Financial Solutions Advisory Group
A Registered Investment Advisory Firm

1Q05

NEWSLETTER

Inside this issue:

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Market Update

The year ended on a strong note, bringing positive returns to most markets. Stocks, long term bonds, gold, oil, real estate, fine art and even antique automobiles provided its owners higher market values. All this happened despite the fact that Chairman Greenspan and the Federal Reserve raised short term rates five times and oil prices peaked around $50 a barrel. This year's solid markets has resulted from strong fiscal and monetary policies that were put in place starting in 2001. The Fed kept interest rates low, allowing for lower mortgages and lower borrowing costs for businesses. Congress passed bills which lowered tax rates for individuals and provided incentives for businesses to increase capital spending. Recently, some of these policies have expired or been reversed, which should serve to slow the positive effects on our economy in 2005.

Economy

The U.S. economy has grown for 12 straight quarters! We are hitting on all cylinders as the consumer kept spending, businesses increased capital expenditures and government spending rose throughout the year. The most unusual aspect of this recovery has been employment. After three years of growth, the number of new jobs created is normally twice than what has actually occurred. Businesses have been reluctant to boost payroll expenses because this would jeopardize the record profits and margins they have been enjoying. Despite this, the unemployment rate did drop in 2004 from 5.7% to 5.4%. The economy has proven to be resilient as consensus estimates show the economy growing just below 4%.

Interest Rates

Over the course of last year, short term and long term rates have moved in their own distinct directions. The two year Treasury note has risen from 1.8% to just over 3%. This is a direct result of the Fed's action to increase the discount rate by 1.25%. On the contrary, the ten year Treasury barely moved at all. In fact the ten year actually fell in yield from 4.25% to 4.22%. Expectations for modest inflation has kept yields at these levels. While the Fed may have a little more room to raise rates this year, too much more may put the brakes on the economy.

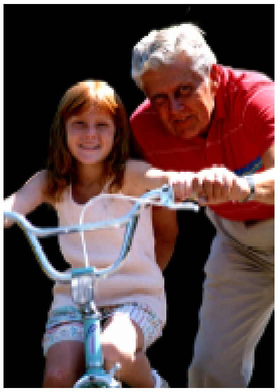
Stock Market

It was another picture perfect year for the equity markets. The market as measured by the S&P 500 Index rose 10.88%. This is very close to the average return of the stock market over the last 75 years. It was also a year to note that the "riskier" markets provided higher returns. Investors who owned the S&P 600 Index which represents small cap stocks returned 22.65%. Taking the added risk to own the smaller companies paid off. Commensurately, mid size companies, as tracked by the S&P 400 Index earned 16.48%, this sits squarely between small cap and large cap returns for the year.

2004 Returns

DOW	*5.31%*
S&P 500	*10.88%*
NASDAQ	*8.98%*
Russell 2000	*18.33%*
Mid Cap 400	*16.48%*
MSCI EAFE	*17.59%*
10 Year Treasury	*5.06%*
Lehman US Agg.	*4.34%*
Lehman Muni.	*4.48%*

529 Plans and Estate Planning



“The 529 plan allows accelerated gifting, a unique estate planning benefit.”

You probably know that 529 plans can be a good way to save money for college, but did you also know that 529 plans offer an excellent estate planning advantage in the form of accelerated gifting? By making lump-sum gifts to a 529 plan, grandparents can meet their estate planning objectives and contribute to their grandchildren's college education at the same time.

A Unique Benefit--Accelerated Gifting
The 529 plan allows accelerated gifting, a unique estate planning benefit. Individuals can gift up to $55,000 to a 529 plan ($110,000 for married couples) in a single year and avoid gift tax completely, provided the gift is treated as having been made in equal installments over a five-year period. Effectively, you get to accelerate five years worth of $11,000 gifts ($22,000 for married couples), the current amount of the annual gift tax exclusion.

The only caveat is that no additional gifts can be made to the same beneficiary during the five-year period, or else gift tax will be triggered.

The 529 Plan Account
The 529 plan account to which you gift the money can be one that has already been established for a particular beneficiary, or one that you establish for the express purpose of making a lump-sum gift. Either way, the money you gift will be taken out of your estate for estate tax purposes. But if you're the owner of the 529 plan, then you'll get the added bonus of being able to retain control of the money in the account, even though it's not considered part of your estate--a pretty good deal.

However, if you should die within the five-year period, then gifts allocable to the calendar years after the year of your death would be included in your estate for estate tax purposes.

