Financial Solutions ADVISORY GROUP

A Registered Investment Advisory Firm

3Q04

NEWSLETTER

Inside this issue:

Market Update

The first half of the year has been anything but stellar. Markets have moved relatively sideways for the year but the outlook for the second half of the year remains positive.

Economy

Although first quarter GDP growth was revised downward, most economists are still predicting GDP growth of 4.7% for 2004, slowing in 2005 to 3.9%. The economic recovery seems to be underway. Employment has increased faster than expected and business and consumer spending continues to be strong.

Interest Rates

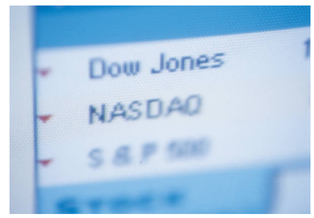
Once the Fed indicated they would start raising short term rates, interest rates rose over 100 basis points. The Fed is expected to continue raising rates until the Fed Funds rate is 2.25 - 2.50% sometime next year. If the CPI doesn't spike up and payrolls remain soft, the Fed may only raise rates 25 basis points for the remainder of the year.

Stock Market

Despite rising interest rates, high oil prices and the lingering concern of terrorist attacks, most analysts have a positive outlook for the equity markets. The market is currently trading at 16 times this year's earnings. If the bull market were to end it would be the shortest and weakest in history.

Corporate earnings is the strongest catalyst to move the equity markets higher in the short term. To date, 16% of companies in the S&P 500 have reported earnings. Nearly three quarters have had positive surprises and 95% have beaten last year's numbers. On average, companies have had 27% year over year growth and an 11.5% increase in revenues. Estimates for the third quarter have risen to a 14.8% growth rate.

Threats to the market exist including corporate governance issues, terrorist attacks, rising interest rates and inflation, high oil prices and the upcoming election.



Year to Date

DOW	*-0.18%*
S&P 500	*2.60%*
NASDAQ	*2.22%*
Russell 2000	*6.21%*
Mid Cap 400	*5.50%*
MSCI EAFE	*3.04%*
10 Year Treasury	*-0.47%*
Lehman US Agg.	*0.14%*
ML 7-12 Yr G.O.	*-1.01%*

Source: Wall Street Journal, 7/1/04

The Right Estate Plan for You

Many people are under the mistaken belief that only the elderly, the ill, and the wealthy need to have an estate plan. In reality, just about everyone, regardless of age, health, or wealth can benefit from making plans today for what could happen tomorrow. To help you understand what may be appropriate for you, consider the following typical planning needs of some very broad groups of individuals. These suggestions are only intended to point you in the right direction. To implement the right estate plan for you, you'll need to seek professional advice.

Over Age 18

Since incapacity can strike anyone at any time, all adults over age 18 should consider having the following:

- A durable power of attorney: This document lets you name someone who can manage your property for you in case you become incapacitated and can't do so yourself.

Continued on page 2

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Continued from page 1

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- An advanced medical directive: This document lets you make your wishes known about the treatment you would want if you can't articulate those wishes yourself. The three main types of advanced medical directives are (1) a living will, (2) a durable power of attorney for health care (also known as a health-care proxy), and (3) a Do Not Resuscitate order. Be aware that not all states allow each kind of medical directive, so make sure you execute the ones that will be effective for you.

Young and Single
You may not need much estate planning if you're young and single, but if you have any material possessions, you should at least have a will. If you don't, your property will most likely go to your parents if you die, and that might not be what you would want. A will lets you leave your possessions to anyone you choose (your significant other, friends, other relatives).

On the other hand, you may have more debts (e.g., college loans) than assets. If so, you may want to consider buying life insurance, which will pay off your debts and cover your final expenses so this burden will not fall on your loved ones.

Unmarried Couples
Perhaps you're committed to a life partner but aren't legally married. For you, a will is essential if you want your property to pass to your partner at your death. Without a will, state laws dictate that only your closest relatives can inherit your property, and your partner may get nothing. If you and your partner share certain property, such as a house, you might consider owning the property as joint tenants with rights of survivorship. That way, when one of you dies, the jointly held property will pass to the surviving partner automatically.

Married Couples
If you're married, you and your spouse should consider the estate planning options that take advantage of the federal marital deduction - a powerful tool that lets you shift an unlimited amount of property to your spouse free from gift and estate taxes. Among other things, proper marital deduction planning, such as a marital trust, can ensure that each spouse takes full advantage of the federal exemption (currently $1.5 million) from estate tax. You should see an estate planning attorney or professional about the many marital deduction planning options and their benefits.

Married with Children
If you're married with children, you and your spouse should each have your own will. For you, wills are vital because they can name a guardian for your minor children in case both of you die simultaneously. If you fail to name a guardian in your will, a court may appoint someone you might not have chosen.

