Financial Solutions Advisory Group

A Registered Investment Advisory Firm

4Q04 NEWSLETTER

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Market Update

As we head into the last quarter of the year, markets continue to plug along with a downward bias. While the markets dislike uncertainty, time has erased some issues that have faced traders. The Olympics went well and the Federal Reserve continued to raise rates. Once we get past the elections, high oil prices seem to be the biggest hurdle to overcome.

Oil prices hurt the consumer when they have not had a chance to work higher costs into their budget. Gasoline prices have risen almost half a dollar since the beginning of the year. But now that the public is used to that fact, they have found ways to lower spending elsewhere and keep filling the tank. Home heating costs will become the wildcard. Tight gas supplies and a cold winter could put a real crimp in the average consumer's budget.

Economy

Consumer confidence has begun to slide as consumers are unsure about energy prices and an uncertain job market. Business spending has been strong and companies' large cash positions have helped their balance sheets and should generate capital spending. These factors have combined to generate a 3.3% increase in Gross Domestic Product (GDP) for the 2nd quarter of 2004. Markets have been spoiled with many quarters of 4% plus growth, but this is still a solid quarter.

Interest Rates

With the first federal funds rate hike in June, the Federal Reserve increased rates two more times in the 3rd quarter. After three hikes, the federal funds rate stands at 1.75%. With inflation staying somewhere above 2%, there is always room for Mr. Greenspan to add at least another 0.50%. In a surprise move, longer term bond yields have fallen. But this is a positive signal from the market reflecting the posture that the "easy" money generated from lower yields will stop fueling any inflationary flare ups.

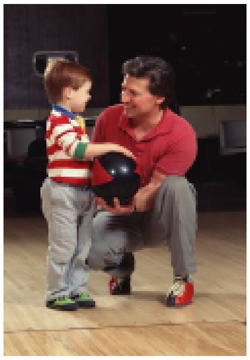
Stock Market

Except for the Dow Jones Industrial Average and the NASDAQ, most major market indexes remain up on the year. Larger capitalized companies continue to lag their smaller brethren and value is handily beating growth. The market has understood that the terrific pace of 20% earnings growth each of the past four quarters could not go on indefinitely. First Call consensus estimates indicate that the fourth quarter should still show strong earnings growth north of 10%.

More than half of retail store profits are earned in the last quarter of the year. If sales over the holiday season are strong, this will be a sign that the consumer is feeling good. If the consumer, which makes up two thirds of GDP, is happy, that should bode well for the new year.

Year to Date	
DOW	*-2.12%*
S&P 500	*1.51%*
NASDAQ	*-5.02%*
Russell 2000	*3.71%*
Mid Cap 400	*3.86%*
MSCI EAFE	*4.62%*
10 Year Treasury	*4.74%*
Lehman US Agg.	*3.34%*
ML 7-12 Yr G.O.	*3.63%*

Your Insurance: Term or Perm?



If you need life insurance, which type is better: term or permanent (also known as cash value) insurance? To decide, consider how much coverage you need, how long you'll need it, and how much you can afford to pay in premiums.

Term

Term insurance provides coverage for a specified period ranging from 1 to 30 years. Premiums are typically low compared to permanent life insurance. If you die during the coverage period, your beneficiary receives a specified death benefit. If you don't die during that time, no death benefit is paid.

At the end of the specified period, coverage ends and the policy has no cash value. Typically, you can renew your term policy, but each time you do, the cost increases until the premiums become more costly compared to cash value insurance. And, once you reach a certain age--usually 70 or older--you may find it difficult to get term insurance at all.

Permanent

Unlike term insurance, permanent insurance continues throughout your life as long as you pay the premiums, which remain level.

As with term insurance, permanent insurance pays a death benefit to your

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Don't Be Haunted by These Investment Mistakes

"Look at long term as well as recent performance to gauge an investment's volatility, and understand how it fits into your overall portfolio. Seek professional advice when you can."

Investing can be intimidating, but it doesn't have to be. By avoiding a few common mistakes and sticking to a plan, you can build a solid portfolio. Here are a few blunders to avoid.

Staying on the Sidelines

Don't wait for the "right" time to start investing--it will never come. Start now; you may not have enough money for a secure retirement (or to meet any other goal) if you don't.

