BKD Advisor

December 2002

Strategies to Build Your Business & Personal Net Worth

2002 challenging for year-end tax-planning strategies

The U.S. economy has had a bumpy ride this year, with more downs than ups for most sectors. Year-end tax-planning strategies will need to reflect the kind of ride you or your business has had.

For taxpayers enjoying a strong business segment, the traditional technique of delaying income and accelerating deductions is still appropriate.

For those just trying to weather the continuing recession, planning may focus more on making the most of refunds of earlier year's taxes.

Whatever your situation, Congress has passed and President Bush has signed into law broad-based tax relief over the last 18 months.

Individual taxpayers received across-the-board tax rate reductions and federal tax rebates in 2001 with the passage of the *Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001*.

The rate reductions are still being phased in, with the next scheduled one percentage point decrease to occur January 1, 2004. This legislation also enhanced the ability to defer taxation on more dollars put into individual retirement accounts (IRAs) and qualified plans.

Federal Reserve Chair Alan Greenspan addressed Congress March 8, 2002, with news the economy was rebounding from recession. On March 9, 2002, in what seemed an act of contradiction, President Bush signed into law an economic stimulus package, the *Job Creation and Worker Assistance Act of 2002* (JCWA).

JCWA is an important piece of legislation that contains significant business tax breaks, specifically a 30% depreciation bonus and a five-year carryback for net operating losses (NOLs).

On a more modest level, the bill will benefit some individuals by extending two existing tax breaks: one that applies to medical savings accounts, the other to foster care. It also creates two new provisions: alternative minimum tax (AMT) relief and an annual $250 write-off for teachers' classroom expenses.

Inside are key planning strategies for individuals and businesses that will help each make the most of a challenging year.

Inside

BKD announces new director of tax services

Rich Royster, a partner in the Evansville office of **BKD, LLP**, has accepted the position of firmwide director of tax services for BKD in Springfield, Missouri.

As director, he will oversee the quality control of the firm's tax practice, including the preparation and filing of more than 41,000 tax returns of all types. He relocated to Springfield in November.

Royster joined Geo. S. Olive in 1967 after graduating from Southern Illinois University, Carbondale, and was with that firm through its merger with BKD last year. He has more than 30 years of tax- and estate-planning experience.

Steve Bullard, former director of tax services for the past 17 years, has moved on to new challenges as the tax director for BKD's Southern Missouri practice unit based in Springfield.

A Special Year-end Planning Issue

Tax Strategies

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The decline in the stock market can lead to a tax trap for people who exercised incentive stock options to buy shares earlier in the year when prices were higher. The gain on the option may have created an AMT liability that is recognized despite the fact the stock price has since fallen.

In effect, you could owe tax on a larger amount than the stock is currently worth. If you are subject to AMT, consider selling the acquired shares by year end to eliminate AMT related to the exercise of the incentive stock options.

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If you have a substantial amount of investment interest, consider selling investment property that would result in capital gain. Since investment interest is only deductible to the extent of net investment income, any excess is carried forward to later years and is limited to each year's investment income.

An election can be made to include the capital gain in investment income and provide for a larger deduction of investment interest expense. Exercise caution, as the preferential capital gain rate is the tradeoff.

Much of the information in this Advisor is specific to 2002 and may not be relevant after December 31, 2002. As always, talk with your BKD advisor before taking any action.

Planning for individuals

This will be a pivotal year for individual taxpayers primarily because of a variety of legislative changes.

This year, many key changes from EGTRRA went into effect for the first time, as did those from earlier tax laws, such as the *Consolidated Appropriations Act of 2001*.

JCWA introduced new provisions but also made technical changes to more than 20 provisions from earlier legislation, specifically the two 2001 tax laws mentioned above.

In addition, a number of key tax figures, such as the standard deduction and personal exemption, rose because of built-in inflation adjustments.

The following summary is designed to help you keep track of the most important 2002 tax changes. It focuses on the changes having the biggest impact on the widest range of taxpayers.

Revised tax rate

This year, the top four tax brackets are one-half of one percentage point lower than they were for 2001. See the table on page 3 for the 2002 percentages.

In addition, a new 10% tax bracket is in place for 2002. For 2001, many people realized the benefit of the 10% bracket in the form of a rate-reduction payment or credit or by filling out a special worksheet in the Form 1040 or 1040A instructions.