Furthermore, without a will, some state laws dictate that at your death some of your property goes to your children and not to your spouse. If minor children inherit directly, the surviving parent will need court permission to manage the property for them. You may also want to consult an attorney about establishing a trust to manage property left to your children in the event that both you and your spouse die at the same time.

Additionally, you may want to

Continued on page 3

Key Indicators for Tracking the Economy

"GDP is the broadest measure of the nation's total output of goods and services."

Predicting the direction of the US economy can be difficult. Below are a few of the key economic indicators that most economists and analysts watch to determine the overall strength of the US economy:

Gross Domestic Product
GDP is the broadest measure of the nation's total output of goods and services.

Employment Report
The labor report tracks job creation. Consumers are more comfortable when job growth is strong. Weak job growth could indicate the economy is headed for a slowdown.

U.S. Leading Index
The Conference Board compiles 10 economic indicators to create this index. It is designed to predict how the economy will perform in the near future.

Consumer Confidence
Also maintained by the Conference Board, this index measures the pulse of the consumer, and thus their expected impact on economic growth. The Conference Board interviews 5,000 households each month to compile the index.

Institute for Supply Management
The ISM index measures the manufacturing sector of the economy. A reading above 50% generally indicates expansion while below 50% indicates contraction.

Retail Sales
The Census Bureau reports retail sales monthly which tracks merchandise sales by companies.

Investing in Bonds

Bonds may not be as glamorous as stocks or commodities, but they are a significant component of most investment portfolios. Bonds are traded in huge volumes every day, but their full usefulness is often underappreciated and underestimated.

Strengths of Bonds
Predictable Stream of Income: Bonds can provide a steady and predictable stream of income through interest payments, and investors can deliberately structure maturity dates to occur when cash needs are anticipated (this is known as laddering).

Relative Safety: Issuers of bonds are obligated to pay periodic interest to bondholders as well as to repay principal at maturity. Because bonds are obligations, corporations must pay interest to bondholders before paying dividends to shareholders. Further, in the event a corporation declares bankruptcy or dissolves, it is obligated to pay bondholders before stockholders.

Diversification: Bond values tend to move in the opposite direction of the stock market (i.e., they have a low correlation). By holding both bonds and stocks in a portfolio, an investor hopes to offset losses in one asset category with gains in another asset category, thereby improving overall returns.

Tax Savings: Interest (but not capital gains) from bonds issued by state and local governments ("muni's") are exempt from federal income tax and may be exempt from state income tax as well. This can be appealing to taxpayers in high tax brackets.

Tradeoffs of Bonds
Default/Credit Risk: A bondholder can lose money if the issuer fails to make interest payments or repayment of principal. Bonds can also lose market value if the creditworthiness of the issuer declines.

Interest Rate Risk: Bonds are issued with a fixed rate, which is set when the bond is issued. As general interest rates fluctuate, so too will the value of the bond. An increase in interest rates will generally cause a drop in the value of a bond because new

Continued on page 4

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The Right Estate Plan for You *Continued from page 2*

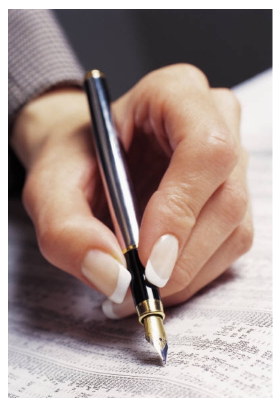
consider creating a bypass trust (also called a credit shelter trust). This may help you pass property to your children free of federal estate tax while allowing your surviving spouse to benefit from the assets in the trust for his or her lifetime.

Finally, you may want to reevaluate the adequacy of your life insurance coverage and your beneficiary designation. Keep in mind that the person designation form will receive the insurance proceeds at your death, even if you name someone else in your will. And, you may want to consider putting your life insurance in a special trust (called an ILIT) if doing so will help you minimize estate tax.

Comfortable and Looking Forward to Retirement
If you're approaching middle age, you've probably accumulated some wealth and, hopefully, you have a retirement plan, such as a 401(k) or individual retirement account (IRA). If so, you should be aware that, as with life insurance, your beneficiary designation will control who will receive your remaining retirement assets at your death, not your will. Also keep in mind that, if you're married, your spouse may be the beneficiary of your retirement plan assets automatically by law. If so, you may need your spouse's consent if you plan for those assets to pass to someone other than your spouse.

