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RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

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Weathering Market Volatility

Despite the stock market's rocky performance over the past year, I don't believe that the bull market is over. In fact, bull markets never die but they do take a rest now and then.

I believe that the current market volatility which we are experiencing is temporary, and the bull market will continue. On the other hand, over the short term, I don't know where we are headed but believe with great conviction that over the long term, that the stock market is poised to go significantly higher from here.

If you are worried about the recent market volatility, try taking a long-term view instead. Remembering that past performance cannot guarantee comparable future results, since 1900, the stock market has registered more than twice as many up years as down years. Also, since 1900, investors have enjoyed double-digit returns in 55 out of 69 years, and returns higher than 20% in 38 years, with only 8 years of losses greater than 20%.

Sure, the stock market was up roughly two out of three years since 1900, but what about the down years? The market's 32 down years averaged -13.19% return, but the 69 up years averaged 22.39%. And, the market has experienced back-to-back down years only once since World War II, which was 1973 to 1974. The point that I'm trying to make is that the positives have out-performed the negatives, and that it is important to keep your eye on your long-term goals.

Long-Term Trends Appear Favorable

I believe that the Federal Reserve is back on track by lowering interest rates three times since January 1, 2001, and that it will do so again by the next Fed meeting on May 15th.

The Fed has fought inflation incorrectly for almost two years, and its tight money policies has obviously hurt the economy and the stock market. But the basic money supply controlled by the Fed, which fell 15 percent last year, is now rising at a 10 percent rate. With lower interest rates, record home mortgage refinancing is also providing a tremendous dose of liquidity into the economy. Energy prices have dropped 25 to 30 percent from highs last year, and the futures and bond markets expect inflation to be only 1.5 to 1.7 percent for the next 12 to 18 months.

Couple the decrease in inflation with more liquidity coming from the Fed, and more liquidity coming from home mortgage refinancing and the impact of lower energy prices, I believe that we have a pretty good mix of factors which lead me to believe that the future economy is going to recover, and is going to be much better than what we have experienced over the past nine months.

Meanwhile, I believe that huge projected federal budget surpluses combined with the recent economic downturn is setting the stage for a broad-based tax reduction. I hope that President Bush's proposal to cut tax rates across the board will go further and also cut capital gains and corporate taxes. I've read that Senate Majority Leader Trent Lott supports cutting the capital gains rates from 20 percent to 13 percent. I don't believe that anything would help revive the technology sector, as well as entrepreneurship, more than a capital gains tax cut.

Therefore, I believe with great conviction that the long-term prospects of our economy and the overall stock market look extremely favorable. Patterns of improved economic growth and stock market performance, decreasing inflation and government influence over the past 20 years, will help push the stock market higher over the next 20 years. I also believe that the 13 percent annual growth rate in the Standard and Poors 500 index for the last six years will also continue. I also believe with equal conviction that in the next 20 years that we will do at least that well, or better in the overall stock market.

Timing The Stock Market

With the recent stock market volatility, many investors have been tempted to try to time the stock market. The best advice which I can give them is: ***Don't!*** Nor should investors shift funds from one investment to another simply because one shows higher returns in recent months. Here is why:

Market shifts can be sudden and dramatic over short periods. Minor shifts are a fact of life in the stock market, and major changes sometimes come swiftly. Stocks are traded in markets that are highly charged with a mixture of fear and greed. Major news developments can cause sudden reversals, and large moves up or down can be compressed into brief periods.

You may be shooting where the rabbit was. A common tendency is to switch into the investment option that performed best last quarter or last year. Acting on limited historical data can be risky, because *past performance is no guarantee of future results*. Last quarter's hot investment may cool in the next quarter.

So what should you do? I believe that your best option is to select a combination of investments that fits your individual situation, your age, when you expect to retire, and your ability to sleep when markets are in a turmoil. If you are young, for example, you can generally afford more risk, and may emphasize stocks in your investment mix. History is on your side. On the other hand, as you approach retirement, you may emphasize more conservative investments such as bonds. The closer

you are to retirement, the more disastrous a knee-jerk investment decision turned sour can be for you. If you would like a review of your investment portfolio, please check off the attached reply coupon.