The range of the 15% and higher individual income tax brackets for 2002 has been adjusted for inflation so more income will be taxed at lower rates. These changes will result in a lower tax liability for many individuals.

When employers use the "wage bracket" withholding method, many wage earners will benefit immediately in the form of reduced income tax withholding.

For example, a married person with between $2,360 and $2,380 in biweekly wages and claiming two withholding allowances will have $33 less taken out of each paycheck this year than last.

Tax-free payouts from qualified tuition programs

Qualified tuition programs (also called Section 529 programs) generally allow taxpayers to buy tuition credits or certificates for their children or make contributions to an account set up to meet the qualified higher education expenses of their children.

Distributions in 2002 from state-sponsored qualified tuition programs are tax free if used for qualified higher education expenses, *e.g.*, college tuition, room and board, textbooks, etc.

The earnings part of such distributions made in 2001 was previously taxable to the child. In addition, some states allow a tax deduction for amounts contributed to Section 529 plans.

IRA tax strategies in a down market

A declining stock market has no immediate tax effect on owners of traditional or Roth IRAs, but you should be aware of available tax strategies.

Strategies include converting a traditional IRA to a Roth IRA; recharacterizing a conversion to a Roth IRA or reconverting a prior recharacterization.

If you are unable to convert your taxable IRAs to Roth IRAs in 2001 because your income level exceeded $100,000, you may be able to this year because of the economic downturn. Taxable equity values have fallen significantly from 2001 levels, so taxes resulting from the conversion process may be lower.

If you converted a traditional IRA to a Roth IRA when the market was higher you may have an inflated tax bill if the market does not recover. In that case, you can recharacterize the prior conversion, as if it never happened.

The converted amount (plus earning, minus losses) transfers from the Roth IRA to a traditional IRA. You must generally complete the recharacterization by the due date of the tax return, including extensions.

After a prior conversion is recharacterized, the amount may be reconverted later from the traditional IRA to a Roth IRA provided timing rules are followed.

If you think the market will remain low for awhile but that it will not go much lower, you may wish to recharacterize the Roth and reconvert as soon as eligible.

Individual Tax Rate Schedule

Status	2002 Rates Rate (%)	2002 Rates Bracket	Estimated 2003 Rates Rate (%)	Estimated 2003 Rates Bracket*
Single	10.00	$0 - 6,000	10.00	$0 - 6,000
	15.00	6,001 - 27,950	15.00	6,001 - 28,400
	27.00	27,951 - 67,700	27.00	28,401 - 68,800
	30.00	67,701 - 141,250	30.00	68,801 - 143,500
	35.00	141,251 - 307,050	35.00	143,501 - 311,950
	38.60	Over 307,050	38.60	Over 311,950
Head of Household	10.00	$0 - 10,000	10.00	$0 - 10,000
	15.00	10,001 - 37,450	15.00	10,001 - 38,050
	27.00	37,451 - 96,700	27.00	38,051 - 98,250
	30.00	96,701 - 156,600	30.00	98,251 - 159,100
	35.00	156,601 - 307,050	35.00	159,101 - 311,950
	38.60	Over 307,050	38.60	Over 311,950
Married Filing Jointly	10.00	$0 - 12,000	10.00	$0 - 12,000
	15.00	12,001 - 46,700	15.00	12,001 - 47,450
	27.00	46,701 - 112,850	27.00	47,451 - 114,650
	30.00	112,851 - 171,950	30.00	114,651 - 174,700
	35.00	171,951 - 307,050	35.00	174,701 - 311,950
	38.60	Over 307,050	38.60	Over 311,950
Married Filing Separately	10.00	$0 - 6,000	10.00	$0 - 6,000
	15.00	6,001 - 23,350	15.00	6,001 - 23,725
	27.00	23,351 - 56,425	27.00	23,726 - 57,325
	30.00	56,426 - 85,975	30.00	57,326 - 87,350
	35.00	85,976 - 153,525	35.00	87,351 - 155,975
	38.60	Over 153,525	38.60	Over 155,975

*These brackets have been adjusted for inflation in 2003. However, the IRS has not yet released the official amounts.

Coverdell Education Savings Accounts

Coverdell Education Savings Accounts (formerly known as Education IRAs) are liberalized significantly. The annual contribution limit for such an account is $2,000 ($500 for 2001).

In addition, these accounts now may be used for a wide array of education expenses, such as elementary and secondary public, private or religious school tuition and expenses, extended-day programs and computer purchases.

