minimum guaranteed balance by the insurance company.

Index annuities can be very attractive because of the combination of the guarantee provided by the insurance company and an interest rate which is based on the performance of the S&P 500.

If you currently have an annuity and would like to have it reviewed, or have an interest in tax deferred investments, just check off on the coupon for a free brochure.

Do-It-Yourself Investors

Have you ever wondered how the "do-it-yourself" investors are doing? There is a recent study by Terrance O'Dean of the University of California at Davis, which may give you an answer.

He analyzed the daily trading records and monthly positions of 88,000 investors at a large discount brokerage. The data span 10 years and over 2 million common stock trades. His conclusion was that the investors in the studies traded too actively, were under diversified, clung to their losers, and bought the stocks that happened to grab their attention. They were motivated by overconfidence, the desire to avoid regret, and the difficulty of evaluating thousands of investment alternatives.

Remember that this was a study of people with discount brokerage accounts—people who thought they could do it on their own. But it seems that the surer they were, the worse they did. This study found that 20% of the investors who traded most earned an average net annual return 5.5% lower than that of the least active 20% traders in the study.

In a smaller study of 1600 investors who opened on-line brokerage accounts, it was found that those investors traded more and their speculative trading nearly doubled. And here's the interesting point: these investors earned exceptional returns before going on-line and after going on-line, they under performed the market.

According to this study, this is the profile of a truly experienced, sophisticated investor: He or she realize that they cannot consider all investment possibilities, that they are influenced by the news and emotional reactions, that they are overconfident, a common American trait proven in several studies, and will not take a loss when they should. As a result of knowing themselves, many wise investors hire professionals to manage their finances realizing that any fees paid can be far offset by avoiding the errors that they might make on their own. However, the use of an investment professional does not guarantee superior investment performance.

For more information, check off on the coupon for the booklet about systematic investing.

Upcoming Workshop

"Unlocking The Secrets To A Successful Retirement"

How To Avoid Making Ten Common Investment Mistakes!

**Fish Nest Restaurant
Highway 270 West
Malvern, Arkansas**

Monday, April 15, 2002 6:00 PM
Thursday, April 18, 2002 6:00 PM

Dinner will be served, but seating is limited.

Call 501-316-3100 or 800-468-3007 to make your reservation.

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Please send information on these topics mentioned in your newsletter:

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- Please send *The Consumers Guide to Long-Term Care*.
- Please contact me for a free Risk Tolerance Profile.
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