Financial Solutions Advisory Group
A Registered Investment Advisory Firm

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NEWSLETTER

Inside this issue:

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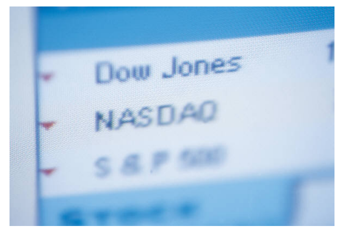
Market Update

While oil and inflation have continued to grab the headlines, the economy keeps plugging along at a decent clip. Everyone is well aware of the change in gas prices as we fill our automobiles. As winter demand for oil in general dissipates, a new and more stable level of oil prices will be found, although at a higher level from last year. What most individuals do not see, however, is that the prices of chemicals, steel, soybeans, coffee, copper and other commodities have also risen. Prices of products that use these goods have stayed flat, as manufacturers have not been too successful at boosting prices. As a result, consumers have not felt much of a pinch. Where many people have begun to experience sticker shock is in the form of housing, healthcare and gasoline/heating.

Even as the economy grew 3.8%, Federal Reserve Chairman Alan Greenspan raised the federal funds rate for the seventh time in March and he made comments that he is keeping a watchful eye on inflation. He recognizes that pressures are in force that may raise inflation, but he feels that long term expectations remain well contained. He will do his best to make sure he does not lift rates too slowly and have inflation catch on fire, nor does he want to elevate rates too dramatically which would serve to choke our the economy. It was only 11 years ago that rates were raised into an economy that was growing over 6%. Inflation was tamed and yet the economy grew at an annual rate above 4% for the next 7 years! Time will tell if the Fed can pull off the same moves in this environment.

Interest Rates
Long term interest rates are finally starting to feel the effect of the Federal Reserve's moves mentioned above. The 10 year Treasury note rose above 4.5% in March. These levels are beginning to entice investors' appetites for government, agency and corporate bonds. In the municipal bond market, there has been an increase in new issues as municipalities attempt to raise funds while locking in lower rates. With further expected rate hikes this year by the Fed, the 10 year Treasury note could reach 5% later this year.

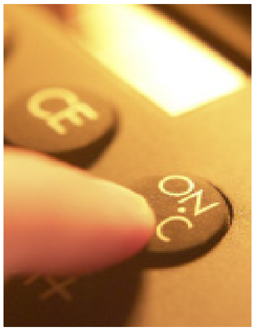
Stock Markets
The stock markets have had a difficult time digesting the slowly rising interest rates. Stocks have fallen two out of the first three months this year. Smaller growth stocks have felt the brunt of the damage while value oriented middle capitalized companies have barely broken even. Energy stocks have performed strongly as they benefit from rising oil prices. Auto stocks, on the other hand, were the worst performers for the first quarter as GM and Ford continue to lose market share to foreign car makers. The market is also facing the fact that so far this year 54% of companies have guided investors to lower their earnings expectations. Finally, international stocks have held their own thus far, losing less than 1% last quarter.



<u>2005 Year to Date Returns</u>

DOW	*-2.06%*
S&P 500	*-2.15%*
NASDAQ	*-8.10%*
Russell 2000	*-5.34%*
Mid Cap 400	*-0.40%*
MSCI EAFE	*-0.77%*
10 Year Treasury	*4.50%*
Lehman US Agg.	*-0.48%*
Lehman Muni.	*-0.04%*

Tax Tips for 2005



"Traditional IRAs and 401 (k) plans both allow you to contribute funds pre-tax, reducing your 2005 taxable income."

Even though the ink on your 2004 federal income tax return may still be drying, planning efforts should now focus on the 2005 tax year. To that end, here are a few things to keep in mind.

Take Advantage of Tax-Advantaged Savings

When it comes to setting aside money for retirement, it's tough to beat IRAs and retirement plans like 401(k)s. Traditional IRAs (assuming you qualify to make deductible contributions) and 401(k) plans both allow you to contribute funds pre-tax, reducing your 2005 taxable income.

Contributions you make to a Roth IRA aren't deductible, so there's no impact on your 2005 income, but qualified Roth distributions are completely free from federal income tax.

Increased contribution limits for 2005 mean that you can save more in these vehicles this year than ever before. With a 401(k) plan, you can contribute up to $14,000 for 2005 ($18,000 if you're age 50 or older). If you're in the 28% tax bracket, contributing $14,000 to a 401(k) plan can mean almost $4,000 in tax savings this year. And the amount you can contribute to a traditional or Roth IRA has increased to $4,000 for 2005 ($4,500 if you're age 50 or older).