The Bottom Line
Grandparents with multiple grandchildren can make lump-sum gifts of up to $110,000 for *each* grandchild, removing the total sum from their estate. This makes 529 plans not only a powerful college savings tool, but a powerful estate planning tool as well.

How Rising Interest Rates Impact Investments

“Interest rates and bond prices generally move in opposite directions.”

From 2001 to 2003, in response to a softening economy, the federal funds rate was repeatedly lowered by the Federal Reserve, ultimately reaching a 45-year low of 1% in June 2003. That easing trend was reversed in June 2004, when the Fed raised the federal funds rate to 1.25%. Since then, the Fed has continued to increase rates. Although nobody knows how long rates will continue to rise, you might be wondering how a continuation of this trend could affect your investments.

Cash Equivalents: Mostly Positive
CDs, money market mutual funds, and savings accounts respond most quickly to short-term interest rate changes. Since these cash equivalents typically have short maturities, these types of investments will produce higher levels of income as their rates rise to reflect the new environment.

Bonds: Generally Negative
Interest rates and bond prices generally move in opposite directions. If interest rates rise, prices of most bonds fall, because higher interest rates make existing bonds with lower interest payments less attractive to investors. A bond's interest rate risk is commonly known as its "duration"--a quantitative measure that takes into account both maturity and interest payments. Bonds with short duration are impacted less by rising rates than longer duration bonds.

Inflation-Fighting Bonds: Varies
Rising interest rates are often tied to increases in inflation. Treasury Inflation Protected Securities (TIPS) are issued by the U.S. Treasury, and the principal repaid to investors at maturity is adjusted based on inflation over the term of the security. The Treasury

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How Much Can I Expect From Social Security When I Retire?

How much you'll collect from Social Security when you retire depends primarily on how much you'll have earned and how many years you'll have paid into Social Security by the time you retire. Retirement benefits are based on average lifetime earnings, with the highest 35 years of earnings counting in this calculation. The amount of your retirement benefits will also be affected by:

- The age you start collecting (you'll get less if you retire early at age 62 but more if you retire later)
- Whether you work after you retire
- Whether you collect certain other government benefits after you retire
- Cost-of-living increases during your retirement

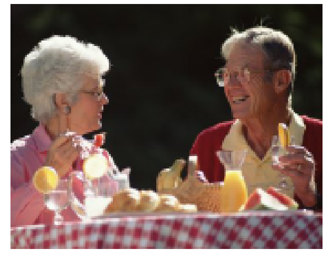
It's relatively easy to obtain an estimate of how much you're likely to collect in retirement. Every year the Social Security Administration automatically mails an earnings and benefit statement to all individuals age 25 or older. This statement, which should arrive about three months before your birthday, estimates how much you'll get from Social Security based on your current lifetime earnings record. It also estimates the disability and survivor's benefits that you and your family will be eligible for.

When you receive your statement, it's a good idea to make sure that it accurately reflects the number of years you've worked and the amount you've paid into Social Security.

If you don't want to wait for your statement to arrive in the mail, you can request an earnings and benefit estimate from the Social Security Administration by calling (800) 772-1213 or by visiting the Social Security website at www.ssa.gov.

In addition to providing you with retirement benefits based on your work record, Social Security can provide your spouse with benefits based on your work record, even if he or she has never worked outside the home or in a job covered by Social Security. This type of benefit is sometimes referred to as a derivative benefit or a spousal benefit. If you're currently receiving retirement benefits, your spouse may be eligible to receive benefits based on your work record if:

- Your spouse is age 62 or older
- Your former, currently unmarried spouse is age 62 or older, and you were married for at least 10 years
- Your spouse or former spouse is any age, and he or she is caring for your child who is under age 16 or disabled



"Social Security can provide your spouse with benefits even if he or she has never worked outside the home or in a job covered by Social Security."

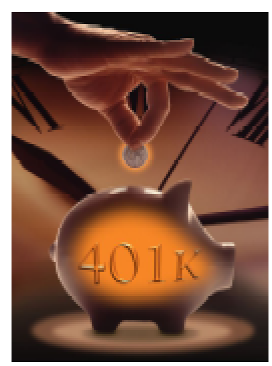
Retirement Plan and IRA Contribution Limits for 2005

Talk of Social Security reform is in the air again. While it's too early to predict what the outcome will be, it's clear that personal saving for retirement will continue to be extremely important. The best vehicles for retirement savings remain IRAs and employer-sponsored retirement plans. Fortunately, you can save more in these plans in 2005 than ever before.

