

## Strategies to Build Your Business & Personal Net Worth

### Average itemized deductions

Based on taxpayer adjusted gross income (AGI), the Internal Revenue Service (IRS) has released 2001 data that shows the average amount of itemized deductions claimed on individual tax returns in the chart above.

Average itemized deductions without regard to income:

- ✓ Medical – \$6,121
- ✓ Taxes – \$6,950
- ✓ Interest – \$9,257
- ✓ Donations – \$3,398

Keep supporting documentation to substantiate your itemized deductions.

### Losses on Section 529 plans

Section 529 college savings plans have fared poorly during the declining stock market. Many people who intended to build a tuition nest egg for children or grandchildren instead found they'd suffered significant losses.

The good news is the losses are tax deductible. IRS regulations provide for a deduction of losses exceeding 2% of AGI.

However, the determination

of whether you actually incurred a loss is deferred until the time you withdraw the funds.

You are then entitled to take a loss deduction to the extent the account balance is less than the contributions you actually made to the account.

### Identity theft scheme

The IRS is warning taxpayers of a new identity theft scheme in which thieves send a letter claiming to represent a bank and use phony IRS forms (Forms W-9095 and W-8888) to persuade the recipient to reveal bank account and personal information, such as Social Security numbers, bank account PIN numbers and mother's maiden name.

Typically, the letter states the bank is updating its records to obtain an alleged exemption from interest reporting for the taxpayer. It also warns of unfavorable tax consequences if the forms aren't returned within seven days.

If the thieves succeed in duping the letter's recipient, they will use the information to access the

individual's bank account, credit card advances, loans or other government benefits and to even file fraudulent tax refund claims in the taxpayer's name.

Taxpayers who receive the phony bank correspondence are urged to contact the Treasury Inspector General for Tax Administration at 800 366-4484 or the IRS at 800 829-1040.

Identity-theft cases have doubled in the past year, and it's estimated the number will rise to 1.7 million by 2005, with projected losses growing to \$3.68 billion.

### Simplifying data systems

Transferring business records from paper to electronic media can be a hassle. Many businesses must build new document management systems for filing, accessing, reproducing and transmitting data both in-house and with customers, vendors and other business associates.

Following are ideas to help your business simplify the process:

- ✓ Evaluate the need for data compression and decompression capabilities as a way to decrease storage costs

### Average itemized deductions

Adjusted Gross Income	Medical Expenses	Taxes	Charitable Contributions	Interest Expense
\$50,000 - \$100,000	\$ 5,532	\$ 5,108	\$ 2,429	\$ 8,330
\$100,000-\$200,000	\$10,780	\$ 9,713	\$ 3,761	\$11,817
Over \$200,000	\$35,927	\$38,931	\$17,842	\$17,842

capabilities as a way to decrease storage costs

- ✓ If you plan to edit stored documents, shop carefully for optical character recognition software that converts stored documents to text files or word-processing formats
- ✓ Project your daily document-scanning volume to determine required scanner speed and the need for peripherals, such as an automatic document feeder
- ✓ Determine image sharpness required for document readability; the sharper the required image, the higher the required scanner resolution, the greater the scanner operation capabilities as a way to decrease storage costs

### Inside

- ✓ **Pay for performance: compensation alternatives**
- ✓ **Time to get back in the market?**
- ✓ **Announcing two additions to BKD Wealth Advisors, LLC**
- ✓ **Have you considered BKDWA's portfolio management services?**
- ✓ **Market commentary**



ating time and the amount of storage required

- ✓ In addition, to determine the storage medium to use, evaluate your system's number of users, the speed data must be accessed and your budget. For example, magnetic hard drives are fastest but also most expensive. Conversely, optical drives are slower but less costly.

## Accounting system checklist

Answer the following questions to gauge the effectiveness of your accounting system:



- ✓ How long does it take to do monthly closings of your books?
- ✓ Does your company incur heavy audit fees because independent auditors are required to obtain more evidence than they need about your financial statements?
- ✓ Are your "day's sales outstanding" ballooning?
- ✓ Do you frequently make duplicate payments to vendors?
- ✓ Are you required to make numerous adjusting entries in connection with your closing?
- ✓ Does your accounting department staff have a high turnover rate?

How did your company's accounting system measure up? Even if you have an effective system in place, periodic reviews will help your company maintain financial health and also will identify any underlying systems or procedures that need a vigorous overhaul.