Consider Converting

If your modified adjusted gross income (MAGI) is $100,000 or less, you can convert a traditional IRA to a Roth IRA. Converted funds, to the extent they represent investment earnings and deductible contributions, are added to your 2005 taxable income, but future qualified withdrawals from your Roth IRA will be free from federal income tax. If you're over age 70½ and required minimum distributions from traditional IRAs have pushed your income over the $100,000 limit, 2005 could be your year to convert. That's because, beginning this year, required distributions don't count toward the $100,000 MAGI limit.

Benefit From Your Own Generosity

Taxpayers who itemize can deduct cash charitable donations made during January 2005 for tsunami

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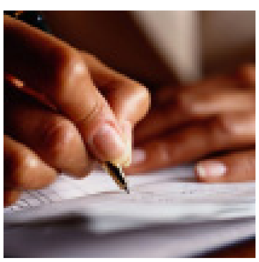
Do I Need to File a Gift Tax Return?



"If you transferred money or property to anyone last year without receiving something of at least equal value in return, you may need to file a federal gift tax return."

If you transferred money or property to anyone last year without receiving something of at least equal value in return, you may need to file a federal gift tax return (Form 709) by April 15. If you live in Connecticut, Louisiana, North Carolina, Tennessee, or Puerto Rico, you may also need to file a gift tax return with your state.

Some gifts aren't taxable and generally don't require a gift tax return. These exceptions include:

- Gifts to your spouse, unless he or she is not a U.S. citizen
- Gifts to qualified charities
- Amounts paid on behalf of anyone either directly to an educational institution for tuition or directly to a provider for medical care
- Gifts totaling $11,000 or less to any one individual, unless you and your spouse have made the gifts jointly

If your gift isn't exempt from taxation, you'll need to file a gift tax return. But that doesn't mean that you have to pay gift tax. Generally, each taxpayer is allowed to make taxable gifts totaling $1 million over his or her lifetime before paying gift tax. Filing the gift tax return helps the IRS keep a running tab on that $1 million exemption.

If you made a gift of property that's hard to value (i.e., real estate), you may want to report the gift, even if you're not required to do so, in order to establish the gift's taxable value. If you do, the IRS generally has only three years to challenge the gift's value. Otherwise, the IRS can dispute the value of your gift at any time in the future.

Exchange-Traded Funds

If someone suggests that you invest in "spiders," he or she is probably not talking about eight-legged arachnids. Spiders are a popular type of exchange-traded fund (ETF), as are Diamonds and iShares. ETFs are similar to index mutual funds, but trade like stocks. Should you consider ETFs? While many of the largest ETFs follow well-known indexes, an expanding universe of specialized ETFs has also been created that can help you tailor your portfolio, whether your investment strategy is active or passive. Some of the key features of ETFs include: Real-time pricing, tax efficiency, low expense ratios and increased trading control.

ETFs vs. Index Funds

ETFs are frequently confused with index mutual funds, and for good reason. Many of the largest ETFs, like index mutual funds, generally comprise a selection of securities that mirrors a particular index like the Standard & Poor's 500 or the Nasdaq Composite. But whereas shares in an index fund are sold directly to investors, in the case of an ETF, shares are bought and sold on an exchange, just like shares of stock.

In a typical open-end index fund, an investor pays money for shares of the fund. The fund manager then invests that money in a basket of stocks that matches the index. Likewise, when an investor sells shares of the fund, the fund returns money to the investor in exchange. As a result, mutual funds typically keep some cash reserves to meet redemptions, but they are also subject to potentially having to sell securities during periods of large redemptions. This can cause capital gains to be realized, which are then passed on to the remaining fund holders.

By contrast, ETF units, after being created by an ETF fund advisor, are traded among shareholders on an exchange, instead of with a fund company. This fundamental difference in structure is what gives ETFs their unique features versus index funds.

Features of ETFs

- When you purchase ETF shares, you're buying into all the diversification of the index that the ETF is tracking.
- ETFs can be bought or sold throughoutthe day and held in a normal brokerage account.
- Because ETFs are sold on an exchange, you can employ strategies such as market orders, stop orders, limit orders, margin buying, and short sales.
- There are ETFs that now track almost all the major indexes on the market. And ETFs are not just for stocks--bond ETFs are available, as well as many sector ETFs for industries, such

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"An expanding universe of specialized exchange-traded funds can help tailor your portfolio."

