BKD Advisor

December 2001

Strategies to Build Your Business & Personal Net Worth

What's new in taxes in 2001

There's been much discussion about the Economic Growth & Tax Relief Reconciliation Act (EGTRRA) of 2001. While few of EGTRRA's changes directly affect your 2001 tax liability, proper year-end planning doesn't just focus on the current year.

Knowledge of upcoming changes and the impact of planning techniques on future years are important to the planning process. Key changes taking effect in 2001 include:

New 10% tax bracket - A new 10% tax bracket applies to the first $6,000 of taxable income for singles and married taxpayers filing separately and to the first $12,000 of taxable income for married couples filing jointly. Most taxpayers have already received the benefit of this new bracket through a refund check from the government.

Reduction of brackets above 10% - All tax brackets above 10% drop by .5% in 2001. These brackets will decrease by another .5% in 2002.

AMT exemption increase - The alternative minimum tax (AMT) exemption increases by $4,000 for married taxpayers (to $49,000) and by $2,000 for singles and married taxpayers filing separately (to $35,750 and $24,500, respectively). This increase applies for the next four years then drops down to pre-act amounts.

Child tax credit increase - The child tax credit increases from $500 to $600. In addition, this credit is refundable to the extent of 10% of earned income over $10,000. Previously, the credit was only refundable if there were three or more qualifying children.

Plan in down years

If your business has generated less income or a loss in the current year, you may wonder if tax planning is necessary. Proper planning can turn a loss to tax advantage.

Quick refund - Corporations can take advantage of an expedited procedure to get cash back from the Internal Revenue Service (IRS) as quickly as possible.

Nonbusiness deductions - If net business losses flow through to your personal return, you must permanently give up any excess of nonbusiness deductions, *e.g.,* charitable contributions, over nonbusiness income, *e.g.*, interest and dividends. Therefore, it may make sense to move such deductions to another tax year.

Carrybacks & carryforwards - Current business operating losses may be taken as an additional deduction for the two preceding tax years and the 20 succeeding years. Under certain scenarios, it may be to your advantage to forego the loss carryback.

Basis issues - To obtain a current benefit from a partnership or S corporation loss, you must have adequate basis. A year-end loan to the business may be necessary to create such basis.

Tax brackets - It's normally to your advantage to shift business income into and deductions away from any year that would otherwise show very low income, provided the other tax year shows significant taxable income.

Passive vs. active - Losses from rental real estate activities, businesses in which you do not materially participate and other such passive activities are deductible only against income from other passive activities. Unused losses are suspended and planning is necessary to take advantage of suspended losses.

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A Special Year-end Planning Issue

Strategies

Gifting income-earning assets to your children in a lower bracket is often a good strategy. However, consider the following:

- **For a child under age 14, the "kiddie tax" subjects unearned income over $1,500 to the parent's highest marginal rate.**
- **Assets in a child's name may affect eligibility for college financial aid. Assets in a child's name count more heavily against financial aid than assets in a parent's name.**

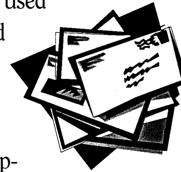
If you would like to leave a substantial amount to charity at your death, but need the income from those assets now, consider a charitable remainder trust or a pooled-income fund. These allow you a current charitable deduction, while retaining the income the contributed sum generates.

Hold certain payments until '02

Considering tax law changes taking effect next year, you may want to defer payment of certain expenses that will qualify for new or more generous tax credits, exclusions and other expanded tax breaks set to go into effect in 2002.

Higher education expenses - Unless the expenses were job related, you couldn't deduct higher education expenses in 2001. Beginning next year, eligible taxpayers can deduct up to $3,000 of qualified higher education expenses, whether or not they itemize.

Qualified state tuition program distributions - Distributions during 2001 from a "529" qualified state tuition program are taxable to the extent of earnings, even if used to pay for qualified higher education expenses. For years beginning after 2001, however, distributions from a state-sponsored tuition program will be tax free if they are used to pay for qualified higher education expenses such as tuition, fees, books and supplies required for enrollment.



Plan loans to sole proprietors, partners & S corporation owners - A loan from a qualified plan allows you to gain the use of retirement plan funds while avoiding taxation on distribution. However, sole proprietors, more than 10% partners and more than 5% S corporation owners may not currently take advantage of this benefit.