## Reduce e-mail time

Executives spend an average of 108 minutes per day reading and sending e-mail messages,

which seriously diminishes their overall productivity and cancels e-mail's efficiency and lower cost benefits.

To regulate e-mail traffic, Accountemps, a temporary employment agency, recommends you take the following steps:

- ✓ Leave no messages in the inbox; instead, sort incoming e-mail into labeled folders where they can be easily retrieved
- ✓ E-mail brief and clear responses; use another medium to send messages that require a complicated or lengthy response
- ✓ Resist reading new e-mail messages as they arrive; set aside time several times a day to read, sort and respond

Also consider spam prevention. Spam-filtering techniques lower the time required to peruse e-mail by about one-third.

## Disability insurance

Even though every homeowner's policy includes fire coverage, there is only one chance in 1,200 that a home will suffer fire damage.

Conversely, there is one chance in eight that a person will suffer from a long-term disability before age 65, but only 15% of American workers have disability income protection.

In addition, the typical employer disability insurance policy only covers about two-thirds of the benefit that's required.

If your employer doesn't provide coverage, and you want insurance, premiums can be high. Purchased independently, adequate disability insurance coverage can run as high as 2% to 3% of annual salary.

For many people who need



the protection but balk at the outlay, there is some solace: if you pay the premiums on a disability insurance policy, benefit payments you receive aren't taxable.

The cost of disability insurance can adjust to fit most budgets by modifying certain factors, such as daily coverage amounts and the time lapse between the disability's onset and the policy's inception of payments.

## Independent contractors

Is a worker an independent contractor or an employee?

Employers prefer to classify workers as independent contractors rather than employees because it lowers their outlay for fringe benefits, reduces their payroll taxes and increases staffing flexibility.

Tax collectors, however, are interested in increasing tax revenues; thus, both the IRS and the states have a bias towards classifying these workers as employees.

This is particularly true today because federal and state governments are facing significant deficits.

The following actions could help employers avoid IRS or state challenges:

- ✓ Closely follow independent contractor rules
  - ✓ Have written contracts with workers treated as independent contractors
  - ✓ Issue Form 1099 to workers treated as independent contractors
  - ✓ Have an attorney state that workers are independent contractors
- Review contracts with independent contractors each year, and state the time frame covered by the contract. It also should state:
- ✓ Workers will not be treated as an employee for federal income tax purposes
  - ✓ Worker's compensation will be

based on services rendered rather than a regular salary

- ✓ Workers will be responsible for their Social Security and Medicare taxes
- ✓ Workers won't be eligible for worker's compensation

Employers are given some protection under Section 530 of the Revenue Act of 1978. If a company can make a prima facie case that a worker is an independent contractor, the burden shifts to the government to prove the worker is an employee.

Furthermore, if a company has been audited on the independent contractor issue, and the IRS makes no change in worker designations, the company has a prior audit "safe haven" under Section 530.

In turn, the IRS is prevented from reclassifying the workers.

## Accounts payable errors

About one-fourth of accounts payable overpayments result from undetected vendor or payor clerical errors, such as duplicate payments, erroneous payments, returns that were not credited, partial or advance payments that were overlooked or other adjustments.

To test your company's accounts payable processing accuracy, we suggest a periodic audit by your own personnel as follows:

- ✓ Create a single vendor's file that contains all current outstanding invoices as well as checks written to the vendor in the past 60 days
- ✓ Check paid invoices against vendors' statements
- ✓ Note in-transit items that must be reconciled, *i.e.*, checks sent that the vendor didn't receive by the statement date and checks prepared after the date
- ✓ Examine purchase order authorizations and receiving

documents; be sure they match attached invoice

- ✓ Trace the transaction to the journals and ledgers to determine if entries agree
- ✓ If discrepancies are found, expand the audit to include several more vendors

## SUV tax break

The tax break for heavy SUVs used in business is expanding. As a result of recent tax legislation, the amount a qualifying vehicle can be expensed has been raised from \$25,000 to \$100,000.

To qualify, the vehicle must be put to business use this year and have a loaded gross vehicle weight rating greater than 6,000 pounds. To expense an automobile, the curb weight must exceed 6,000 pounds.

This year, the highest first-year depreciation write-off for automobiles that do not qualify was increased to \$10,710.