Last year, the accounts could only be used for higher education-related expenses.

New deductions for college costs

For 2002 through 2005, eligible taxpayers may claim a new deduction for higher education expenses. This deduction is available whether or not you itemize other deductions or claim the standard deduction.

For 2002 and 2003, this deduction can be up to $3,000 for those who qualify: joint filers whose modified adjusted gross income (AGI) doesn't exceed $130,000 and singles or heads of households whose modified AGI doesn't exceed $65,000.

New tax credit for low-income savers

Beginning in 2002, eligible lower-income taxpayers may claim an annual tax credit for elective deferrals to qualified plans and IRAs, including Roth IRAs.

The credit rate (50%, 20% or 10%), which is applied against contributions of up to $2,000 per taxpayer, depends on filing status and AGI.

Higher elective deferral limits

For 2002, the 401(k) elective deferral limit is $11,000 ($10,500 for 2001). Individuals age 50 and over can make extra catch-up contributions of $1,000, though not all plans permit catch-up contributions.

These limits also apply generally to 403(b) annuities, salary reduction SEPs and Section 457

Tax Strategies

Did you know that management and trustee fees incurred on your IRA can be paid either from IRA funds or from separate non-IRA funds?

Using separate funds is usually advantageous because the fees can be added to your miscellaneous itemized deductions, which are tax deductible once they exceed 2% of your AGI.

When it comes to broker's commissions, use the opposite strategy, and make sure they are paid with IRA funds. They are viewed as part of the cost of the investment held in the IRA, and if outside funds are used, they will be treated as an excess contribution, and your IRA will be subject to a penalty.

To reduce your tax bill, consider purchasing municipal bonds or municipal mutual funds. The earnings from these investments are not taxable for federal income tax purposes and also may be exempt from state income taxes.

Tax Strategies

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Get a deduction from your credit card company's rebate program. Some companies offer a rebate program based on a cardholder's annual purchases.

In lieu of cash, cardholders may donate rebates to a specific charity if the following conditions are met:

- ✔ **The cardholder makes an affirmative election to donate the rebates.**
- ✔ **The cardholder must receive an acknowledgment from the charity for amounts of $250 or more.**
- ✔ **Deductions must be itemized on Schedule A if the cardholder is an individual.**

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Individuals must prepay income taxes for the current year through withholdings or estimated taxes. For most of us, the required federal annual payment is the lower of 90% of the current year's taxes or 100% (112% for certain individuals in 2002) of the tax shown on the previous year's return.

To avoid penalties on underpayment of estimated taxes:

- ✔ **Increase withholding from remaining 2002 paychecks**
- ✔ **Take distributions from retirement accounts and have proceeds withheld for income taxes. Within 60 days, roll back distributions, including the withheld tax, to your retirement account.**
- ✔ **Make a timely catch-up fourth quarter estimate to lessen the penalty.**

(governmental) plans.

In addition, the maximum annual deferral limit in a SIMPLE plan is $7,000 for 2002 ($6,500 for 2001). Again, those age 50 and over can make extra catch-up contributions of $500, though not all plans permit catch-up contributions.

Enhanced tax-sheltered retirement funds

Workers who move from job to job have more flexibility when it comes to investing their retirement plan funds.

Tax-free rollovers are permitted between more types of plans.

For example, rollovers are now allowed between 403(b) plans and other types of eligible retirement plans, and after-tax qualified plan contributions may be rolled into an IRA.

More choices are available to surviving spouses who want to roll over a decedent's distributions. A surviving spouse may roll over a distribution from a qualified plan or IRA into an IRA, qualified plan, 403(b) annuity or 457 plan in which the surviving spouse participates.

Before 2002, a payout to the surviving spouse from the decedent's qualified plan or IRA could only be rolled over into another IRA.

Liberalized estate & gift tax rules

A number of important rules have changed affecting estates and gifts made in 2002:

- ✔ **Annual per-donee gift-tax exclusion** is $11,000 (it was $10,000 for 2001); $22,000 for spouses who split gifts (up from $20,000 for 2001)
- ✔ **Unified credit exemption equivalent amount for both estate and gift tax purposes** (the aggregate amount that can be transferred free of estate or gift tax during life or at death) is $1 million (it was $675,000 for 2001)
- ✔ **Top estate and gift tax rate** and generation-skipping transfer tax rate is 50% (it was 55% for 2001)
- ✔ **The 5% surtax** that phases out the benefit of graduated tax rates on estates over $10 million has been repealed
- ✔ **State death tax credit** will be reduced by 25% from the pre-2001 act amount

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Planning for business

Many provisions of JCWA create exceptional opportunities that in turn create challenges for determining the most effective strategies, making 2002 year-end tax planning more complicated.