Beginning next year, these owners will be able to withdraw cash as a nontaxable loan as long as certain requirements are met.

Adoption expenses - The per-child dollar limit for the adoption expenses tax credit will rise from $5,000 to $10,000 for 2002.

Retirement savings credit - Beginning next year, eligible lower-income individuals will be able to claim a nonrefundable credit of up to 50% (up to a maximum credit of $1,000) for certain retirement plan contributions. Elective deferrals to 401(k) and 457 plans, 403(b) annuities, SIMPLE and SEP plans, traditional or Roth individual retirement accounts (IRAs) and after-tax contributions to qualified plans qualify.

Tax rates, exemptions, deductions & credits

Tax rates - Individual income tax rates on taxable income for 2001 are shown in the table on page 3. The rates reflect the reduction created by the 2001 tax act.

Standard deduction - The standard deduction for 2001, available for individual taxpayers that do not itemize their deductions, is:

- $7,600 for married taxpayers filing jointly and surviving spouses (entitled to joint filing for two years following the death of the other spouse if they have not remarried and provide a home for a depend-

Does gifting still make sense?

Under the 2001 tax act, the estate tax is phased out and completely repealed in 2010. However, without further law changes, the estate tax will reappear in its present form in 2011.

Based on this uncertainty, making annual exclusion, $10,000, gifts to family and friends continues to be an appropriate strategy for those with taxable estates. In addition, the annual exclusion amount will rise to $11,000 in 2002.

Giving checks

In general, when making gifts by check, the gift is not complete until the check clears the bank. Until that moment, the maker can stop payment on the check.

The courts have sometimes been lenient and upheld gifts in situations where checks were cashed or deposited by the recipient before year end but didn't clear until the following year. However, the IRS is stricter.

Thus, if you intend to make gifts to family members before year end, do so on a timely basis and tell them to deposit the checks promptly to ensure they will clear this year. Otherwise, the gift tax exclusion could be lost.

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- ✔ $6,650 for heads of households
- ✔ $4,550 for single taxpayers

Taxpayers who can be claimed as a dependent on another's return are entitled to a standard deduction of $750 against investment income. If they also have earned income, the standard deduction is the greatest of $750 or 2001 earned income plus $250, not to exceed $4,550, the standard deduction for single taxpayers.

Also, taxpayers 65 or over get an additional standard deduction of $900 each if married, or $1,100 if single or head of a household. Identical standard deduction amounts are available if the taxpayer is blind.

Individual Tax Rate Schedule

Status	Rate (%)	Taxable Income ($) 2001 Brackets	Taxable Income ($) Estimated 2002 Brackets*
Single	10	$0 - 6,000	$0 - 6,000
	15	6,001 - 27,050	6,001 - 27,950
	27.5	27,051 - 65,550	27,951 - 67,700
	30.5	65,551 - 136,750	67,701 - 141,250
	35.5	136,751 - 297,300	141,251 - 307,050
	39.1	Over 297,300	Over 307,050
Head of Household	10	$0 - 10,000	$0 - 10,000
	15	10,001 - 36,250	10,001 - 37,450
	27.5	36,251 - 93,650	37,451 - 96,700
	30.5	93,651 - 151,650	96,701 - 156,600
	35.5	151,651 - 297,350	156,601 - 307,050
	39.1	Over 297,350	Over 307,050
Married Filing Jointly	10	$0 - 12,000	$0 - 12,000
	15	12,001 - 45,200	12,001 - 46,700
	27.5	45,201 - 109,250	46,701 - 112,850
	30.5	109,251 - 166,500	112,851 - 171,950
	35.5	166,501 - 297,350	171,951 - 307,050
	39.1	Over 297,350	Over 307,050
Married Filing Separately	10	$0 - 6,000	$0 - 6,000
	15	6,001 - 22,600	6,001 - 23,350
	27.5	22,601 - 54,625	23,351 - 56,425
	30.5	54,626 - 83,250	56,426 - 85,975
	35.5	83,251 - 148,675	85,976 - 153,525
	39.1	Over 148,675	Over 153,525

*These brackets will be adjusted for inflation in 2002. The IRS has not yet released those adjustments.