## Freeze estate tax values

Homeowners can lower their estate taxes by using personal residence trusts. These trusts, which usually last for 10 to 20 years before the home is transferred to the beneficiary, can freeze a home's estate tax value.

The value of the beneficiary's interest is determined at the time the gift is made, but the \$1 million gift and estate tax exemption **WealthPlan** generally offsets any tax due.

If the grantor outlives the trust, the gift tax value is in his/her estate, so that any appreciation after the trust is created avoids estate tax.

However, although the grantor can continue to live in the house after the trust is terminated, rent must be paid to the new owners of the property (usually

the children) or the estate-tax saving will be lost.

Conversely, if the grantor dies before the trust ends, the home's full value ends up in the grantor's estate.

## Depletion on marginal oil wells

Percentage depletion on marginal oil wells remains at 15% for 2003.

Independent producers and royalty owners can take 15% depletion on oil and gas extracted from stripper wells and wells producing heavy oil this year.



According to the IRS, the rate won't change until crude oil drops below \$20 per barrel.

## Personal bad debts

Have you made a loan to a family member or a friend that was not repaid? Have you been required to make good on a guarantee for which you received a consideration? Have you incurred losses on loans in connection with your investments?



In each case, you have incurred personal or nonbusiness bad debts. Personal bad debts are deductible only if they are worthless and result in short-term capital losses regardless of how old they may be.

That means if these and other capital losses exceed your capital gains, you can only write off up to \$3,000 of the excess against your ordinary income.

However, when it comes to personal loans, you must establish there was a valid debt, which is now worthless or the IRS may characterize the transaction as a gift and deny any deduction.

Keep and be able to present a

promissory note that contained the terms of the loan, including interest and the repayment schedule. Also, be able to show you made an effort to collect the loan, such as taking court action.

Because the deduction is only available in the year the debt becomes worthless, you also have to pinpoint a central event in the year as proof, such as the borrower's declaration of bankruptcy.

Because a personal bad debt's worthlessness is so difficult to establish, the tax law provides a special seven-year statute of limitations for amending a prior return

to claim a bad debt write-off.

In effect, you have a seven-year period from the due date of the return for the year in which the debt became worthless to file an amended return and make a refund claim.

Although intrafamily and other personal loans are often unavoidable, such transactions are discouraged. Not only is it difficult to obtain tax relief in the event they go bad, but they can be the source of great bitterness and permanent alienation among friends and family members.

## Home-based office update

### Capital gains exclusion

Recent IRS regulations clarify that the gain from the sale of the home-office portion of a home can qualify for the full \$250,000 to \$500,000 capital gains exclusion on the sale of a principal residence.

This means it's no longer necessary to allocate the exclusion amount between the portion of the home used for business provided the business and personal portions of the property are within the same dwelling.

However, any depreciation taken on the home office after May 6, 1997, must still be reflected in income and is subject to a 25% capital-gains tax.

Many homeowners did not take home-office deductions in the past because they thought the deduction could impair their capital-gains exclusion in a subsequent sale of the property.

### Deductible landscaping cost

Landscaping costs may be

tax deductible if a home is used for business and qualifies for a home-office deduction.

The portion of the outlay that would be deductible would be the same percentage as the portion of the home that is used for business purposes.

In addition to landscaping costs' deductions for the cost of lawn care, driveway repairs, etc., also would be eligible for treatment as a tax-deductible business expense in the same ratio.

However, don't try to take these deductions if the home is not used for business. A federal court recently held that landscaping cost deductions taken by a homeowner's corporation were disallowed and were to be treated as dividends. The homeowner was subjected to double taxation at the corporate and individual levels. □



## Income of a decedent

One of the most overlooked and misunderstood tax deductions is “income in respect of a decedent,” *i.e.*, income payable to a deceased individual that was not paid or taxed before death.

The most common examples are amounts in an individual

**WealthPlan.** retirement account (IRA), 401(k) plan or other retirement account. Other examples include:

- ✓ Pension payments made to a designated beneficiary
- ✓ Deferred compensation from an employer
- ✓ Wages
- ✓ Damages in connection with a lawsuit
- ✓ Joint and survivor annuities
- ✓ Investment income, such as dividends and interest
- ✓ Payments connected to an installment sale

Frequently, such income is subject to double taxation. First it's included in the estate and is taxed, then it's included in income and is taxed when distributed.

To reduce the overall tax bite, the deduction for “income in respect of a decedent” enables the recipient of the income to take an income tax deduction for the estate taxes that were previously paid on the income tax return.

