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Branch Manager

RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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A Christmas Message

Christmas is a special time that brings family and friends together. As we sing old hymns and family carols, we show our love for others by giving gifts, and observing the hallowed traditions that makes this season special.

In the midst of extraordinary times, we as Christians have shown the world that though there is great evil, there is a greater good. Christians have given of themselves, sacrificing to help others and showing the spirit of love and sharing that is so much a part of the Christmas season.

According to the Gospel of Luke two thousand years ago, the savior of mankind came into the world. Christians believe that Jesus' birth was the personification of God on earth, opening the door to new hope and eternal life. This Christmas we continue to remember those who are without their loved ones. They continue to be in our hearts and prayers.

My family joins me in extending our best wishes to you and your family for a very Merry Christmas and a Happy New Year!

Fortify Your Nest Egg

We all know that Social Security is on shaky ground. And Americans as a whole, aren't saving enough. In other words, the retirement prospects for a lot of people are looking pretty grim.

Perhaps that is why, as part of last year's new tax laws, Uncle Sam decided to increase the contribution limits to Individual Retirement Accounts (IRAs) and employer-sponsored retirement plans. Starting this year, you can sock away more money in tax-advantaged accounts, and maybe reduce your taxable income also.

Here are the details:

- ⌚ **IRAs:** The contribution limits have increased to \$3,000 per year for traditional and Roth IRAs. The limits will increase to \$4,000 in 2005, and \$5,000 in 2008.
- ⌚ **401(k), 403(b), and 457 plans:** The limits will increase to \$11,000 for 2002, and will increase \$1,000 each year until they reach \$15,000 in 2006.
- ⌚ **Catch-up contributions:** If you are 50 years old or older, you can make an additional \$500 contribution to your IRA and an extra \$1,000 to your plan at work.

Is putting away an extra thousand or two such a big deal? It sure is. For example, using the previous Roth IRA limit of \$2,000 a year (or \$167 per month), a person would have \$144,562 after 20 years (assuming an annual return of 11% -- the historical average for stocks). However, if that person increases his or her annual contribution to the new limit -- \$3,000 a year, or \$250 a month -- he or she would have \$216,410 in 20 years. That's a \$71,848 difference!

Now is the time to adjust your retirement plans:

- ⌚ If you have money automatically transferred to a retirement account, increase the amount of your contributions.
- ⌚ If you need to open an IRA, give us a call.

If you aren't sure that your retirement plan is on track, consider coming by my office, or give me a call to schedule a time for a retirement plan review. We are here to help.

What is Asset Allocation Anyway?

Once you have accumulated two nickels to rub together, it's a good idea to keep them in separate pockets -- and not in the same pants.

Asset allocation is about not putting all of your eggs in one basket. It is the ultimate protection should things go wrong with one investment class or sector, as is likely to be the case from time to time.

For example, many of us loaded up on stocks in the late 1990s. When the market corrected in 2000, we experienced steep losses. Depending on what your holdings are and how they were affected by market conditions, this stock market correction has left many of us hurting.

Or, you may put your money into bonds. Yet the bond market, too, has its ups and downs. Disgusted with that market, you can put your money in a money market account. However, though virtually bomb proof, money markets provide far lower returns. After all, less risk means lower rewards.

Moreover, a bad year in the stock market may show up as nothing more than an insignificant blip by 2010 or certainly by 2020. This is because the stock market has historically been the best long-term investment vehicle -- one that can deliver an average return of more than 10 percent annually for those willing to stick it out for the long haul.

In the short term, however, the stock market is more volatile than other investments. Consequently, investors with less risk tolerance -- and this generally includes people who are close to retirement age -- should put less money into the stock market and invest more in bonds. Younger people, however, can take on more risk because they have a longer investing time horizon.

Your risk tolerance and goals will determine how much you put into each of the three investment classes - stocks, bonds, and cash or money markets. Asset allocation is the process of dividing your money among different investment vehicles. The purpose of asset allocation is to find the ideal combination of asset classes in order to balance your expectations for returns with your concerns about risk.

Why is Asset Allocation so important?