Personal exemptions - The personal exemption is $2,900 in 2001. Taxpayers, who intend to claim a dependency exemption for someone other than a child under 19, under 24 if a student, lose the exemption if the person's gross income exceeds $2,900 in 2001.

In 2001, personal exemptions begin to be phased out when adjusted gross income (AGI) reaches:

- ✔ $132,950 single taxpayer
- ✔ $166,200 head of household
- ✔ $199,450 married taxpayers filing jointly

Above these levels, the amount of each personal and dependent exemption is reduced by 2% per $2,500 of AGI.

Itemized deduction - In 2001, itemized deductions must be reduced by 3% of the amount by which AGI exceeds $132,950, $66,475 for married individuals filing separately.

The reduction cannot exceed 80% of total itemized deductions reported and excludes deductions for medical expenses, casualty and theft losses and investment interest expense. The effect of the itemized deduction phaseout is to increase the effective marginal tax rate by almost 1% for affected taxpayers.

Mortgage interest - Mortgage interest on up to two homes is fully deductible on up to $1 million of acquisition loans and up to $100,000 of home-equity loans. There is no limit on acquisition debt incurred before October 14, 1987, but the excess reduces the interest deduction on home-equity loans. Interest on loans that exceed these limits is treated as personal interest, which is not tax deductible.

Medical expenses - Unreimbursed medical expenses are deductible only to the extent they exceed 7.5% of AGI.

Travel costs to and from a physician, dentist, hospital or pharmacy are medical expenses. If you use your car, the deduction is 12 cents per mile. You also may deduct up to $50 per night, but not meals, while away from home to obtain medical care by a physician in a hospital for each eligible individual.

Strategies

✔

For taxpayers ineligible to file jointly, head of household status provides the greatest standard deduction and lowest effective tax rate possible.

If you currently file as single or married filing separately, consider taking one or more of the following actions, if doing so will allow you to claim head of household filing status:

- ✔ **Have a dependent or unmarried child live more than half the year with you.**
- ✔ **If you already contribute to the cost of the household or rest home of a parent who qualifies as a dependent, increase the contribution to more than 50% of the cost. If two or more siblings contribute to a parent's support, they may want to make gifts to the sibling who could best benefit from head of household status and the resulting dependency deduction, in lieu of each sibling contributing to the parent's support.**

✔

By waiting until after the dividend record date to buy a mutual fund, you convert ordinary income subject to tax in the current year into capital gain, or a reduction in capital loss, that will not be taxed until the year of sale.

Strategies

It's possible to finance the purchase of a boat or recreational vehicle and obtain a tax deduction. This can be done if you use a home-equity loan to finance the purchase. Interest on home-equity loans up to $100,000 is tax deductible.

If the boat or recreational vehicle has sleeping, cooking and toilet facilities, it could qualify as a second home. If the loan is secured by the boat or vehicle, you may be able to obtain the same tax deductions available on vacation home mortgages.

Charitable contributions - In general, charitable deductions are limited to 50% of AGI. Excess deductions may be carried over for five years. Deduction of any charitable contribution of $250 or more is barred, unless the taxpayer has a contemporaneous written substantiation from the charity receiving the contribution.

Charitable organizations also must provide a good-faith estimate of the value of any goods or services provided the donor when contributions received are $75 or more.

If you do volunteer work for a charity, you can deduct unreimbursed out-of-pocket costs, including meals and lodging while away from home and overnight expenses and transportation costs, including repairs and maintenance of a car connected with your volunteer work. Taxpayers who don't deduct actual car expenses can deduct 14 cents per mile.

Miscellaneous deductions - Unreimbursed employee business expenses are deductible to the extent they exceed 2% of your AGI. These include unreimbursed expenses under a plan that requires no substantiation, or lets you keep reimbursements exceeding substantiated expenses and other miscellaneous deductions. These may include investment expenses, professional organization and union dues, tax-return preparation costs and expenditures for care and maintenance of work clothes.

In general, unreimbursed meal and entertainment expenses are subject to a 50% of cost limit before being included as miscellaneous itemized deductions.

Federal estate taxes on income in respect of a decedent, amortizable bond premiums, employment related moving expenses and certain other miscellaneous deductions are not subject to the 2% limit.