The deduction for “income in respect of a decedent” must be taken as a miscellaneous itemized deduction, but it is not subject to the rule that limits the deduction to amounts greater than 2% of AGI.

However, because the deduction can only be taken as the income is received, it may be spread over many years, such as when a child takes distributions from an inherited IRA.

Retain detailed records of the estate taxes paid on the income as

well as the tax rate that must be applied on the income tax return.

## Refinancing & AMT problems

Homeowners who take out cash in a refinancing could be creating an alternative minimum tax (AMT) problem for themselves.

If the mortgage balance increases when refinancing a primary residence or a second home, interest on the excess portion must be added back to income in calculating the AMT except when the proceeds are used to improve a first or second home.

However, if excess funds are used to purchase a car or are used for some other purpose, the interest is not deductible for the AMT calculation.

The same rules apply to home-equity loans; homeowners should get professional tax advice before choosing a financing strategy.

## Self-employment tax exemption for farm income

With some careful planning, farm income paid by a trust may be exempt from self-employment tax.

In the specific situation, a husband died and bequeathed a farm to a trust for his wife and son. The trust paid the wife and the son separate fees for keeping the farm's books and for overseeing the farm's operations.

The mother and son paid self-employment taxes on those fees but not on their share of the trust's income from farming. In this case, the entire remaining farm income was not subject to self-employment taxes.

According to the IRS, the farm income escapes self-employment tax, provided the heirs were paid reasonable management fees for the work they were required to perform.

## Deducting medical expenses

The IRS has clarified the deductibility of various medical expenses. It says the cost of reconstructive surgery is a tax-deductible medical expense when a breast cancer survivor had a mastectomy.

This also is true with respect to laser eye surgery, the cost of medical equipment such as crutches,

blood sugar measuring kits and bandages and the cost of finding an egg donor, *i.e.*, payment of fees to the donor and the agency that found her, plus attorney contract preparation fees, when a woman could not use her own eggs in order to conceive a child.

Cosmetic breast implants, teeth whitening to improve personal appearance and the cost of nonprescription drugs don't qualify as medical expenses. □

## Announcing two additions to BKD Wealth Advisors, LLC

### Denver office opens

Darin M. Snow, newly hired vice president and managing advisor, opened the new BKD Wealth Advisors, LLC (BKDWA) office September 2.

Snow has more than nine years of financial services experience in investment management and financial planning.

Before joining BKD, he was vice president of investments at an international investment firm in Denver.

In his new position, Snow will help individuals, businesses, pension and retirement plans and foundations achieve their financial goals through portfolio management, invest-

ment management consulting and financial planning.

### Compliance officer hired

Benjamin E. Bramer has been hired as the new compliance officer for BKDWA's Investment Central department.

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

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

Bramer has three years of experience with NASD, serving as a compliance examiner its Kansas City, Missouri, office.

Most recently, he served as an enforcement investigator in its Washington, D.C., office. □



Wealth Advisors, LLC

# Pay for performance: compensation alternatives

by Sarah Farrell, Kansas City

In the last decade, there have been dramatic changes in the way we reward and pay

employees. It's difficult enough to find skilled employees, but keeping them is sometimes an even greater challenge.

In today's down economy, the employee-employer relationship is in transition: It's often difficult to

strike a compensatory balance between the increase one deserves and the amount the other can afford to pay.

Pressure is mounting on every side of the equation: increased pressure on recruiting and for higher wages; continued pressure on profits and cost containment; pressure at all levels to achieve higher personal and business performance.

With raises at a 4% level of merit pay, it's impossible to reward high performers at 4% and average performers at 3.5% and convince the high-performing employee that pay is motivational, and they have been justly rewarded for their extra effort and skill.

## Employee rewards in down economy

Many experts argue that paying for performance is more important in a down economy than in boom times. Why, because companies typically have a smaller pot of money to allocate for compensation during a slowdown.

"For the first time, companies truly have to differentiate among



their workers in a visible, dramatic way," says John M. Bremen, national compensation practice leader for Watson Wyatt.

Companies need a compensation system that catches a top performer's attention and sends a signal to the employee who's performing poorly.

This can only happen when the system differentiates between the two. The devil is in the details, however, and executing such a system can be treacherous.