If you are lucky enough to be eligible to participate in an employer-sponsored retirement plan that permits employee deferrals (401(k), 403(b), 457(b), or SAR-SEP), you can contribute up to $14,000 pretax in 2005. And if you participate in a SIMPLE IRA or SIMPLE 401(k) plan, you can contribute up to $10,000 pretax in 2005.

IRAs are more attractive than ever. The amount you can contribute to a traditional or Roth IRA has increased to $4,000 in 2005.

If you are age 50 or older, you can make a pretax catch-up contribution of $4,000 to a 401(k), 403(b), SAR-SEP, or 457(b). The maximum catch-up contribution to a SIMPLE IRA or SIMPLE 401(k) plan is $2,000. And the maximum catch-up contribution to a traditional or Roth IRA remains at $500.



At Financial Solutions Advisory Group, you'll find a fee-only Registered Investment Advisor (RIA) committed to putting your interests and your needs first, eliminating the commissions and self-serving incentives that get in the way of solid, successful financial planning and investment management.

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Stocks in the News: Walgreen (WAG)

When Charles Walgreen bought the busiest drug store on the South Side of Chicago in 1909, he surely had no idea that same company would become one of the largest retail chains of its kind. Now based in Deerfield, IL Walgreen Co. has approximately 4,600 stores in 44 states and Puerto Rico. Its goal is to reach 7,000 units by 2010, similar to the number of stores McDonalds and Radio Shack have. While Walgreen's may not sell milkshakes anymore, a drink it invented in the 1920s, it does derive 63% of its sales at the pharmacy counter.

Prescription sales are the growth engine of Walgreen. Consensus expects the company's long term growth rate to be 15%. This growth comes from new store openings, new drugs hitting the market and ever rising drug costs. Generic drug sales help too, since they carry higher margins than the drugs they replace. As consumers become more pressed for time, Walgreen depends on customers to pick up additional products to purchase as they make their way to and from the pharmacy counter at the back of the store. Finally, the ever increasing baby boomer population prefers Walgreen's easily accessible store, with the convenience of a drive-through, that will also have a location near their second home.

Walgreen has posted 30 consecutive years of record sales and earnings. It has continually paid a dividend since 1933. The dividend is low ($0.21 per share) because the company chooses to put its cash to use by building new stores. The company chooses to carry little debt, but it does lease 80% of its stores. The stock has responded recently to a turn around in the company's return on equity, which had been declining for a number of years. A price earnings ratio (P/E) of 29 may sound expensive, but the stock historically averages a P/E of 37.

Recently, Walgreen has had problems with local communities when looking to add stores. In its own hometown, Deerfield turned down a new store location for fear that the drive-through speaker would be too loud. In Downers Grove, IL city planners refused Walgreen because the two groups could not agree on which direction the front of the store would face and the town thought the building would be too large. Most retail outlets experience these types of growing pains when searching for new sites, but it may force Walgreen to pay up for top locations.

There are concerns that Walgreen may lose prescription sales to mail order pharmacies. They are combating this with their "Advantage 90" program. This will allow customers to purchase 90 day supplies of medicine, for the same price as mail order.

Key Statistics

Price	*$41.38*
EPS	*$1.32*
Estimated EPS	*$1.50*
P/E Ratio	*29.0x*
PEG Ratio	*1.96x*
Dividend Rate	*$0.21*
Market Cap	*$42.4 B*
52 Week High	*$41.96*
52 Week Low	*$32.00*
Beta	*.27*
Expected Annual Growth Rate	*15.0%*
ROE	*19.4%*

How Rising Interest Rates Impact Investments

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uses the Consumer Price Index as a guide to adjust the principal semiannually. Thus, to the extent that rises in interest rates are tied to inflation, TIPS offer protection.

Stocks: Varies by Sector and Company
Increasing interest rates have a profound impact on stocks. First, increasing interest rates lower consumer demand for products and services, as more funds are directed toward debt service and the cost of borrowing increases (especially for big-ticket purchases like homes or cars). Second, rising interest rates make corporate borrowing more expensive and reduce corporate earnings. Finally, rising rates may lure some investors out of equities and into bonds, potentially decreasing overall demand for equities. Individual companies are impacted to varying degrees by rising interest rates. Companies that pay high dividends may be less attractive to investors as cash equivalents and bonds start to offer higher interest rates. Companies that continue to have strong growth prospects despite the changing rate environment may be unaffected.

Diversification is Key
With an uncertain interest rate and investment environment, the key to weathering the storm is always to remain diversified. Careful planning and proper asset allocation can help mitigate the risk of rising interest rates due to the negative correlation of different asset classes.