Losses - Each unreimbursed nonbusiness or theft loss is subject to a $100 deductible. Total remaining losses must be reduced by 10% of AGI and the remainder may be taken as a tax deduction. Insured losses may not be deducted unless an insurance claim for reimbursement is filed.

Taxpayers who suffered a natural disaster loss in 2001 in an area determined by the President to warrant federal assistance may take the loss on the 2001 tax return or file for a refund of 2000 taxes. The latter is usually more desirable if your marginal tax rate is higher in 2000 and the funds are needed quickly.

Taxes - Real estate taxes and state and local income taxes are deductible and may be accelerated by increased withholding or prepayment of 2002 taxes in 2001.

Tax credits - Taxpayers over 65 or totally and permanently disabled may be entitled to a retirement income tax credit. Low-income workers may qualify for the earned income credit. Workers who incur expenses for child or dependent care in order to work may be entitled to the child or dependent care credit.

Don't forget AMT exemptions

The AMT is the excess, if any, of your tentative minimum tax over your regular income tax. Certain items, such as state income tax deductions and personal exemptions, are permanent differences that are added to your regular taxable income in arriving at alternative minimum taxable income (AMTI).

AMT Exemption Amounts

Filing Status	Exemption Amount	No Exemption After
Married - Joint	$49,000	$346,000
Unmarried	$35,750	$255,500
Married - Separate	$24,500	$173,000*
Child Under 14 with Unearned Income	Lesser of: (1)$35,750 or (2) sum of earned income plus $5,350	$255,500

*Married - separate taxpayers must generally increase AMT income by 25 cents for every $1 their AMT income exceeds $173,000. The maximum increase is $24,500.

Other adjustments, such as depreciation, are merely timing differences, which are deductible for AMT purposes over a longer time period. After making the above adjustments, an exemption amount is subtracted. The result is AMTI, which is subject to an AMT rate of 26% or 28%, depending on your income level.

Since the AMT is paid only when the tentative minimum tax

Pay less, pay later

The 2001 tax act lowered tax rates for all taxpayers in the current year. These rates continue to decline over the next five years (see table below). For most taxpayers, deferring income into 2002 and accelerating deductions into 2001 is a good planning strategy.

Deferring income from 2001 to 2002 also helps taxpayers in these situations:

- ✔ You will drop into a lower tax bracket next year because of retirement, unemployment or a business slowdown
- ✔ You expect to move from single to head-of-household status in 2002
- ✔ You will be divorced in 2002
- ✔ A child with investment income will be 14 next year and escape the kiddie tax
- ✔ You receive Social Security benefits

Because of the time value of money, deferring taxes can save money. Even though deferral produces no tax savings or costs slightly more in taxes it allows you to use your money a little longer, before handing it over to the government.

To accomplish income deferral, consider the following possibilities:

- ✔ Have your employer defer compensation such as bonuses until next year
- ✔ Delay year-end billings if you have a cash business
- ✔ Prepay medical bills, mortgage interest and other tax-deductible expenses in the current year by doubling up payments before year end

Declining tax rates make tax-deductible expenses such as mortgage interest, investment-related deductions and municipal bond investments less valuable. The same decline enhances the value of those investments that pay taxable interest and dividends.

Reduction of Tax Brackets Above 15% Bracket

2001 Tax Act Changes	Pre-Act Law	2001	2002-2003	2004-2005	2006-2010	2011
Top 4 tax brackets	39.6%	39.1%	38.6%	37.6%	35%	39.6%
for individual	36%	35.5%	35%	34%	33%	36%
taxpayers and	31%	30.5%	30%	29%	28%	31%
estates and trusts	28%	27.5%	27%	26%	25%	28%

exceeds your regular tax, your anticipated 2001 and 2002 regular tax must be considered in determining how much of your 2001 adjustments should be shifted into 2002 or vice versa. Because this shift affects both regular tax and AMT, planning for both taxes must be considered simultaneously.

Special provision for equipment purchases

Businesses often consider purchasing equipment at year end to benefit from the additional depreciation deduction. Normally, property placed in service at any time during a taxable year receives a half-year's depreciation deduction.

