



PLANNING ...formal and flexible



Karen Ellenbecker

“I have no regard for money. Aside from its purchasing power, it’s completely useless as far as I am concerned.”

— ALFRED HITCHCOCK

The truth is that eventually we all have to part with the money we’ve invested, whether to pay for a child’s education, care for an aging relative, to live on in retirement, assist adult children/grandchildren, or pass on to our heirs or a favorite charity. The basic reason for investing is to earn money to be spent, either now or in the future. And the most foolish thing we can do is not to have planned for that spending.¹

How difficult is it to plan? Just look at some of the changes that have taken place in the 21st century. People are living longer and they are having children later. New employment structures are unfolding and retirement options are shifting. Decisions are further complicated by the uncertainty of not knowing what your tax liability will be once you begin withdrawing from your tax-deferred accounts.

Tuition increases are triple the inflation rate. We see frequent tax law changes. All of these issues complicate even simple planning both for the advisor and the individual.

U.S. Life Expectancy

In the 1900s the average life expectancy was 47 years; however, by 1998 it was 77 years. This is an increase of nearly 64% in one century. How will that affect investors? The U.S. Census Bureau projects that by 2040 the number of Americans over age 65 will double to 77 million, making that age group 20% of the country’s population. Today a 62-year-old non-smoking couple can plan on entering retirement with a joint expectancy of 30 years.² You could literally be in retirement nearly as long as you worked!

If we look at the Ibbotson trend line (1926-2002) with an inflation rate of around 3%, in 30 years it will cost more than \$2.40 to buy what a dollar buys today.³ Bottom line...retirement income planning will require the maintenance and if possible, the enhancement of purchasing power. A 2003 study by LIMRA International Inc., a life insurance marketing research organization, found that only one in five retirees or pre-retirees has any formal written plan for managing income, assets and expenses in retirement. Was Hitchcock flippant in his statement about money in that its real value is its purchasing power?

Let’s look at a simple example:

Purchasing Power... Then & Now	Nov 9, 1979	Oct 6, 2003
First class stamp	15¢	37¢
DJIA	806	9,595
10 year US Treasury yield	10.68%	4.15%

What can you do? The first step toward sound investment planning is to take a hard look at what you will require from your investment portfolio. In our last mailing we included both a budget and a net worth statement. The word budget often sets off alarms signaling such messages as, “I won’t be able to have fun,” “I will lose control over my money,” or “I don’t want to know what I am spending.” This is not a time in life when we can afford to take on more risk. A budget is a guideline, a way of staying connected to your money; it gives an indication of how much you may need in the future to maintain your current lifestyle.

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OFFICE News

“Snowflakes are one of nature’s most fragile things, but just look at what they can do when they stick together.”

We are delighted to welcome **Carolyn Krech** back through the summer as an intern. You may hear her familiar voice answer the phone when you call our office.

We are excited to introduce **Diane Byrne** to our office as well. Karen and Diane have renewed their business association that originated at the M&I Bank Trust Company. Diane is securities registered with her Series 7 and also has her CFP designation. Diane brings with her more than 15 years of experience in the financial industry.

Dawn Lotz recently joined Ellenbecker Investment Group, Inc. as the Director of Lifetime Planning Services, a new branch of the company. She will be the liaison for Froedtert & Medical College in developing a new program “Concierge Lifetime Planning

Services,” a way for individuals to organize their personal and financial information. Her goal will be to develop partnerships and expand Ellenbecker Investment Group, Inc. resources and services into the community and to the patients at Froedtert Hospital. Dawn joins us from Marquette University as a Senior Associate Director in Information Technology Services. She earned her Bachelors degree from Carroll College and is currently working on her Series 6 registration and attending classes for certification as a Medical Assistant.

Welcome to the team Dawn and Diane! Ellenbecker Investment Group continues to strengthen and provide you with the most innovative and up-to-date services and products.

PLANNING...formal and flexible (continued from front page)

In the past we believed that a withdrawal rate of 5 - 6% of an individual’s total investment portfolio seemed reasonable. This is not so anymore. Statistically 3- 4% is a sounder strategy. Of course that all depends on your age, health and personal goals, whether you are trying to preserve capital for the next generation or if you are willing to consume capital. You might think that 4% of your portfolio is a small amount to base your withdrawals on, but don’t forget about the three years of negative returns we just experienced. If you were spending 6 -7% during that down market you probably eroded your portfolio. What that bear market taught us is that we have to design portfolios for greater protection of principal. Let’s look at several different investment portfolios and their suggested income:

\$ 300,000 portfolio x 4% = \$12,000 annual income or \$1,000 per month pre tax
\$ 600,000 portfolio x 4% = \$24,000 annual income or \$2,000 per month pre tax
\$1,000,000 portfolio x 4% = \$40,000 annual income or \$3,333 per month pre tax
\$1,500,000 portfolio x 4% = \$60,000 annual income or \$5,000 per month pre tax

These numbers are directly affected by the amount of tax you will pay on the different

investments you own. If you elect to take out more income, it is important to understand that you are taking out more than the suggested withdrawal amount. We can’t predict the future, but what we can do is be prepared to make small adjustments year to year that will help you deal with life changes. For example, will you work during retirement? Will your social security be taxed? Will taking more out of your tax-deferred accounts push you into a higher tax bracket? If your spouse dies will you continue to receive their pension? Where do you want to live in retirement?

The good news is that people are living longer and people are spending more time in retirement than ever before. The bad news is that the so-called “Golden Years” are going to require a lot more gold. Money will have to last longer and withstand inflation, taxes, increasing and uncertain medical costs, the loss of a spouse

and the volatility of the stock market and interest rates. The younger you are, the easier it will be to create financial independence. It is important to sort through these issues long before you retire. Please take a few moments to fill out the budget form we sent you and either mail it to us or bring it with you to your next appointment. Most people would prefer to know today that they need to increase their savings rate rather than find out later that they have to work longer. The net worth form is a tool for your personal use and an excellent goal would be to check on your financial progress annually.

Our goal at Ellenbecker Investment Group is to understand what really matters to you and to provide you more...to help you create a balanced lifestyle and enjoy what you have worked so hard to achieve.

¹ Fortune & Misfortune: Investment Planning to Achieve One and Avoid the Other – April 2004

² Equities for a new millennium – A Nick Murray White Paper

³ Bloomberg and United States Postal Service



LIMITED PARTNERSHIPS *Remain a Valuable Estate Planning Tool*



Peter Walsh

There has been a lot of information in the news recently discussing Family Limited Partnerships. I asked Attorney Peter Walsh if he would identify some of the benefits and ways that they could be utilized in estate planning. His comments follow: -Karen

Generally, a Family Limited Partnership may be a useful estate planning technique for an individual or married couple with an estate of more than \$2 million, assets with liability exposure (e.g., commercial real estate or residential rental property), and/or children with marital or creditor problems.

A recent Court of Appeals decision, of *Kimbell v. United States*,— F.3d —, 93 A.F.T.R.2d 2004-2400 (5th Cir., May 20, 2004), provides strong support for the continued use of family limited partnerships (FLP) in estate planning and wealth preservation. One of the more publicized estate planning benefits of an FLP is the valuation discount on the underlying assets of the FLP associated with the lack of control and lack of marketability inherent in the ownership interest of a limited partner in an FLP.

Briefly, the estate planning use of an FLP entails the contribution by parents of investment assets to a limited partnership in which each parent serves as a general partner and initially holds all limited partnership interests. This contribution is followed, over time, by gifts of limited partnership interests to their children. In this way, an FLP can effectively serve many estate planning goals.

First, an FLP can result in significant gift and estate tax savings because the value of a gift of an interest in an FLP is generally worth significantly less than the value of a gift of the asset contributed to the FLP. This results in a gift and estate tax savings because such tax is based on the value of the asset transferred. Essentially, a taxable gift of \$1 million at the highest gift tax rate of 48% results in tax of \$480,000. An FLP reduces this tax by reducing the value of the asset transferred. For instance, a person may own securities worth \$1 million. If these assets are contributed to an FLP, FLP interests may be subsequently transferred as a taxable gift of only \$600,000. Essentially, the contribution of the securities to an FLP and the subsequent transfer of an interest in the FLP results in a 40% reduction in taxable value.

This reduction in value results from the fact that a buyer is not willing to pay the same amount for an FLP interest which represents an equity interest in an entity with marketable securities, as the buyer would pay for the same securities held outright. The reason is that a limited partner lacks: (i) control over the assets of the partnership, (ii) a market in which to sell his interest, and (iii) available liquidity from his investment. Thus, a buyer is unlikely to purchase an FLP interest without a sizeable discount.

Such discounts may equal 35 to 50% of the aggregate value of the FLP's underlying assets. In *Kimbell* the Taxpayer took a 49% discount. These discounts result in a significant reduction in gift and estate tax. For instance, if parents form an FLP and contribute a stock portfolio of \$1 million to the FLP, and then, over several years, gift away the FLP interest at a gift tax value of less than 60% of the value of the assets contributed to the FLP, assets worth \$1 million owned outright can be gifted through the transfer of FLP interest at an aggregate gift tax value of \$600,000. A discount of \$400,000 results in significant gift tax savings of \$192,000 (\$400,000 x 48% the highest gift tax rate).