Before introducing our key business strategies, keep in mind:

- ✔ The significant business provisions are multiyear but temporary items
- ✔ Some key provisions are retroactive to 2001, and some do not go into effect until after 2002

With corporate and individual (via partnership and S corporation pass through) tax rates at their current levels, traditional strategies for profitable companies in such an environment have been to defer income and accelerate deductions.

Less fortunate companies, those suffering losses in the current year, may need to consider a different plan of action. Following is a recap of key planning considerations for both profitable and unprofitable companies.

Strategies for profitable companies

30% depreciation bonus - If your business plans to acquire *new* property within a short time frame, accelerating the purchase into 2002 will likely have definite and immediate federal tax advantages. Regardless of the amount of other used or new purchases for 2002, the accelerated purchase will qualify for an additional first-year depreciation of 30% of the cost.

Generally, all new personal property will qualify for this provision as well as most computer software. Also qualifying are leasehold improvements that are nonstructural and do not expand an interior portion of an existing commercial building.

The 30% depreciation bonus expires in September 2004.

In addition, taxpayers can still elect to expense up to $24,000 of the cost of property acquired in 2002. However, if this expensing is elected on assets also qualifying for the above 30% depreciation allowance, the amount expensed "comes off the top" before the additional 30% first-year depreciation allowance is computed.

The taxpayer then computes regular first-year depreciation (and depreciation for future years) with reference to the adjusted basis remaining after expensing and after the additional 30% first-year allowance.

The federal 30% depreciation law has sparked a wide range of reactions by state tax officials. Over the concern for unplanned revenue loss, the majority of states have decoupled or rejected the federal level stimulus. If applicable, this will necessitate yet another depreciation methodology and level of complexity. See accompanying table of BKD core states and their treatment of this federal legislation.

AMT relief - JCWA eliminated the potential AMT trap that would have existed for companies using the 30% depreciation bonus. This was accomplished by aligning the regular tax and AMT depreciation for the entire life of the qualifying property.

Tax accounting methods - Also deserving of special attention for 2002 is a change in the rules applicable to tax-accounting methods.

Methods of tax accounting are the consistently applied systems by which taxpayers determine their taxable income. Examples of tax-accounting methods are how a company calculates its payroll and personal property tax liability accrual, costing of inventories and depreciation expense.

A window of opportunity generally exists through December 31, 2002, in which taxpayers changing from one method to another are allowed to take into effect the change over one year vs. the more traditional four-year spread. This can result in an immediate and significant cash-flow savings.

State Treatment of Federal 30% Depreciation Bonus

Core BKD States	Follows Fed Rules*
Arkansas	No
Colorado	Yes
Illinois	No
Indiana	No
Kansas	Yes
Kentucky	No
Missouri	No
Nebraska	No
Ohio	No
Oklahoma	No
Texas	No

***This information is believed to be accurate as of October 31. 2002. However, some states are continuing to study the issue.**

Strategies for Profitable Companies

✔ **Consider amending 2001 returns and claiming a 30% depreciation bonus on assets placed in service after September 10, 2001. The amendment must be filed by the due date of the 2002 return, including extensions.**

✔ **Accrue and deduct profit-sharing plan contributions payable after year end but before filing tax returns.**

✔ **Write off uncollectible receivables or partially worthless debts.**

✔ **Accrue and deduct bonuses paid to nonowners.**

✔ **Delay shipping products or providing services until the beginning of next year.**

✔ **Cash-basis companies can consider delaying year-end billing so that the payment will not be received until the next year.**

Strategies for Unprofitable Companies

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Where carrybacks of NOLs are unavailable or undesirable:

- ✔ **Elect longer depreciation recovery periods or less accelerated methods for current year asset additions or elect not to use the 30% first-year depreciation allowance.**
- ✔ **Contractors on the percentage-completion method should try accelerating delivery and installation of materials or performance of subcontractor work on profitable jobs.**
- ✔ **Defer payments under discretionary compensation plans. Also consider establishing some deferred compensation plans for key employees.**
- ✔ **Accelerate the settlement of insurance or damage claims.**

General Business Strategies

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A self-employed individual (or a partner or a more-than-2%-shareholder of an S corporation) can generally deduct as a business expense 70% of the amount paid during 2002 for medical insurance on the individual, spouse and dependents.

