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RETIREMENT INVESTING

SPECIALIZING IN INVESTMENT MANAGEMENT AND ASSET PROTECTION

January 2001

Please send information on these topics mentioned in your newsletter:

- Please contact me for a free portfolio review.
- Please send information regarding Index Annuities.
- Please contact me about converting my bond fund holdings into individual bonds.
- These are the funds I own. Please send a free report indicating how they are doing based on the article.

Complete Fund Name _____

Complete Fund Name _____

Complete Fund Name _____

I think these people would like to receive your newsletter and invitation to your next seminar. (Please provide name and addresses with zip code):

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Name _____

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Welcome!

Welcome to the first issue of *Retirement Investing!*

Retirement? You may be saying to yourself, "I have already retired," or "I am 10 years away from retirement." Why am I sending you a newsletter about investing for retirement?

I have advised individuals, as well as corporations, about investing since 1986. Each have had their individual purpose for investing. However, most of their objectives have appeared to center around retirement. Whether those objectives were to save for retirement, or invest their savings at retirement, more times than not, investing for retirement has seemed to be the common denominator.

Being in the financial services business, I have seen some very smart, knowledgeable people make mistakes with their investments that have cost them a lot of money. Hopefully, the purpose of this newsletter is to help you avoid some of these mistakes.

We are in an age of do-it-yourself. An investor can make his or her investments on their own, and has plenty of help doing it. Television, magazines, books, the Internet, investment newsletters – there is no shortage of knowledge out there. However, an investor still has a need for the right information.

These sources can explain the thousands of investment options available. When you think about it, there are literally millions of different ways to put together your individual investment portfolio. *But none of the above sources can tie it all together based upon your individual circumstances.*

And that's where investment advice comes in. My job is to hopefully help people avoid costly mistakes. It's just too hard to make up for a loss on a bad investment with a "good" investment. With the wide range of financial products and services available at Great Nation Investment Corporation, I have the ability to match specific financial products and services to individual investor needs in order to help you achieve your goals and objectives. I hope to try to educate you about various alternatives, and then assist you in implementing the proper solution.

I sincerely hope that you find this newsletter useful. It is devoted to you, my client.

Lessons From Warren Buffet

Warren Buffet is arguably the most successful investor of our generation. According to *Forbes* magazine, he has accumulated over \$26 billion of personal wealth (and still rising) by buying stocks

Notice I did not say he accumulated his wealth "by trading stocks." Since he has been so successful, wouldn't it be wise to pattern your investing after the major principals he uses?

Note how Warren Buffet thinks as opposed to how many investors think. Below are some direct quotes or summaries of his philosophy:

Buffet: Trying to predict market swings is unimportant.

Investors: What effect will rising interest rates have on my stocks?

Buffet: A short focus is not conducive to profits. What you need is patience.

Investors: Should I buy internet stocks now?

Buffet: There seems to be some perverse human characteristic that likes to make easy things difficult.

Investors: I heard on CNBC this morning that utility companies will probably cut their dividends so doesn't that mean I should....

Buffet: The most important quality for an investor is temperament, not intellect.

Investors: I watch the Nightly Business Report so that I can learn as much as possible about investing.

If you would like to invest more like Warren Buffet, I will be happy to discuss with you details of an investment approach which incorporates these elements of his philosophy:

1. Buy great companies at a low price.
2. Use an appropriate buy and hold philosophy.
3. Ignore the ups and downs of the market.
4. Eliminate all forecasts and projections from your thinking.

Check off on the enclosed coupon for a free portfolio review.

Index Annuities - An Option Worth Considering

Variable Annuities provide the investor a choice of investment sub-accounts. These sub-accounts may contain stocks, bonds or a combination. So, you can make money or lose money with the increases and decreases in stock and bond values. **Fixed Annuities** provide a fixed rate of return. Current rates are from 5% to 7% which has left many investors unimpressed. Enter the **Index Annuity**.

The index annuity is a hybrid of the above two annuities. It is technically a fixed annuity (your original principal is guaranteed by the insurance company) but your annual interest rate is tied to the performance of the S&P 500. In rising stock market years, you could have a double-digit return. In losing years, you cannot lose any of your original principal.

Now you know the basics, let's look at the specifics. Some index annuities provide a popular feature called "annual reset." In this case, your return is measured each year and locked in. Let's say in the first year, the market declines 10%. Your original principal is protected. Then next year, the market rises the same amount so that it's even with the starting point, two years prior. Even though the market is only even after 2 years, you would make money because your interest rate in the second year is based on that year's increase in the S&P 500. With the annual reset feature, the good years and bad years are separated so that you never lose money in down years and you have your interest rate based on the increase in the S&P 500 in the good years.

With such an attractive feature, why doesn't everyone dump their stocks in favor of index annuities? Because the interest you receive is only a percentage of the increase in the S&P 500. For example, your index annuity may provide interest equal to as much as 70% to 80% of the increase in the S&P 500. Some people find that a good trade off for not having any risk of principal. Other investors, who are more aggressive, want the full impact of the stock market and are willing to take a loss in the down years.

