4Q07

THE FSAG ADVISOR

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Market Update

Amid a lull in the credit market turmoil, equity markets around the globe have recovered nicely from their mid–August 2007 lows. Central banks have injected hundreds of billions of dollars into the banking system, stabilizing the commercial paper market at the shortest maturities. And equity investors seem confident that anticipated Federal Reserve Board rate cuts—following the weaker-than-expected labor report—will keep the economy on relatively sound footing.

However, history shows us that rate cuts are not always the economy's (or the market's) savior. Economists harbor a growing concern that the worst is not behind us, and many have raised their odds for a recession. Significant dysfunction still exists in the longer dated commercial paper and collateralized loan markets, and the housing market is exhibiting few signs of bottoming. The risks to the consumer are increasing, and businesses are becoming more pessimistic. These factors threaten to dampen capital spending and hiring plans.

Strong export growth is a testament to still-robust growth in many areas outside the United States. Emerging markets are weathering the ongoing financial crisis well. And continued strength in pro-cyclical energy, industrials and materials stocks argue against a U.S. recession that would significantly impact global growth.

Some volume indicators hint that the market has seen a correction low, but relative to market bottoms during the past 25 years, most sentiment, breadth and volatility measures have not yet signaled such a low. With equity valuations still providing underlying support to the stock market, the upcoming earnings season might be one of the most important in recent history.

We will begin to see if the financial turmoil and the slowdown in consumer spending are impacting the bottom line. As the impact of the financial turmoil unfolds in upcoming economic releases, we expect the current volatility to remain elevated well into earnings season.

Source: Schwab Market Perspective

2007 YTD Returns

DOW	*13.31%*
S&P 500	*9.13%*
NASDAQ	*19.41%*
Russell 2000	*3.16%*
Mid Cap 400	*11.00%*
MSCI EAFE	*13.70%*
Lehman US Agg.	*3.85%*
Lehman Muni.	*0.04%*
10 Year Treasury Yield	*4.59%*

How Long Will You Live? And Why Does It Matter?

Since the first baby boomers began reaching retirement age, attention has been focused on the growing number of older Americans. The news is both good--people can now expect to live many years in retirement--and bad--Social Security and Medicare will be strained, and people are saving less than they should.

A look at some statistics may convince you that the graying of America is more than just media hype. Life expectancy is on a steady upward trend, and planning for a long retirement is more important than ever.

Life expectancy trends

Gains in life expectancy over the last century have been dramatic. According to the National Center for Health Statistics (NCHS), from 1900 through 2004 (the most recent year for which statistics are available), life expectancy at birth for the total population increased from 47 to 78. Much of the gain in life expectancy at birth came in the first half of the 20th century, as public health projects and scientific discoveries helped control many of the infectious diseases and unsanitary conditions that led to a high number of childhood deaths.

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How Much Annual Income Can Your Retirement Portfolio Provide?

"Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges. Why? Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could."

Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio. The annual percentage that you take out of your portfolio, whether from returns or the principal itself, is known as your withdrawal rate. Figuring out an appropriate initial withdrawal rate is a key issue in retirement planning and presents many challenges. Why? Take out too much too soon, and you might run out of money in your later years. Take out too little, and you might not enjoy your retirement years as much as you could.

Conventional wisdom

A seminal study on withdrawal rates for tax-deferred retirement accounts (William P. Bengen, "Determining Withdrawal Rates Using Historical Data," Journal of Financial Planning, October 1994), using balanced portfolios of large-cap equities and bonds, found that a withdrawal rate of a bit over 4% would provide inflation-adjusted income (over historical scenarios) for at least 30 years. More recently, Bengen showed that it is possible to set a higher initial withdrawal rate (closer to 5%) during early active retirement years if withdrawals in later retirement years grow more slowly than inflation.

Other recent studies have shown that broader portfolio diversification and rebalancing strategies can also have a significant impact on initial withdrawal rates. In an October 2004 study ("Decision Rules and Portfolio Management for Retirees: Is the 'Safe' Initial Withdrawal Rate Too Safe?," Journal of Financial Planning), Jonathan Guyton found that including additional asset classes, such as international stocks and real estate, helped increase portfolio longevity. Another strategy that Guyton used in modeling initial withdrawal rates was to freeze the withdrawal amount during years of poor portfolio performance. Taken in concert, Guyton found it was possible to have "safe" initial withdrawal rates in excess of 5%. All studies were based on historical data, however, and past results do not predict future performance.

Inflation is a major consideration

For many people, even a 5% withdrawal rate seems low. To better understand why suggested initial withdrawal rates aren't higher, it's essential to understand how inflation can impact your retirement income.

A simple example illustrates the problem. If a $1 million portfolio is invested in a money market account yielding 5%, it provides $50,000 of annual income. But if annual inflation runs at a 3% rate, then more income--$51,500--would be needed the next year to preserve purchasing power. Since the money market provides only $50,000 of income, $1,500 must also be withdrawn from the principal to meet retirement expenses. That principal reduction, in turn, reduces the portfolio's ability to produce income the following year. In a straight linear model, the principal reductions accelerate, ultimately resulting in a zero portfolio balance after 25 to 27 years, depending on the timing of the withdrawals.

Calculating an appropriate withdrawal rate

Your withdrawal rate, then, needs to take into account many factors, including, but not limited to, your asset allocation and projected rate of return, annual income targets (accounting for inflation as desired), and investment horizon. Ultimately there is no standard rule of thumb; every individual has unique retirement goals, means, and circumstances that come into play in planning, implementing, and adjusting a retirement income strategy. Contact your FSAG advisor if you're concerned about your retirement income.