Medical insurance includes insurance premiums paid for qualified long-term care insurance. The eligible dollar limits are age based.

Strategies for unprofitable companies

Planning in down years usually focuses on finding ways to turn a loss into a tax advantage.

S corporation losses - To obtain a current benefit from a partnership or S corporation loss you must have adequate basis. A capital contribution or a loan to the business may be necessary before year end.

NOLs - JCWA temporarily extended the period available to recover prior year income taxes from two years to five years for NOLs incurred in 2001 and 2002.

Taxpayers have the option to forego the carryback of an NOL.

You can make the most of NOL and recover previously paid taxes if marginal rates over the past five years were greater than the anticipated future year rates. If future tax savings would be greater, elect to carry the NOL forward.

A plan to increase the 2002 loss may increase the tax recovery from years 1997-2000. After 2002, only the tax from the prior two years is refundable, thus 2002 losses are your last chance to reach these early years.

JCWA temporarily waived the AMT calculation's 90% limit on offsetting AMT income by an AMT NOL. This will allow C corporation taxpayers to obtain greater tax refunds from NOLs arising in 2001 or 2002, or NOLs carried forward to 2001 and 2002

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To be effective, most tax strategies must be in effect before your company's fiscal year end.❏

Pension planning. . .

The sweet smell of EGTRRA

Retirement planning never looked so good. The EGTRRA and subsequent technical updates introduced perhaps the most significant series of retirement benefit enhancements since 1974.

EGTRRA let the genie of retirement planning opportunities out of the bottle—and it will be difficult to shove it back in 2011 when the law is scheduled to expire.

To take advantage of EGTRRA in 2002, you must amend your existing plans by the end of their fiscal year. There may yet be time to do that this year, and BKD's benefit plan consultants are available to help with that process. Note that start-up and administration costs of certain new plans could be eligible for a $500 tax credit as well.

Most benefits under EGTRRA began phasing in this year. Notably, EGTRRA provides an opportunity for individuals age 50 or more to make an additional "catch-up" contribution to various salary-deferral arrangements.

The accompanying table illustrates certain key limitations under EGTRRA compared to 2001.

The impact of EGTRRA on even uncomplicated 401(k) profit-sharing plans can be illustrated by the following example.

John Doe, an S corporation owner with W-2 income of $50,000 in 2001 and the same amount in 2002, wishes to make the maximum contribution to the corporation's $401(k) profit-sharing plan. He has other sources of income that enable him to set aside the maximum amount possible. There are no employees.

John can achieve $17,000 of additional benefit and tax deduction because of a combination of the higher deductibility limit (25% vs. 15%), the fact that salary deferrals no longer count toward the deductibility limit, and the catch-up provision applicable to participants at least age 50.

What's more, the salary-deferral limit will increase $1,000 each year until it reaches $15,000 in 2006, and the catch-up limit will increase $1,000 each year until it reaches $5,000 in 2006.

By 2006, the total benefit would reach $32,500, fully 65% of compensation, a 333% increase over what would have been possible before EGTRRA.

Spousal benefit

These principles also can enable a spouse whose income is secondary to the family budget to defer up to $11,000 in 2002 if the spouse's compensation is at least that much.

Be sure to determine the impact of the employee's share of FICA on the amount available to defer and the impact of any additional employer contributions toward reaching the 100% of compensation overall limit.

Discrimination testing

The higher compensation limit also can help 401(k)

Business automobiles

Is your personal automobile predominantly used for business purposes? Recordkeeping hassles associated with deduction savings may be worth the trouble this year.

The most significant write-offs for automobiles apply to new vehicles purchased in 2002 used for business more than half their total use. This is because of a temporary raise in the annual depreciation limit. Thanks to JCWA's bonus depreciation provision, the first-year limit was increased by $4,600 to a total of $7,660.

The depreciation allowance is part of the "actual expense" method that also allows taxpayers to claim the vehicle's business portion of fuel, insurance, property tax and maintenance. Dedicate a credit card to your business vehicle so recurring expenses like fuel can be easily tracked.

In lieu of actual expenses, the standard mileage rate is the highest ever at 36.5¢ per mile. This is two cents, or 6%, greater than in 2001.