An exception applies when 40% or more of the total purchases for the year occur in the final quarter. In this instance, a mid-quarter convention applies. The following depreciation results:

Quarter	Months Depreciation
1st	10.5
2nd	7.5
3rd	4.5
4th	1.5

Special exception

The IRS recently issued guidance allowing businesses to elect out of the mid-quarter depreciation rules if the business' third or fourth quarter includes September 11, 2001. This exception benefits calendar year businesses as well as those with a January or February fiscal year end.

All businesses are eligible for the exception, including those not directly affected by the September 11 terrorist attacks.❑

Strategy

The availability of many tax breaks, such as deductible IRA contributions, child tax credits and education credits, as well as full use of itemized deductions and personal exemptions, are tied to a taxpayer's AGI. Because of this, you may want to consider one or more of the following strategies to reduce your AGI:

- ✔ **Convert taxable interest to tax exempt by shifting investments**
- ✔ **Use income-producing assets to pay off debts**
- ✔ **Increase contributions to retirement plans**
- ✔ **Take capital losses**

There is still time to acquire equipment and obtain a tax deduction for 2001.

Qualifying businesses can deduct up to $24,000 of the cost of equipment put into service in 2001 as a business expense instead of having to depreciate the amount. However, the expense deduction is limited to taxable income from the business, including wage income from employment.

Planning key to year-end investing

by Wayne Starr, BKD Wealth Advisors, LLC

Where were you on September 11? It's clear we all feel differently than we did on September 10. We are defining that different feeling in many ways. It's also clear that September 11 had a strong impact on U.S. financial markets and a lesser impact on markets around the world.

We were dealt a tremendous emotional blow as well as a significant economic blow.

Depending on whom you believe, we were or were not in a recession on September 10. We *are* in a recession now. The depth and length of this recession are unknown but are the subject of daily conjecture. In such an uncertain economy, how should you invest as the end of 2001 approaches?

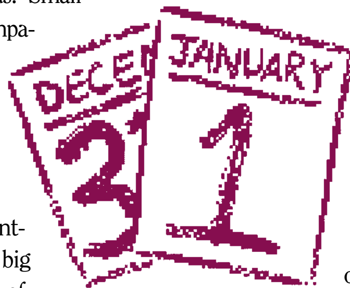
Invest now

First, if you haven't made your individual retirement account (IRA) contribution for 2001, do it now regardless of deductibility. There are buying opportunities galore in this market.

Is there a new low yet to come in this recession? Maybe, but don't wait around trying to find the low point before you buy. You will most likely miss it.

In his book, **The Terrible Truth About Investing**, published by Fairfield Press in 1999, Bruce J. Temkin presented his study of the S&P 500 between 1980 and 1990. The table on this page demonstrates how being out of the S&P 500 just 20 days cut the return from 17.5% to 9.6%. Those returns occurred during a decade that was overshadowed by the tech driven returns of the 1990s.

Don't try to find the one stock that will make your portfolio healthy. Do look at the universe of small and mid-size company no-load mutual funds. Small and mid-size companies traditionally show the best returns as the economy recovers.



For those wanting to bet on the big company portion of the market, there are many excellent large cap managers with the ability to discover undervalued companies with bright futures in today's market. We can help you find the appropriate manager for your portfolio.

Harvest losses

A proven tax strategy is the harvesting of losses in your taxable portfolios. This has no application in IRAs or any other tax-deferred account. There has been a bounce back in the stock markets following the large post-September 11 sell-off. However, there is still a lot of red ink in portfolios that, when harvested, can reduce your tax burden for 2001 or over a period of years.

The first step in this strategy is offsetting the realized losses against realized gains. The losses offset the gains dollar for dollar. The gains offset results in savings as much as 20%, the maximum federal capital gains tax.

Next, losses realized in excess of gains can be used, up to $3,000, to reduce ordinary income. The top tax rate for 2001 is 39.1%. A $3,000 loss used to offset ordinary income results in savings of $1,173. Finally, if there is still a loss exceeding $3,000, it can be carried over to subsequent tax years.

There is a caveat in using this strategy. For 31 days, you cannot buy back the fund you sold to realize the loss. This is called the wash sale rule. That rule, however, doesn't need to be a deterrent.