## Offer incentives

Rewarding "top-performers" does not mean rewarding only high-level employees. To keep a depressed business climate from becoming a depressed workforce, organizations are using performance pay for middle managers, professionals and hourly workers.

Ed Lawler, author, professor and director of the Center for Effective Organizations at the Marshall School of Business in Los Angeles, says, "It's not an economic issue. You need performance whether it's a good economy or a bad economy."

"Throwing money at talent," the norm in the 90s when the economy was hot, resulted in generous but haphazard pay systems.

Today, companies are more careful about who gets incentive pay, often giving fewer people variable pay, and those people are often getting larger payments than before.

Paying for performance does more than deliver the best financial rewards to the best workers. When done correctly, it sends a vital message about the organiza-

tion's priorities and values, experts say.

"Compensation is really one of the main communication vehicles between companies and employees," says Bremen. "Companies forget this."

A well-designed performance pay system says to workers, "we're going to hold you accountable, and we are going to reward you," says Russell Miller, Mercer Human Resource Consulting.

Employees will share in the fruits of business success, but they also will share the risk of belt tightening

## Understanding the concept

However, few companies get it right. Performance pay is an attempt to motivate *future behavior*, a concept that isn't well understood or well executed by many firms.

One reason is that taking money from one employee or group of employees and giving it to another can be disruptive or demoralizing. Employees will know who got the bigger check. Some experts refer to this as "tough love."

While changing the pay system is risky, the biggest risk is losing the top performers of the company and keeping the average-to-below-average employees.

The top performers will look elsewhere if they do not feel appreciated or recognized for their efforts in their paycheck.

Before deciding to put a variable pay plan in place, management needs to determine what it wants to achieve through the plan.

Some key steps to developing a successful, performance-based compensation system include:

- ✓ Build a high-performance culture
- ✓ Make pay commensurate with an employee's ability to get results
- ✓ Provide workers a clear picture of how they can accomplish what's expected of them
- ✓ Communicate your goals and how the employee can help you get there
- ✓ Involve employees in the plan design
- ✓ Find "disciples" in every department of the organization to "talk up" the plan; employee buy-in is important

## Measuring performance

It's all about measurement, but it's challenging to identify and quantify job performance factors and link them directly and meaningfully to company goals.

"The company's culture becomes formed around what you measure—be sure that what you measure is what you want," says Brad Hill of the Hay Group.

"There is no magic formula for how organizations use variable pay effectively. Each organization has to look objectively at its financial goals and at the employee behaviors that drive the desired results. Each has to identify a few measures—no more than three to five—that the worker and the line manager and other management can agree on as crucial to linking individual performance and business," says Ken Abosch of Hewitt Associates.

Employee compensation is critically important to the success of a business because it's essentially the biggest cost center most organizations have. Use it wisely. □



by Jim Lincicome, BKD Wealth Advisors, LLC

According to recent news headlines, the second quarter of 2003 was an excellent one for stocks with the Standard & Poor's (S&P) 500 Index, rising 15.4%.

Better-than-expected profits, a massive monetary stimulus in the form of tax cuts and the rapid winding down of the war in Iraq contributed to this performance.

### Question easier to ask than answer

For now, with what seems a positive outlook, the most common nonclient question BKD Wealth Advisors (BKDWA) regularly hears "Is it time to get back in the market?"

A simple question, right? Not if you ponder just a fraction of the endless stream of information that affects our financial markets today, including:

- ✓ U.S. corporations generally appear to be in good shape. Many have reduced costs over the last few years and, as a result, are leaner, meaner and more efficient. They should be poised to deliver strong profit growth when economic growth accelerates.

On the other hand, economic growth thus far has been somewhat anemic and not significant enough to generate many new jobs. This could result in tepid consumer spending and thus delay the ultimate economic recovery.

## Time to get back in the market?

- ✓ The Federal Reserve Board has flooded the market with liquidity and fiscal policy, an effective stimulant as evidenced by current tax cuts.

On the other hand, this has contributed to a federal budget deficit that has reached record levels and, for the short term at least, is still growing.

- ✓ There appears to be a number of expensive stocks available at bargain prices in the market, with many selling below book value with modest price/earnings ratios.

On the other hand, characteristics of the recent stock market rally appear to have been relatively speculative and driven by emotion more than fundamentals.

- ✓ The armed conflict in Iraq was relatively short and successful, yet the geopolitical situation throughout the Middle East remains tenuous.