The Internal Revenue Service (IRS) accepts any contemporaneous record that document business use and purpose. Instead of detailed odometer readings, use a log or pocket calendar. When repetitive business routes are used, a sample record representing one week per month or one month per quarter is sufficient. The use percentage for the sample time period is then extrapolated over the entire year.❏

plans pass discrimination testing because executive employees' deferral rates will decrease if $200,000 is used as the denominator instead of $170,000.

A common benefit of the increased compensation limits is that a smaller percentage of compensation is needed to reach a control employee's desired contribution level.

This is significant because employees generally receive allocations of the same percentage of compensation as the owner unless a sophisticated formula can be effectively designed and utilized.

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The new law presents plan sponsors with an opportunity to review and perhaps enhance the benefits available to owners and employees alike. This is an excellent time to dust off your plan document, and be sure you take advantage of the latest opportunities.❏

	Pre-EGTRRA	Post-EGTRRA	
	2001	2002	2003
§401(k) & §403(b) Salary Deferral Limit	$10,500	$11,000	$12,000
§457 Salary Deferral Limit	$8,500	$11,000	$12,000
Catch-up Deferral Limit	N/A	$1,000	$2,000
Annual Contributions Limit in Dollars (including Deferrals)	$35,000	$40,000	$40,000
Annual Contributions Limit as a Percent of Compensation (including Deferrals)	25%	100%	100%
Compensation Limit for Allocating Contributions	$170,000	$200,000	$200,000
Profit-Sharing Plan Deduction Limit as a Percent of Compensation	15%	25%	25%
Deferrals Counted Toward Deduction Limit	Yes	No	No
IRA Contribution Limit (including Roth)	$2,000	$3,000	$3,000
IRA Catch-up Contribution Limit (including Roth)	N/A	$500	$500
SIMPLE Deferral Limit	$6,500	$7,000	$8,000
SIMPLE Catch-up Deferral Limit	N/A	$500	$1,000

General Business Strategies

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Acceleration of depreciation deductions into earlier years can save income taxes now vs. in the future.

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Identifying and segregating the cost of personal property inherent in real property construction will allow depreciation deductions by allowing shorter recovery periods.

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Even if the real property was placed in service in a prior tax year, an opportunity exists to retroactively identify and catch-up the depreciation expense previously foregone. Special rules apply in this situation.

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Your teenage child may have found that other displaced workers have filled the employment opportunities traditionally available for young workers.

Employ and compensate your over-age 14 child to take advantage of the child's lower tax bracket.

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Electing S corporation status will allow the former C corporation shareholders to take advantage of any future losses at the individual owner level.

Asset values may have been negatively affected by losses, which can significantly lower the potential built-in gains tax applicable to S corporation elections.

Turning lemons into lemonade

by Mike Loveless, BKD Wealth Advisors, LLC

Recurring news headlines regarding corporate fraud, bankruptcies and earnings restatements, as well as the prospects of war, have helped create tremendous investor anxiety.

The resulting stock market performance over the past few years ranks among the worst of the last century. You must go back nearly 60 years to find a three-year time span producing results worse than those of the current period.

How bad has it been?

Since the stock market peak at the end of March 2000, large-cap stocks, as measured by the S&P 500 Index, are down nearly 44% through the end of September 2002. Even an eternal optimist must characterize these results as gloomy.

In the face of this grim reality, it's important to stay focused on this significant point: the investment decisions you make today, and in the weeks and months to come, are critical.

Depending on your stage in life, your investment decisions may determine whether your children attend the college of their dreams, whether you retire in financial security or whether you leave a lasting legacy for your heirs.

With this in mind, the American Funds Group, one of the world's largest and most respected money management firms, offers the following observations for consideration:

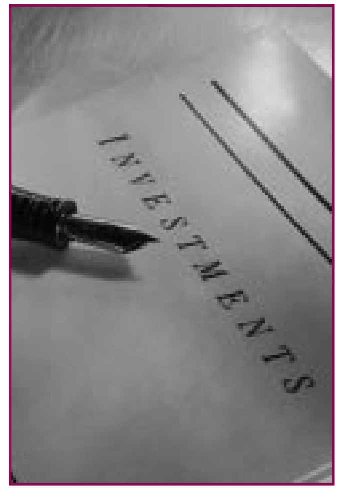
Market declines are natural - They are a normal part of the business cycle. They seem scary when they happen, but things always get better eventually. Unlike past declines, such as 1973-75 and the Great Depression, today's inflation is low, and the U.S. economy is improving.