For example, as of October 11, 2001, Lipper reports in the October 12, 2001 **Wall Street Journal**, a 24.95% loss for international funds. You could sell an international fund and reinvest in a fund that represents a segment of the U.S. market that you feel will recover more quickly, such as U.S. large cap growth. If you still think international is a place to invest, look for a fund performing better than the average.

Rebalance your portfolio

The last two issues of the **BKD Advisor** have dealt with the value of asset allocation. BKD Wealth Advisors believes that the **Brinson Study - Determinants of Portfolio Performance**, issued in 1986, is alive and well in 2001. Greater than 90% of portfolio performance comes from portfolio design (asset allocation) while less than 10% of performance is derived from market timing and security selection.

If the target allocation in your portfolios (taxable, tax deferred and nontaxable) for fixed income (corporate bonds, municipals, treasuries, etc.) has grown because of the second straight year of strong bond returns, it's time to consider reducing the allocation to the target bond percentage. Proceeds can then be reinvested in the equity portion of the portfolio. The equity allocation has shrunk in everyone's portfolio.

As with all strategies, your personal situation has everything to do with how you proceed. Those who are retired and taking income from the portfolio will view this differently from someone who is actively accumulating investment assets.

Jonathan Clements, in his "Getting Going" column, **Wall Street Journal**, October 9, 2001, sums it up this way: "if the world has changed maybe your portfolio should too. . . I wouldn't radically revamp your investment mix. Instead, the idea is to tweak your portfolio, cutting back here, adding a little money there, to reflect some of the startling changes of the past 18 months and especially the past four weeks."❑

Impact of Missed Trading Days 1980 - 1990

Number of Best Days Missed	Average Annual Compound Return	Growth of $10,000 After 10 Years
None	17.5%	$56,820
10	2.7%	35,370
20	9.6%	26,010
30	8.9%	24,270
40	4.4%	15,510

Tax act of 2001 or 1997, which offers most benefits?

by Jeff Layman, BKD Wealth Advisors, LLC

The Economic Growth and Tax Relief Reconciliation Act of 2001 is a temporary measure that, without legislative action, will expire December 31, 2010.

Until lawmakers agree on permanent legislation, the changes enacted under the Taxpayer Relief Act of 1997 will likely have a greater impact on investing for high net-worth individuals. The 1997 law, with its changes to long-term capital gains tax rates and holding periods, presents real—and lasting—opportunities for investors with taxable dollars.

Mutual funds

Under the 1997 law, for many investors, mutual funds have been the investment of choice over the last 10 to 15 years. These funds are managed with a total return objective, without regard to the tax implications of their trading patterns.

The traditional marketing of mutual funds as total return investments, the fact that mutual fund managers are compensated based largely on their performance and the high proportion of tax-deferred money invested in many mutual funds have combined to create an environment in which after-tax strategies are a low priority.

The challenge to mutual funds

As required by law, mutual funds distribute capital gains proportionately to shareholders each year. This creates taxable events for those not investing tax-deferred dollars. Many who invest taxable dollars in mutual funds suffer considerable damage to their annual after-tax return because of this distribution requirement.

If a market correction prompts investors to redeem their mutual fund shares in sufficient quantities to force fund managers to realize large amount of the embedded capital gains, an even larger tax liability may result for late investors.

Now may be a good time to consider moving taxable assets from mutual funds into individually managed accounts. Because of the reduced long-term capital gains tax rate, the tax penalty for liquidating mutual fund shares will be less than it would have been.

An individually managed account allows you to establish your own cost basis for every holding in your account at the time of purchase, eliminating the danger of embedded, unrealized capital gains.

Low-cost basis

Another problem that may be solved, in part, by individually managed accounts is the difficulty of liquidating significant holdings in low-cost basis stocks. When the best option was to invest in mutual funds, which accept only cash to fund an account, you had to liquidate holdings, pay capital gains taxes and reinvest cash in the fund.

You may have hesitated to liquidate these holdings because of the tax penalty imposed. Managers of individual accounts will often accept cash or securities to fund an account.

Since the passage of the 1997 tax act, a particular subspecialty has emerged among professional money managers who offer individually managed accounts. These subspecialists focus on after-tax strategies.

If you fund an individually managed account with one of these after-tax managers using low-cost basis stocks, you should be able to liquidate overweighted positions, coordinating the sales with your overall tax situation over several years to reduce your ultimate loss of capital gains to taxes.