Chasing Yesterday's Winners

It's tempting to buy an investment that's made a recent splash by exceeding expectations, but by the time you do, its success could already be fading. Rather than blindly chasing yesterday's winners, focus on future potential.

Look at long term as well as recent performance to gauge an investment's volatility, and understand how it fits into your overall portfolio. Seek professional advice when you can.

Diversifying Too Little

Don't put all your eggs in one basket. Divide your investment dollars among different investments and asset classes. Stocks, bonds, the mutual funds that hold them, and other investments react differently to changing market conditions.

When one asset class is down, others may do well, evening out your overall investment risk.

Letting Fear and Greed Rule Your Choices

Fear may tempt you to cash out of your investments at the first sign of trouble. Instead, carefully reevaluate an investment before selling it. And don't buy an investment just because you have a hot tip. Keep a balanced outlook in all your investment decisions.

Ignoring Expenses

The higher your expenses, the lower your investment's return, so pay attention.

Avoid frequent trading--the resulting transaction costs will eat into your returns. Trust your decisions and stay the course. That said, review your investments frequently and rebalance your portfolio if necessary.

Burying Your Head in the Sand

No investment plan is risk free, but by avoiding major mistakes, you can worry less about your portfolio going bump in the night.

Will Inflation Take the Air Out of Your Retirement Dollars?

Inflation is an increase in the price of goods and services over time. The phrase "your dollar doesn't go as far as it used to" is a good way to describe what happens to your money during inflationary periods.

Unfortunately, inflation often hits you hardest in retirement. During inflationary periods, you'll pay more for everything from heating oil to spaghetti sauce. This can wreak havoc with your budget when you're living on a fixed income.

Inflation can also affect how much money you'll need in retirement, so consider its effects when you're setting a retirement savings goal. The higher the rate of inflation, the less your money will buy in the future, and the more you'll have to put away to reach your savings goal. For example, let's say you estimate that you'll need $500,000 (in today's dollars) to live comfortably in retirement. If the average rate of inflation is 3% and you have 25 years until you retire, you'll need to save more than $1 million if you want to equal the purchasing power of $500,000 today.

Inflation and Rising Interest Rates

The federal government steps in when necessary to control inflation by raising interest rates. If your retirement dollars are in conservative, short-term investments such as savings accounts, money market accounts, and certificates of deposit (CDs), this may be good news for you. Returns on these accounts generally go up as interest rates rise. But before you celebrate, remember that inflation is also eroding your purchasing power. For example, if inflation is at 3%, the real annual rate of return you're receiving on a CD paying 4% interest is only 1%.

Although it generally makes sense to move more of your money into conservative investments like these if you're close to retirement or already retired, if you're years away from retirement, you may want to consider other options. When time is on your side, choosing investments that have the potential to substantially outpace inflation and that match your tolerance for risk can help you better target your retirement savings goal.

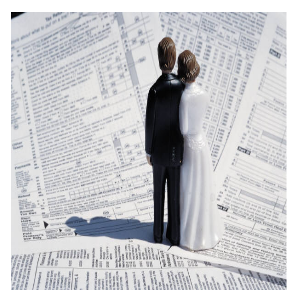
The phrase "your dollar doesn't go as far as it used to" is a good way to describe what happens to your money during inflationary periods.

Working Families Tax Relief Act of 2004

On September 23, 2004, Congress passed the Working Families Tax Relief Act of 2004 (H.R. 1308), which the President is expected to sign. The Act extends several tax provisions that have expired or were scheduled to expire shortly. The Act includes:

- An extension of the increased $1,000 child tax credit (the Act also accelerates a scheduled increase in refundability of the credit)
- An extension of marriage penalty relief in the form of an increased standard deduction amount and an expanded 15 percent marginal income tax bracket
- An extension of the expanded 10 percent marginal income tax bracket
- A one-year continuation of increased alternative minimum tax (AMT) exemption amounts, as well as reinstatement of provisions allowing nonrefundable personal tax credits to offset AMT
- Extensions for the research credit, the work opportunity tax credit, and the welfare-to-work tax credit
- Reinstatement of the above-the-line deduction for certain teacher classroom expenses
- Suspension of scheduled phase-outs reducing the credit for qualified electric vehicles and the deduction for qualified clean-fuel vehicles
- An extension of the Archer medical savings account (Archer MSA)

The Act also establishes a uniform definition of "qualifying child" for purposes of tax rules relating to dependency exemptions, the child tax credit, the earned income credit, the dependent care credit, and head of household filing status. It also contains specific provisions that may benefit military families.