Six Reasons to Work with a Financial Professional

If you're like most people, you probably bring your automobile to a professional mechanic for routine maintenance. You see a doctor when you have concerns about your health, and for regular exams. When the need for legal counsel arises, you consult an attorney. All of us rely on the expertise of others. It's no different when it comes to personal finances - most people could benefit from working with a financial professional. Here are six good reasons to do so:

1. You don't know what you don't know

No one can be an expert on every subject. Managing your finances on a day-to-day basis is one thing; implementing a comprehensive investment plan to fund your retirement while setting aside funds for your child's education and ensuring you have sufficient life insurance is something else. That doesn't mean that you're not capable of doing it, only that you shouldn't underestimate the expertise needed to put together an effective plan. If you're going to go it alone, you'll need to educate yourself, and that brings us to the next point…

2. You have good intentions, but never set aside the time

There's an entire industry built around providing individuals with the tools they need to do their own financial planning. do their own financial planning. Books, magazines, websites, calculators, worksheets, and videos all empower individuals to take a more active role in their financial future, whether they're working alone or with a financial professional. Not one of these tools, however, will help unless you set aside the time to learn to use the tool, and the time to apply the tool to your own situation. Working with a financial professional forces you to stop procrastinating and shifts the time commitment from you to the professional.

3. Doing it all yourself isn't efficient

There's a long list of things that we could do ourselves but instead choose to pay someone else to do for us. For example, you could paint your house, but you may be happy to pay someone else to do it. Why? It's more efficient. You can spend the time working on other things and, if you choose the right professional, it will probably be done faster and better than if you did it yourself. The same goes for working with a financial professional.

4. You're not objective

It's hard to look at your own situation objectively. Having someone else with experience analyze your financial condition can be extremely helpful. And, in cases where you and your spouse aren't on the same financial page, a financial professional can listen to both of your concerns, identify underlying issues, and help you find common ground.

5. Keeping up with change is a full-time job

Last year, there were four major pieces of tax legislation signed into law. Even seasoned financial professionals have had a difficult time keeping up with the changes. Not understanding how these changes might affect your financial plan could be dangerous, but understanding the changes takes time and effort (see reason number 2).

6. You can see the trees, but not the forest

A good financial professional can help you see the big picture. He or she can show you how your financial goals are related - for example, how saving for your child's college education might affect your ability to invest for retirement. He or she can work with you to prioritize your goals, implement specific strategies, and choose suitable products or services. A financial professional can also stay on top of your plan to make sure it remains on track, recommending changes when conditions, or your circumstances, dictate.

"Managing your day-to-day finances is one thing; implementing a comprehensive plan to fund your retirement while setting aside funds for your child's education and ensuring you have sufficient life insurance is something else."

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Stocks in the News: Barr Pharmaceuticals (BRL)

Founded in 1970, Barr Pharmaceuticals (formerly Barr Laboratories) is a leading developer, producer and marketer of generic pharmaceuticals. BRL also sells a number of proprietary products. Much of Barr's growth has come from acquisitions such as Duramed, a maker of women's health and hormone replacement products, and Enhance Pharmaceuticals, an R&D company developing vaginal ring drug delivery systems.

The 2006 acquisition of the Croatian pharmaceuticals firm Pliva has the potential to expand Barr's growth by opening up international markets for the company's existing products, providing low-cost manufacturing capacity and adding other products to the generics pipeline. With this acquisition, Barr now ranks as the world's third largest generic drug maker.

Barr faces both opportunities and challenges over the next several years, key among them is the successful integration of Pliva. Although Barr is absorbing near-term earnings dilution from the Pliva acquisition, we believe that the company can grow earnings at a double-digit rate over time through its dual strategy of expanding its generics platform and building branded products.

The company could also benefit if it prevails in or settles a number of its patent challenges to major branded products - for the allergy medication Allegra-D, for two oral contraceptives, Ortho Tri-Cyclen and Yasmin, and for the Alzheimer's drug Razadyne.

Key Statistics: BRL

Price	*$54.25*
Estimated EPS	*$3.05*
Forecast P/E Ratio	*14.66x*
PEG Ratio	*0.69x*
Dividend	*$0.00*
Market Cap	*$5.82B*
52 Week High	*$57.00*
52 Week Low	*$45.00*
Beta	*0.86*
Expected Annual Growth Rate	*21.3%*
ROE	*20.4%*

Source: Argus Research Company

How Long Will You Live? And Why Does It Matter?

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Life expectancy for individuals who reach age 65 has also been steadily increasing. According to the NCHS, life expectancy for older individuals improved mainly in the latter half of the 20th century, due largely to advances in medicine, better access to health care, and healthier lifestyles. Someone reaching age 65 in 1950 could expect to live approximately 14 years longer (until about age 79), while someone reaching age 65 in 2004 could expect to live approximately 19 years longer (until about age 84).

Reduce the odds of outliving your money

Using life expectancy tables or calculators to estimate how long you'll live can help you plan for retirement. Once you understand how many years you might spend in retirement, it may be easier for you and your financial professional to put together a realistic plan to help ensure that your retirement funds will last for a lifetime.

Here are some planning tips:

- Prepare for several financial scenarios. For example, how much money will you need if you live to age 75? Age 85? Age 95?
- Recalculate your life expectancy periodically. Statistically, life expectancy changes over time.
- Consider your spouse's life expectancy as well as your own when determining your retirement income needs. According to NCHS statistics, women live 5 years longer than men, on average, although the gap is slowly closing.

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