There are index annuities that even use 100% of the gain in the S&P 500 index to calculate your interest. However, those index annuities typically use a monthly average of the gain in the S&P 500. For example, the S&P 500 might increase 20% during the year. The monthly average calculation may only come to 10%. You would therefore not be credited with the full gain in the S&P 500. Alternatively, the S&P 500 could fall 10% for the year, but the average return might be +10% on which your interest is based. Averaging will therefore provide a return that can be more or less than the actual change in the S&P 500 for the year.

In summary, index annuities are for conservative investors who place a priority on protecting their principal. In a rising stock market you will not make as much, but in a choppy or downward market, an index annuity will provide preservation of principal. Use index annuities for the conservative part of your portfolio while still retaining the opportunity for double digit gains.

If you've been in a variable annuity and want to protect your gains, switching to an index annuity may be a good choice. Or if you've been in a fixed annuity at low interest rates, an index annuity can provide the opportunity for double-digit gains. Such a switch can be accomplished and still defer taxes.

To obtain free information describing index annuities and answers to your questions, check off on the enclosed coupon.

Time Magazine and Bond Funds

If you have attended one of my seminars in the last 15 years, you have heard me speak about bonds vs. bond mutual funds. I advise investors to not own bond mutual funds for 3 reasons:

1. Bond funds do not provide the certainty of a fixed income. Individual bonds do. Bond fund dividends fluctuate and rarely fluctuate upward.
2. Bond funds do not have a maturity date as do individual bonds. Therefore, return of principal is not assured.
3. Bond funds have management fees, individual bonds do not.

For these reasons, I notice that most experienced, larger investors buy bonds and not bond funds. But very few people have realized this disparity. Fortunately, *Time Magazine* ran an article on this issue in the March 2, 1998 issue. Here are some excerpts:

"The under-appreciated irony of bond funds is that while they invest in bonds they don't behave like them. They're more like a stock."

"Clearly, investors seeking to preserve capital and earn a fixed-income stream for a set period of time have no business flirting with such a beast. They should go for individual bonds."

"Bond-fund risk is just not well understood."

If you want to avoid a possible problem, I advise investors to consider moving from bond funds and investing in individual bonds. Check off the enclosed coupon for a free analysis of your bond fund holdings, and how to convert those holdings into individual bonds.

When to Sell a Mutual Fund—An Investor's Difficult Decision

Over my career, one of the most common questions I get from investors is how to tell when it's time to sell? There are five questions that you should ask of each fund that you own:

1. Has the fund under performed its peer group during the last 3 years? You can determine this from a number of on-line sources or major fund reporting services such as Morningstar or Weisenberger.
2. Has the fund manager changed? You can find this out by calling the fund directly. The fund manager is the most important variable in fund performance.
3. Have the expenses or turnover changed? The easiest place to look is Morningstar.
4. Have the assets grown too quickly? The semi-annual report you receive shows the changes in assets managed. Typically, but not always, a fund can have difficulty keeping up its past record when it grows too quickly.
5. Has the fund strategy changed? You can determine this by comparing the investments the fund holds over time, or read the prospectus to determine any changes in philosophy.

If this sounds like too much work (which you should do at least annually), then you should consider not managing your own investments. It is when you stop monitoring your funds that they have the opportunity to erode.

In the last several years, many investors have become convinced that all it takes to make money in the market is to buy some no-load fund with a good track record and sit tight. However, that can be a financial disaster. For example, funds focused on Russia soared in 1997 and then collapsed in 1998. Similarly, funds focused on emerging markets or small companies did well in 1997 and then had double digit negative returns in 1998. Just last year, the NASDAQ lost over 30% of its value. So "buying and holding" at times may be too passive a strategy.

If you do not want the bother of monitoring your funds and knowing when to sell, we can manage a mutual fund portfolio designed to fit your individual objectives. For a free report on your current fund holdings, and how we would manage them, check the enclosed coupon.

Turnover and Taxes of Funds

Many investors own mutual funds, but few realize how much they really earn after tax. Here's a little insight from Creating Equity by John Bowen:

In a study commissioned by Charles Schwab and conducted by John B. Shoven, professor of Economics at Stanford University and Joel M. Dickson, a Stanford Ph.D. candidate, taxable distributions were found to have an impact on the rates of return of many well-known retail equity mutual funds. The study measured the performance of 62 equity funds for the 30-year period from 1963 through the end of 1992. It found that the high tax investor who reinvested only after-tax distributions would end up with accumulated wealth per dollar invested equal to less than half (45%) of the fund's published performances. An investor in the middle tax bracket would see only 55% of the performance published by the funds.

Another study, by Robert H. Jeffrey and Robert D. Arnott, published in the Journal of Portfolio Management, concluded that extremely low portfolio turnover can be a factor in improving a fund's potential after-tax performance. Asset class funds typically have very low portfolio turnover, which translates into less frequent trading and, therefore, may result in lower capital gains. Low turnover also may benefit shareholders by holding down trading cost.

In plain English, the above studies indicate that you can lose a lot of your returns from mutual funds to taxes, and that funds with high turnover tend to generate higher taxes. If you would like a report on the tax efficiency of your growth funds, list them on the enclosed coupon and we will send you a free report.

UPCOMING SEMINAR

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Take 50% Of Your Retirement Assets!”**

Call 501-316-3100 or 800-468-3007 for dates and times.

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