### Wiser to invest in long-term strategy

It's difficult for investors and investment professionals to make sense of often-conflicting information. It may be more important to focus on personal financial issues than place too much emphasis on situations beyond control.

For instance, what are your long-term financial objectives? How much risk are you willing to take to achieve them? Long-term investing isn't about timing or outsmarting the market. It's about strategy, one that doesn't change every time there's a news flash.

If you're concerned about current market conditions, the question to ask may be "What is my strategy?" You may need help in answering the question.

Is it time to get back in the market? Your guess is as good as anyone else's. Perhaps a more pressing question is "Is it time to

establish a long-term investment strategy for yourself and your family?" Your BKDWA advisor can help you find the answers. □

## Have you considered BKDWA's portfolio management services?

by Jack Thurman, BKD Wealth Advisors, LLC

Three years of back-to-back losses in the stock market came as an unpleasant surprise to many investors who expected the long-running bull market of the 1980s and 90s to last forever.

Portfolios that grew and compounded at double-digit rates for years began to lose value, sending investors in search of other ways to participate in capital markets.

An alternative to investing that's been around for decades and is gaining renewed attention from investors and advisors is the individually managed account (IMA).

### What is an IMA?

An IMA is an investment portfolio in which direct ownership of each equity (stock) or bond belongs to the investor; however, decisions about which securities to buy or sell are delegated to an institutional portfolio manager.

BKD Wealth Advisors' (BKDWA) institutional portfolio management services combine an IMA's beneficial features of investing directly in the stock market and through mutual funds with the expertise and research resources of an institutional portfolio manager.

Important features include:

- ✓ Account is designed to conform to the investor's individual investment requirements
- ✓ Cost basis of each stock is set as of the date the security is purchased for the account
- ✓ Sell decisions can be orchestrated to decrease the individual's tax liability

These defining characteristics work together to produce advantages important to investors and also have a positive effect on after-tax portfolio growth.

### Stock ownership & customization

Because you own the stocks directly, you can see what companies and how many shares you own, making it easier for your portfolio manager to customize the portfolio to your requirements.

Stock investment styles vary from conservative to aggressive. Ask your financial advisor to help you select a portfolio manager who manages assets in the style appropriate for you.

Your portfolio manager will monitor overall diversification; without supervision, your portfolio could be directed away from the appropriate level of risk for your investment strategy.

For example, a portfolio manager  
(continued on page 8)

**Investment strategies from**

# Market commentary

✓ The most significant impact on July's stock and bond markets was the rapid ascent of bond yields. In the first week of June, the yield on 10-year Treasury bonds started at 3.55% and hit a low of 3.10% mid-month, rising to 4.42% by the end of July.

✓ Bond yields moved higher because of overall concerns about the rapidly growing budget deficit and in reaction to signs of improvement in the economy. The recent rise in mortgage rates mirrored the rise in Treasury yields, slowing the pace of mortgage refinancings.



markets with the highest gains were Singapore, Sweden, Hong Kong and Norway.

✓ During July, bond markets continued to sell off as the government announced its year-end projection that the

U.S. deficit would grow to \$450 billion by year end, acknowledging the estimate did not include the cost of the war with

Iraq. The bond market reacted to record Treasury note and bond sales and to recent news the U.S. economy is improving.

to create a decrease in household consumption. Recent high-productivity gains suggest many companies won't be rehiring the unemployed anytime soon, causing unemployment to remain high.

✓ The popularity of mortgage cash-out refinancing appears to be waning. Compared to historical norms, long-term mortgage rates are still attractive, but the current spike in interest rates may rule out mortgage refinancing as a source of discretionary funds.

✓ Overall market valuation levels are still unattractive, and

interest rates may be moving higher. International equity market valuations may look more attractive than valuations in U.S. markets, but earnings' growth prospects abroad are not expected to be high.

Sustainable, high- or single-digit returns in stocks will require lower valuations and higher growth rates than are now in place. This market is improving but still requires investors to be more selective, sensitive to valuation and cognizant of demonstrated earnings' growth. □

✓ U.S. stocks posted a small gain during July with the best performance in the cyclical and technology-related sectors. The worst performance during the month was posted in the interest rate-sensitive sectors. Smaller companies outperformed larger-cap companies, and growth stocks outperformed value stocks.

✓ The best-performing economic sectors during the quarter were raw materials, capital goods, consumer durables and technology. In the last year, the best performers have been centered in the technology, consumer services, business equipment/services and multi-industry sectors. Laggards for the quarter were utilities, energy, consumer non-durables and health care.