As the account manger seeks the best opportunities to liquidate low-cost basis holdings and rebalance your portfolio, you maintain control over buy/sell decisions in your portfolios and establish a cost basis for each security as of the date on which the manager purchases the security.

BKD Wealth Advisors can help

In the post '97 tax act world of investing, individually managed accounts may be a preferable investment for your taxable assets. As for the tax act of 2001, don't count your tax breaks beyond the 2010 expiration date. If the reductions in income, estate and gift taxes do become permanent, so much the better.

Contact BKD Wealth Advisors to find out how we can help determine the best plan for your investments.❑

Tale of the Tape

Selected Returns through October 26, 2001

Benchmarks	1 Year	Year to to Date
DOW	-9.87%	-11.51%
S&P 500	-19.93%	-16.34%
NASDAQ Composite	-46.04%	-28.4%
Russell 2000	-8.59%	-9.28%
Selected Asset Classes - Mutual Funds		
Large Cap Growth		-27.49%
Large Cap Value		-12.2%
Mid Cap Growth		-27.14%
Mid Cap Value		-2.36%
Small Cap Growth		-21.55%
Small Cap Value		5.36%
Science & Technology		-40.14%
International		-22.05%

Market commentary: third quarter 2001

by Jeff Layman, BKD Wealth Advisors, LLC

The third quarter of 2001 will forever be defined by the tragic events of September 11. The impact of the terrorists attacks on the economy and the nature of military retaliation will be the focal point of investment markets over the coming months.

Although the markets functioned normally and efficiently the week of September 17, major market averages posted substantial declines in response to the terrorist attacks.

Index returns for third quarter and year to date reflect the impact of events of the last two weeks of September, including:

- ✔ Consumer spending is the engine that has driven the economy in the past year. Given the after effects of the attacks, a slowdown in consumer spending is likely. Most economists expect this decrease in consumer spending to send the U.S. economy into a recession through the first quarter of 2002.
- ✔ The Federal Reserve Board has supplied a massive amount of liquidity to the system, lowering interest rates nine times this year. At 2.50%, the Fed funds rate now stands at a 39-year low. Lower interest rates benefit companies and consumers by reducing the cost of borrowing, thus encouraging spending and investment.
- ✔ The U.S. government has committed to spending as much as $100 billion on disaster assistance, retaliation efforts and the current economic weakness.
- ✔ Recently the Securities and Exchange Commission relaxed restrictions on corporate stock buybacks. Many companies, particularly in the technology and financial services sectors, have since announced their intention to repurchase shares at current low prices. When shares are repurchased, earnings per share naturally rise because of fewer shares outstanding.
- ✔ An increase in corporate demand for technology and communications products to improve back-up and redundant systems is expected to clear inventory and overcapacity in these sectors more quickly than previously expected.
- ✔ The combination of more stimulative monetary and fiscal policy and recent corporate actions should ultimately allow the economy to rebound more vigorously than previously anticipated. The U.S. economy remains the most productive economy in the world.❑

Third Quarter 2001

	3Q2001	2001 YTD
S&P 500	(14.67%)	(20.39%)
NASDAQ Composite	(30.62%)	(39.33%)
Russell 2000	(20.72%)	(15.28%)
MSCI EAFE	(13.95%)	(26.35%)
Lehman Aggregate Bond	4.62%	8.38%
Lehman Municipal Bond	2.80%	5.78%

BKD Investment Advisors, LLC announces name change

Effective November 9, 2001, BKD Investment Advisors, LLC, an SEC-registered, wholly owned investment advisory subsidiary of **BKD, LLP**, will become BKD Wealth Advisors, LLC.

Jack Thurman, Springfield, a principal with BKD Investment Advisors, has been named president of BKD Wealth Advisors. Jeff Layman, Springfield, is named director of investment services, and Patti Acton, Springfield, continues as director of compliance and administration.

BKD Wealth Advisors delivers the financial planning, investment advice and insurance components of WealthPlan. WealthPlan is designed to grow, preserve and protect clients' assets.❑

Investment strategies from BKD Wealth Advisors, LLC

How to Reach BKD

For a complete list of our offices and subsidiaries and their contact information, go to bkd.com or call Director of Communications at 417 831-7283.

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