Wealthy and Worried
If you'll have a large estate when you die, you should be concerned about federal gift and estate tax, especially in light of recent law. Changes in the law gradually eliminate federal estate tax by (1) increasing the amount that is exempt from this tax over several years (from $1.5 million in 2004 and 2005 to $3.5 million in 2009), (2) reducing the top estate tax rate over several years (from 48 percent in 2004 to 45 percent in 2007 through 2009), and (3) repealing the estate tax for persons dying in 2010. However, in 2011, the estate tax will return at levels existing before the new law went into effect. Further, only the estate tax is being eliminated; the federal gift tax remains. The gift tax exemption holds steady at $1 million this year and each year thereafter. The gift tax rates will be the same as the estate tax rates for each year, except that the top gift tax rate in 2010 (when there will be no estate tax) will be 35 percent. The gift and estate tax laws are complicated, which makes planning difficult. You should consult with your estate planning attorney or financial planning professional.

Elderly or Ill
If you're elderly or ill, you'll want to make a will or update your existing one, consider a revocable living trust, and make sure you have a durable power of attorney and appropriate health-care directives. Talk with your family about your wishes, and make sure they have copies of your important papers or know where to locate them.



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Financial Solutions is an independent, fee only, Registered Investment Advisor with the Securities and Exchange Commission.

We offer financial planning and investment management services.

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How Do I Obtain a Medicare Drug Discount Card?

If you've been following the news lately, you've probably heard about a new Medicare prescription drug discount card program that recently debuted.

This voluntary, temporary program is intended to provide most Medicare recipients with immediate discounts on prescription drugs (seniors who receive drug coverage through Medicaid aren't eligible). The federal government has estimated that the new card will help seniors save 10 to 25% on their prescription drugs. The discount card program will run through 2005. On January 1, 2006, a new comprehensive Medicare prescription drug benefit will kick in and the card program will end.

To obtain a drug discount card, you must submit an enrollment form to one of the many Medicare-approved sponsors who are authorized to offer cards. Such sponsors include health insurers, pharmacies, and firms that manage pharmacy benefit programs for employers.

The application process for the new cards got underway in May, and the cards are expected to be functional starting in June. Medicare will be mailing out more detailed information about the program (you may have received it already), but here are some highlights:

- You can obtain only one Medicare approved drug discount card (however, you can choose a different sponsor's card for 2005 during an open enrollment period from November 15 to December 31, 2004)
- Each card will charge an annual enrollment fee of up to $30
- Low income seniors won't have to pay the annual enrollment fee and will receive a $600 credit on their card in both 2004 and 2005
- The Medicare discount card can be used in addition to any private drug discount card(s) you may have

Each sponsor will offer its own list of discounted prescription drugs (with a "core" group of drugs that Medicare requires each sponsor to carry), so it's very important to research card offerings. One approach is to list all your medications, focus on the most expensive ones, and then find a card that offers the most savings for those drugs.

Unfortunately, sponsors will be allowed to change their discounts, and add or drop certain drugs, even after you sign up, though the government will monitor sponsors to discourage "bait-and-

switch" moves. Also, you should check to see whether your pharmacy will accept the card you're considering--not all pharmacies will accept all cards. However, if you're enrolled in a Medicare managed care plan and that plan offers a drug discount card, then you won't need to worry about comparing cards--you'll be limited to that plan's drug card.

A tool comparing the discount cards, the drugs they offer, and their prices is available at www.medicare.gov. You can also call 1-800-MEDICARE (1-800-633-4227) for help in comparing cards or to find out more about the program.

Investing in Bonds *Continued from page 3*

issues will be more attractive to investors.

Reinvestment Rate Risk: Changes in overall economic rates expose investors to the risk that maturing funds will have to be reinvested at lower prevailing rates.

Inflation Risk: In periods of rising inflation, the purchasing power of income from bonds may erode.

This can be a serious problem for investors, such as retirees, who rely on their bond income to meet day-to-day expenses.

Call Risk: Bond issuers may redeem bonds that contain a call option prior to maturity. When the bonds are called, investors must reinvest their money, most likely at a lower yield.

Prepayment Risk: Bonds that are created by pools of mortgages or other types of loans are exposed to prepayment risk, which is similar to call risk.

When interest rates are low, borrowers may payoff mortgages and loans in order to refinance. When this happens, the bonds backing those mortgages and loans are likewise paid off. Investors must reinvest their money, most likely at a lower yield.

Lower Risk Generally Means Lower Returns: Because bonds have relatively lower risk than other investments (such as stocks), they also pay relatively lower returns.

Of course, your bond portfolio should be monitored regularly. Although bonds carry some risks, they offer significant benefits and can help diversify your investment portfolio.

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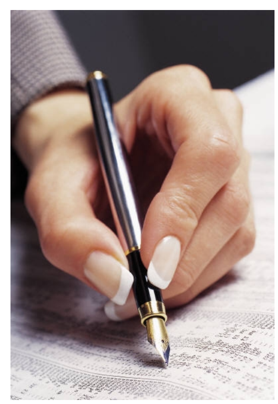

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