"On September 23, 2004, Congress passed the Working Families Tax Relief Act of 2004, which the President is expected to sign"

Stocks in the News: Pfizer (PFE)

Pfizer Inc. (PFE) based in New York City is the largest pharmaceutical company in the world. Charles Pfizer co-founded a chemical company back in 1849 that has transformed itself into a firm that now controls 11% of all prescription drugs globally. Brands such as Lipitor, Zoloft, Celebrex, Viagra, Benedryl, Listerine, Motrin, BenGay and Sudafed are part of the Pfizer franchise. Ten products in their stable individually generate sales of more than $1 billion per year.

Management has met its goal of making Pfizer the largest drug company through well made company purchases and a strong financial statement. After swallowing Warner Lambert in 2000 and Pharmacia last year, the company will still seek to purchase other firms that can help fill in any holes in their product line. Pfizer has impressive gross margins that run in the mid 80% range. This allows the company to spend more than $7 billion in the lab doing R&D. Next to Eli Lilly, strong R&D has built Pfizer one of the best pipelines of new drugs in the business. While not the strongest growth rate in the industry, new drugs and a strong product line should keep the company's earnings growing at an attractive 14% rate for the next few years. Strong cash flow lets Pfizer maintain a long-term debt to equity ratio that is under 10% while paying a continually growing dividend that now stands at $0.68 per share, giving shareholders a 2.2% yield.

Pfizer's true strength comes from its product breadth. It does not rely on one type of disease or patient problem. Their medicines cover problems for depression, glaucoma, cholesterol, hypertension, epilepsy, infections and pain, to name a few, helping keep Pfizer's revenue stream constant. Pipelines and patent expirations keeps the stock on a roller coaster ride. Even with a strong pipeline of new treatments, like all companies, they are at the mercy of the FDA to approve products. Pfizer believes 12 new blockbuster drugs should be introduced over the next three years. To balance this, however, $6 billion of revenue is at stake as Diflucan (2004), Zithromax (2005) and Zofloft (2006) come off patent the next few months.

Recent concerns include the unknown healthcare plan proposals of the presidential candidates, how Celebrex will fare now that Merck has taken its cox-II inhibitor Vioxx off the shelves, and finally, how drug re-importation from countries such as Canada may affect sales as states such as Illinois try to put these programs in place.

<u>Key Statistics</u>

Price	*$29.86*
EPS	*$1.04*
Estimated EPS	*$2.12*
P/E Ratio	*29.2x*
PEG Ratio	*2.85x*
Dividend Rate	*$0.68*
Market Cap	*$228.9 B*
52 Week High	*$38.89*
52 Week Low	*$28.60*
Beta	*.82*
Expected Annual Growth Rate	*12.1%*

Your Life Insurance: Term or Perm?

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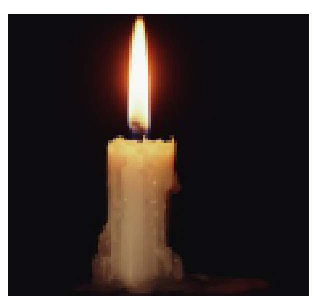
beneficiary at your death, but it also contains a cash value account funded by your premium dollars. The cash value portion grows, tax deferred, as long as the policy is in force.

With permanent insurance, you can tap the dollars in the policy even while you're alive. You can borrow against the policy, and in some cases, withdraw part of the cash value. Keep in mind, though, that unpaid loans and withdrawals will decrease the death benefit available to your beneficiaries.

Making a Choice

Think about what protection



you need and what you can afford before you purchase any type of life insurance. If you really need insurance but don't have the discretionary income, term insurance may be your best choice.

On the other hand, if you want lifetime coverage and you're interested in accumulating cash value, then permanent insurance may make more sense.

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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