Focus on the positive - Today's accounting scandals are troubling because they erode trust in corporate America. In time, we may be able to look back and realize these events led to improvements in corporate discipline and disclosure.

The scandals have captured the attention of the nation's highest leaders, and appropriate action will be taken. That should be very healthy for long-term investors.

Be wary of what you read, see or hear - The media is in the business of selling stories and often exhibits short-term focus on the subject matter covered. Remember, they were on the tech bandwagon two years ago and may not always accurately assess market valuations.

Holding, just like buying and selling, should be an active decision - Today, holding on, not cashing out, is considered to be an



affirmation that the long-term future of the economy and the investments you hold are bright.

Stay invested - Missing the market's 10 best days over the past 10 years would have knocked 60% off the cumulative return. No one knows when those days will come, but we do know the long-term trend generally has been up.

Stay diversified - Diversification has never been more important. We don't know what the next 10 years will bring, except to say they won't be like the last 10.

Lower returns may be the norm, along with added volatility. That may be acceptable if your financial plans include a wide range of holdings such as U.S. stocks, global stocks, bonds and cash. Stay committed to your plans.

Hire a time-tested investment manager - To help you through difficult periods, hire an investment manager who has experience, strong credentials and in-depth research capability.

Your financial objectives **are** attainable. Contact us at BKD Wealth Advisors to see how we can help.❑

New BKD Wealth Advisors leadership

Peter Mafteiu, the new director of operations for BKD Wealth Advisors, has nearly 20 years of experience in compliance consulting, investment advisory training, financial services and management.

For the past 12 years, Mafteiu served as director of investment advisor examination and state services for the National Regulatory Services organization in Connecticut. He is a nationally recognized expert and sought-after speaker on regulatory issues affecting registered investment advisors.

Rhonda Skraba, the new chief compliance officer for BKD Wealth Advisors, has 30 years of experience in compliance, operations, trading management, tax, accounting, margin analysis and private banking.

For the past seven years, Skraba was compliance officer and operations manager for a Springfield, Missouri, broker/dealer.

She will be responsible for exams, registrations and filings related to the Securities and Exchange Commission (SEC), National Association of Securities Dealers (NASD) and state agencies.

Skraba also is responsible for the firm's regulatory compliance and internal branch office policies and procedures.❑

Is a living trust for you?

by Shari Hoffman & Jill Reynolds, BKD Wealth Advisors, LLC

Now that the lifetime estate-tax exemption has been raised to $1 million, you may think of living trusts as a viable estate-planning tool with renewed interest.

While tax savings are an important benefit, living trusts also offer many other features that make them a worthy component of your estate plan.

Asset protection

Estate planners and financial planners have long viewed living trusts as a tool to help protect the assets of a client during a period of incapacity, or when the client dies. A living trust also can help with day-to-day asset management.

WealthPlan

Although a durable power of attorney can and should be part of a good estate plan, it may not provide the continuity for asset management that a living trust allows.

Document your wishes

A living trust is a trust established during the lifetime of the settlor or person creating the trust. It is a written document that protects your assets during your lifetime and after you die. It forces you to think about life's uncertainties and plan accordingly.

Organize your affairs

The process of creating and titling assets into a trust can help you organize your financial affairs. Establishing a trust can help you feel confident that investment accounts and other assets are properly titled and that beneficiary designations on life insurance policies and retirement plans are set up as you wish, consistent with your overall estate plan.

Provide for the future - A living trust does not have to end when you die. It can provide for future generations according to the terms you specify. The legal life span of a trust can last for generations.

Protects against probate hassles

Another benefit of a living trust is the way in which it can protect assets and beneficiaries from the hassles and costs often associated with probate. The affairs and distributions of your trust are a private matter and are not subject to public record.

There are exceptions, however. In some states, trust information must be divulged when state inheritance tax returns are filed.

What is a living trust?

A living trust is a legal arrangement that becomes effective the moment you sign the agreement and fund the trust. Living trusts can be **revocable** or **irrevocable.**

A **revocable** living trust is typically chosen by individuals who want to create a flexible estate plan, retain control of their assets during their lifetime, lower estate taxes and protect their assets from the probate process.

Should financial circumstances or family relationships change, you have the option of changing the terms of the original trust agreement.