Education IRAs

Last month, I briefly explained the difference between the various Individual Retirement Accounts (IRAs). This time, I have another IRA to tell you about. It is the Education IRA.

Education IRAs are for the benefit of those under the age of 18, and are quite different from other IRAs. Beginning January 1, 1998, anyone can contribute up to \$500 a year to an Education IRA for a child, providing the contributor is either single with income up to \$95,000, or married filing jointly with income of \$150,000 or less. However, you do not have to have earned income to contribute. Furthermore, the ability to contribute to an Education IRA is completely lost if a single person's adjusted gross income is above \$110,000, or \$160,000 for joint filers. The contribution is phased out in between those ranges.

As long as the Education IRA beneficiary's higher education expenses, such as books, supplies, equipment, tuition and fees, and part of the room and board if enrolled half time or more, are equal to or more than the Education IRA distribution for the current year, then the distributions are tax free. In most cases, a 10% tax is added on, if the distributions are greater than the qualified expenses. In addition, the beneficiary has 30 days after turning age 30 to use the Education IRA funds. If any balance remains in an Education IRA after all education expenses are paid, then the account can be rolled over to another family member who is eligible. If the recipient reaches age 30, and the balance has not been rolled over, the Education IRA will be converted to a regular investing account, with income taxes and a 10% penalty due.

To open an Education IRA, you will need to provide:

- The name, Social Security number and date of

birth of the child receiving the account.

- The name, Social Security number and signature of the child's parent or legal guardian, and the name and Social Security number of the individual initially funding the account, if he or she is not the child's parent or legal guardian.

Obviously, there are other requirements and details, which cannot be fully explained here. If you think that an Education IRA sounds like something that would be a benefit to you, give us a call, or check off the attached reply coupon for more information.

Viaticals – A Word Of Caution!

With investors on the lookout for high earning, safe investments, there are a number of investments touted, which may or may not have merit. I am cautioning my clients to avoid viatical settlements. In fact, according to the March 19, 2001 issue of *Forbes Magazine*, "The viatical industry has been hit with a batch of outright fraud complaints."

In these arrangements, the investor provides a sum of money, usually through an insurance agent, to buy an existing insurance policy on the life of someone who needs money now, rather than waiting for the payoff at death. When the insured person dies, the investor receives the death benefit.

Take the example of Mrs. Jones. She has a number of illnesses and high medical bills, which she cannot afford. However, she has a \$100,000 life insurance policy. She sells the policy to an investor for \$60,000, and is happy to have the \$60,000 to pay her bills and live more comfortably for the time that she has remaining. If Mrs. Jones dies next year, the investor would have made money by collecting the \$100,000 only one year after investing – a 66% annual return. However, if Mrs. Jones lives another 5 years, the investor still receives the \$100,000, but must wait 5 years for payment – an annual return of 10.7%.

A big problem with viatical settlements is the time

until collecting the death benefit. Viatical companies claim that they retain experts to estimate the remaining life of the insured. A patient diagnosed to have 2 years to live, could still live another 10 years. Some viatical firms do not provide enough information to show that the patients even exist or that their policies remain paid up and in force.

Another problem with this investment, in my opinion, is the lack of regulatory oversight. And don't count on government regulators to monitor the industry. "No one can stop viatical firms from thumbing their noses at regulators," says Joseph Belth, professor emeritus of insurance at Indiana University. There are 25 states with no licensing requirements for viatical sales.

Is this a security or insurance policy? Does the securities commission or insurance commission have responsibility for reviewing this product? Most states are still trying to decide this issue. Most viaticals that I have seen only have an attorney as trustee, versus a bona-fide Trust Company.

To learn more about viatical settlement scams, visit: <http://www.viatical-expert.net>.

Before you invest in something of this nature, have the information reviewed before placing funds at risk. We are here to help.

Fixed annuities, life insurance, and long-term care insurance are not offered by Great Nation Investment Corporation, but are offered through Martin Northern and Insurance Designers.

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