Tax Tips for 2005 *Continued from page 2*

relief efforts on either their 2004 or 2005 federal income tax returns (but not both). You're free to take the deduction in whichever year it will do you the most good (e.g., if you'll be in a higher tax bracket one year).

If you made such a contribution but didn't claim the deduction on your 2004 return, make sure you claim it for 2005.

Time Your Purchases

For tax years 2004 and 2005, taxpayers who itemize have the option of deducting state and local sales taxes rather than state and local income taxes. The deduction can be based on the total amount of actual sales tax paid, or on special sales tax tables published by the IRS. Even if the tables are used, sales tax can still be deducted for specific purchases like motor vehicles and boats. This option will be particularly valuable if you live in a state that doesn't have an income tax. This provision expires at the end of 2005, however. So, for some, it might pay to accelerate a major purchase planned for 2006 into 2005.

Stocks in the News: IBM

Key Statistics	
Price	*$90.89*
EPS	*$4.95*
Estimated EPS	*$5.62*
P/E Ratio	*17.89x*
PEG Ratio	*1.76x*
Dividend	*$0.72*
Market Cap	*$148.1B*
52 Week High	*$99.10*
52 Week Low	*$81.90*
Beta	*.27*
Expected Annual Growth Rate	*10.0%*
ROE	*29.3%*

International Business Machines has been synonymous with computers, big and small, since 1911. While IBM did not make computers in the early 1900s, they manufactured "business machines" such as scales, tabulators and typewriters. It wasn't until the 1960s that they started tinkering with machines that dealt with complicated computations. Computers back then were so large they could barely fit in a room the size of a garage. But Big Blue kept developing these machines into what were main frames, then mini computers and finally into personal computers. We have more computing power on our PCs now, then NASA had to use when they first sent astronauts to the moon.

Over the years, IBM learned that it was necessary to sell software to go along with the hardware it sold its customers. It also helped even out revenues. Hardware was only sold every few years, while software to support it would improve more often, causing more frequent sales. The next step has been to service the companies that buy the hardware and software. Service entails helping companies understand what technology they need, installing those technologies and even assisting companies to run these systems - to the point where they fully outsource the operations to IBM. Because the service side of the business is done by contract, revenues become more predictable, which the company loves. In fact, 48% of IBM's sales are now derived from services, while hardware generates 32% of revenue.

Many investors are unaware that the CEO, Sam Palmisano, wants to take IBM into the next generation of service sales. He calls it "Business Process Transformational Services" (BPTS). His idea is to deepen IBM's relationship with its customers so that they cannot only help them process data but apply technology to solve complex business problems among one or more areas of a company's departments. By helping companies improve processes and solve problems, IBM becomes less of an order taker or vendor and more of a partner. As a result, this business generates margins that are 2 to 3 times the average service contract. IBM believes that they can capture $500 billion of an industry that has the potential to be over $1.5 trillion.

Financially, IBM is solid. More than $10 billion of cash sits on the balance sheet. The company pays 14% of its earnings in dividends to shareholders. Return on equity and assets have been rising nicely since 2003. Currently, its unusually low price earnings ratio of 14.7 on next years earnings places the company below its peers and the market. The consensus of analysts believes IBM will grow 10% on average over the next 5 years.

Exchange-Traded Funds

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as real estate, energy, and health. You can also buy foreign ETFs that track stocks from a particular country.

- Since their index changes are generally infrequent, ETF expense ratios tend to be relatively low. In some cases, ETF expense ratios are lower than for index funds tracking similar benchmarks.
- ETFs can offer greater tax efficiency than a typical open-end mutual fund, as redemptions don't impact other ETF investors.
- ETFs trade like any other stock, so there is a commission paid on each transaction. This could be particularly significant if you trade frequently or employ dollar cost averaging strategies. The brokerage commissions, which don't have to be paid on index funds, may offset the low expense ratios offered by ETFs, depending on the size of the trade and the frequency of trading.

Are They Right for You?
Considering an investment in ETFs should be part of a brad asset allocation and investment plan, which takes into account your investment goals, risk tolerance, and tax considerations. The good news is that investors have more choices than ever before, but due to the complexity of these choices, it's critical that you make an educated and informed decision.

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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