Once you have taken the time to establish and fund the trust, you will find little difference in the way you handle daily affairs:

- ✔ You will continue to retain full control of the assets in your trust
- ✔ Your income tax filings will remain the same
- ✔ You will continue to decide how daily business matters are handled

Irrevocable living trusts, on the other hand, are difficult to alter or revoke after they are established. Provisions can only be altered if a court approves a request by petition.

Irrevocable trusts are typically not as flexible, but there are circumstances that make an irrevocable trust more sensible than a revocable one.

Role of successor trustee

A BKD WealthPlan advisor can help you name a successor trustee to manage the trust should you become incapacitated or die. Your attorney also can help you draft instructions for the trustee to follow, including the distribution of assets should you die.

If at any time you decide you no longer want to manage the trust's ongoing responsibilities, you may authorize the successor trustee to do so. This also will offer you a chance to see how the trustee performs and may help you develop confidence in how he/she will handle the trust in your absence.

When you die, a living trust becomes irrevocable. The successor trustee will be responsible for carrying out the terms of the trust:

- ✔ Managing and distributing assets
- ✔ Filing and paying taxes
- ✔ Performing any other duties outlined in the trust

* * *

A living trust deserves a place in your estate planning. For more information on living trusts, contact your BKD WealthPlan advisor.❑

Tale of the Tape

Selected Returns through October 30, 2002

Benchmarks	1 Year	Year to Date
DOW	-15.91%	-7.14%
S&P 500	-22.42%	-15.95%
NASDAQ Composite	-31.98%	-21.50%
Russell 2000	-23.40%	-12.61%
Selected Asset Classes - Mutual Funds		
Large Cap Growth		-25.29%
Large Cap Value		-20.16%
Mid Cap Growth		-27.86%
Mid Cap Value		-17.13%
Small Cap Growth		-28.15%
Small Cap Value		-14.45%
Science & Technology		-41.79%
International		-16.03%

Source - **Wall Street Journal**, October 30, 2002. As with a portfolio of all stocks and bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation.

Market commentary: third quarter 2002

by Jeff Layman, BKD Wealth Advisors, LLC

Negative sentiment and lack of investor confidence drove the stock market down in the third quarter, despite continued growth in the underlying economy. The major indices posted the following results:

- ✔ Because of continued improvement in the economic data during the quarter, the Federal Reserve kept short-term interest rates stable with a neutral bias, indicating no predisposition toward either raising or lowering rates in the immediate future.
- ✔ Long-term Treasury bond rates dropped to 40-year lows in September, causing a similar decline in mortgage rates. This sparked another round of refinancing by homeowners. The resulting cash flow benefits should underpin consumer spending, which continues to support the economy.
- ✔ The August 14 deadline for executive certification of company financials passed without any major new revelations regarding corporate accounting scandals, an indication the system is under repair.
- ✔ Several statistical measures are currently at levels consistent with prior market bottoms.
- ✔ The CBOE Volatility Index (a gauge of fear and uncertainty in the market) has reached levels seen only three other times in the past 15 years: immediately following the terrorist attacks of September 11, 2001, during the Long-Term Capital Management debacle and Russian debt crisis in 1998 and during the market crash of 1987.
- ✔ The "yield gap" measure of Treasury bond yields vs. the "earnings yield" of the S&P 500 index currently indicates that stocks are significantly undervalued relative to Treasury bonds.
- ✔ The percentage of New York Stock Exchange stocks below their respective 10-week moving average prices was 88% as of October 4. This indicator hit a 15-year high of 96% in late July. A reading above 80% typically represents an oversold condition in the market.

Adhering to long-term investment principles is difficult in the current market environment, but now is the most important time to do just that.

Many bear markets in the past have been just as unnerving, but each has ultimately been followed by a recovery. Those who have stayed the course during these periods have been the most likely to reach their long-term goals.

Current market conditions present a rare opportunity to buy great companies at very favorable prices.

Our approach to this market uncertainty is to help clients keep that long-term focus, advising them to hold positions in quality investments they already own, while seeking appropriate opportunities to buy additional high quality investments.❑

Third Quarter 2002

	3Q2002	2002YTD
S&P 500	-17.28%	-28.17%
NASDAQ Composite	-19.90%	-39.91%
Russell 2000	-21.37%	-25.04%
MSCI EAFE	-19.65%	-20.67%
Lehman Aggregate Bond	4.59%	8.54%
Lehman Municipal Bond	4.75%	9.61%

Investment & financial-planning 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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