Asset allocation can help you:

- ⌚ Diversify Your Holdings.
- ⌚ Balance Risk and Reward.
- ⌚ Plan for the Long Term.

Diversify Your Holdings

Diversification is a way to lessen the risks of investing by spreading your investment dollars over a greater number and variety of investments.

However, numbers alone will not provide proper diversification. In order to get diversification right, your investments need to properly balance each other out. An investment portfolio consisting of three different asset classes may appear diversified, but if they are all invested in the same area of the market, such as large, fast-growing stocks that dominate the S&P 500 stock index, then the portfolio is not truly diversified. If those type of stocks slump, then all of your assets may decline in value and your portfolio could be significantly reduced.

That is where proper asset allocation can help. Asset allocation puts the principle of diversification to work at the level of asset classes, rather than individual stocks.

Balance Risk and Reward

If your goal is to eliminate risk, you can put your money into a savings account. But the purpose of investing is appreciating your assets in order to achieve future goals, such as retirement or educating your children. Unfortunately, there is always a trade-off - appreciating your assets means that you will need to take additional risk. The good news though, is through proper asset allocation, you can manage risk without surrendering too much in future returns.

Plan for the Long Term

One of the biggest mistakes that you can make as an investor is to focus on the short term - by worrying about the day-to-day fluctuations in the stock market or chasing hot performers. Proper Asset allocation helps you plan for your important long-term goals, which are often years away.

Comprehensive Planning and Asset Allocation: How It Works

When we conduct a Comprehensive Plan, we utilize a portfolio planning tool in a compact, yet sophisticated, package.

Features of this Service Include:

- ⌚ A quick and direct questionnaire to help you assess your investment goals and risk tolerances.
- ⌚ Broad asset-class allocations powered by leading-edge portfolio-analysis techniques.
- ⌚ Clear direction on investment category allocations.

Fine-Tuning Your Portfolio

Grounded in sound statistical research and seasoned judgment, a Comprehensive Plan allocates the balance of asset classes that will provide you with the highest expected returns, given the amount of risk that you are willing to take. Of course, we do all the computations behind the scenes, using an advanced mathematical approach that combines the power of computers with the knowledge of modern financial theory. But I will also apply my own measured assessment of the markets. As a result, the solution provided to you will be precise, clear, and straightforward.

What Factors Are Included in the Comprehensive Plan?

- 🕒 Asset-class correlations
- 🕒 Historical performance
- 🕒 Current market conditions
- 🕒 Volatility

The Comprehensive Plan Process

The Comprehensive Plan works in four easy steps.

Step 1.

Investor Questionnaire

The questions that you will answer are designed to determine your true risk profile. These questions take three approaches to assess your attitude toward risk:

- 🕒 **Time Horizon** — to learn how long you plan to invest and what your future income needs may be.
- 🕒 **Goals and Expectations** — to gauge your long-term outlook for how an investment should perform.
- 🕒 **Short-Term Attitudes** — to measure your responses to short-term volatility. As part of the questionnaire, you will learn whether your needs and goals are comparable with your expectations for performance and risk.

Step 2.

Broad Asset Class Allocation

Based on your goals and how much risk that you are willing to take, together we will choose one of five broad asset-allocation portfolios. The most risky is the Aggressive model, the most conservative is the Preservation model. Each model will establish an allocation among stocks, bonds, and money markets for each model portfolio.

It is important to note that each asset-allocation option is intended to be long-term investment choices. Therefore, they should not need to be changed in response to short-term fluctuations in the market.

Step 3.

Category Allocation

Each asset class can be divided into more focused investment categories. For example, you do not want to invest entirely in small companies, which can be more volatile, nor do you want your bond portfolio to be completely in long-term bonds, which can be hurt when interest rates rise. My recommendations will hopefully help you to achieve a balance among different investment categories in order to smooth out the inevitable bumps and dips that you will encounter over many years of investing.

Step 4.

Portfolio Selection

Once you have examined and understand the allocations assigned by the Comprehensive Plan, I will help you to select the best investments for each category. We will then have periodic reviews in order to ensure that the available investment options are placed in the proper categories.

Give me a call, and we will set up a time, either in person or by telephone, to conduct a Comprehensive Plan.

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