✓ International equity markets also moved higher during the month with the biggest gains in many of the previously depressed stock markets, especially those in Southeast Asia. Relative to the euro, the U.S. dollar rebounded slightly because of higher interest rate differentials between U.S. and European markets. Stock

## Outlook: signs of economic improvement

✓ Long term, stocks are still an attractive investment. Short term, stocks cannot extend their rally until stronger, sustainable earnings improve valuations. Earnings' strength depends on a U.S. economy that sustains real growth between 3.5% and 4.0% per year, which is only possible if all three sectors of the economy, *e.g.*, household, business and government, are growing.

✓ Despite the recent rush of good economic news, from the improving Purchasing Managers' Index to record productivity gains, companies have become more profitable by cutting the fat and not by increasing sales revenues. Sustainable economic recovery usually requires real corporate profit recovery.

✓ Both a weak job market and higher interest rates will tend

## Tale of the Tape

### Selected Returns through September 19, 2003

Benchmarks	1 Year	Year to Date
DOW	20.77%	15.62%
S&P 500	22.58%	17.79%
NASDAQ Composite	56.07%	42.69%
Russell 2000	41.64%	35.79%

### Selected Asset Classes - Mutual Funds

Large Cap Growth	20.61%
Large Cap Value	16.79%
Mid Cap Growth	28.82%
Mid Cap Value	25.64%
Small Cap Growth	38.55%
Small Cap Value	32.16%
Science & Technology	44.69%
International	21.35%

**Source** - The Wall Street Journal, September 22, 2003. As with a portfolio of all stocks and bonds, a diversified portfolio gives no guarantee of safety of principal, which is subject to fluctuation.

## Have you considered. . .

(continued from page 6)

ager who manages portfolios in the large-capitalization value style will not buy new issues of companies with small market capitalizations.

BKDWA can further customize your portfolio and seek out or avoid certain stocks or industries that meet or violate your personal restrictions.

### Cost-basis control

There are tax implications when a stock is sold from an investment funded with taxable dollars. If the stock has appreciated, taxes must be paid on the difference between the price paid for it (cost basis) and the selling price.

If the stock has declined in value, you can often use the difference between the purchase price and the sale price (the loss) to offset other investment gain and enhance your after-tax return.

The cost basis of each stock is established on the date you buy the stock. Therefore, your portfolio

benefits from 100% of any gain that occurs, and you can establish a basis for using 100% of any loss to offset other gains or other income. This benefit is only possible when you own the stocks directly.

### Tax issues

If the stock is sold within 12 months of purchase, gains are considered to be short-term capital gains and are taxed at your ordinary income tax rates.

Hold a stock for more than 12 months, and any gains you realize when BKDWA sells the stock are taxed as long-term capital gains at 15%.

If you're in the highest tax bracket, you can effectively halve your tax bill on gains if you hold investments for more than one year and keep much more of each year's returns on your portfolio.

Because IMAs often allow BKDWA advisors and clients to work together to control the timing of stock sales, more of your

portfolio's return each year can be protected, which, over time, could significantly enhance its growth.

### IMAs & tax-deferred assets

There are times when IMAs also are the appropriate choice for tax-deferred assets such as IRAs and 401(k) plans.

Although an IMA's tax-diminishing characteristics don't apply to tax-deferred dollars, customization benefits are still important in that environment, enabling BKDWA to construct a portfolio that accurately reflects your investment preferences regarding style, risk management and other criteria.

Another important consideration when choosing an investment transaction is cost. If you want the benefits of professional portfolio management, there are several effective ways to purchase them.

As you consider your investment options, you may wonder

whether your portfolio is large enough to qualify for our services.

Today, innovative programs and information management technology make this flexible, efficient, customized method of investing available at levels as low as \$100,000 per account, costs that are highly competitive with other investment alternatives.

BKDWA can be your IMA portfolio manager. We also participate in programs offered by third parties that allow our clients access to third-party IMA portfolio managers.

Many investors enjoyed the appreciation of the '90s bull market, either as taxable investments or qualified retirement investments, and are in a position to access the wealth-building capabilities of BKDWA's institutional portfolio management services.


\* \* \*

Contact your BKDWA advisor for more information about our investment solutions. □

## Investment strategies from BKD Wealth Advisors, LLC



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