This benefit was placed in serious jeopardy last year by two court decisions in which each court held that the underlying assets of an FLP could be included in the taxable estate of the contributing partner under Section 2036(a) of the Internal Revenue Code by virtue of the partner's continuing control over and/or right to income from the transferred assets. In substance, these

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MARKET OUTLOOK- *Summer 2004*



Terence Pavlic

For the last two months, the weather in Southeastern Wisconsin has had me re-reading Genesis to see if, by chance, Noah left any blueprints that I might use. And, too, the stock market has spent most of the past six months working through and around some dark clouds. However, we are anticipating an improvement in both the weather and the investment climate.

For the market, the “dark clouds” have included high and rising gasoline prices, ongoing terrorism against Americans in and around Iraq, the prospect of rising interest rates and, until recently, slow job growth. Fortunately, we think these issues are about to lose their grip on the stock market. First, the oil producing countries (OPEC) have agreed to increase the amount of oil they pump by several million barrels per day. And, the Chinese government indicated a preference for slower growth in their economy. On a global basis, this combination of increasing supply and moderating demand should allow oil prices to stabilize and then fall gradually over the remainder of the year. You may have already noticed modestly lower prices at the pump. Secondly, transitioning the government of Iraq back to Iraqis will also

mean that our soldiers will transition from the primary law enforcement agency (police force) to a secondary (military) supportive force which is a mode that much more closely matches their training. As a result, they should be in a far better position to protect themselves and assist the growing Iraqi police force and their equivalent of the National Guard.

On June 30, the Fed raised interest rates for the first time in several years and indicated that they will continue to do so, gradually, for several months until the risks of inflation moderate. Some had worried that they wouldn't act in time to stave off inflation and others worried that they would be too aggressive. Their clear commentary was like Momma Bear's bed—“just right”, so interest rates should be less of a risk in the stock market for the remainder of the year. Finally, job growth seems to be accelerating. In the three months, February through April, nearly one million new jobs were created. We expect at least another million will be created in the second half of the year.

Economic expansion, rapidly growing profits and accelerating job creation are the significant positives that will ultimately support higher stock prices as the “dark clouds” start to dissipate.

Abstracted from Pavlic Investment Advisors, Inc. Newsletter, July 2004.



LIMITED PARTNERSHIPS...(continued from previous page)

courts disregarded the existence of the FLP and along with it the valuation discount for lack of control and lack of marketability. Both of these cases have been appealed and in one of the cases, *Kimbell v. United States*, the Court of Appeals has reversed the lower court in favor of the Taxpayer. Therefore, FLPs may still be a viable mechanism for reducing gift and estate tax on family transfers.

FLPs also provide other significant non-tax benefits, such as fostering familial harmony by equalizing gifts among children. Essentially, the gift of a limited partnership interest represents a gift in an undivided interest in the assets of the partnership; thus, instead of giving shares of ABC stock to one child and a gift of XYZ stock to another, you can give each

child an equal interest in both. This removes the risk that shares given to one child will not equal the shares given to another. Also, gifting FLP interests is administratively easy. It involves the execution of only a one or two page assignment form and an adjustment to the FLP's books and records. Other benefits include reducing the risk that gifts of valuable assets to children may be misused or fall into the hands of their creditors. The general partners of an FLP retain control over its assets and determine when and the amount of distributions that are to be made to the limited partners. Thus, a parent-general partner can cut off the flow of distributions to a child-limited partner with creditor problems.



PUTTING YOUR HEALTH in Your Hands

When your health becomes an issue, you need every resource at your disposal. But finding information can be a daunting task. We hope you'll take advantage of the offerings at Small Stones by asking our friendly nurse educators Kathy Steele, RN, BSN and Mary Freisleben, RN, BSN to guide you. Both have extensive backgrounds in a wide variety of health issues and will take time to steer you toward resources that fit your individual needs. They will even help you find a physician.

Here is a snapshot of resources available at Small Stones, but we have many more. Please call 414-805-6520 or stop in at 8700 W. Watertown Plank Rd. You can also visit us online at www.smallstones.com.

ONGOING HEALTH SCREENINGS

Blood Pressure and Stroke

July 26 and August 16
9:30 am–11:30 am

Body Fat

August 2 and 23
9:30 am–11:30 am

Cholesterol

August 9 and 30
7:00 am–11:00 am
Requires a 12-hour fast—
call for details and to register.
(\$25 fee if you are not a
Small Stones member.)

Health Risk Assessment

Available online. Come in and use our internet resource area or log on from home. Kathy or Mary can discuss results with you.

BOOKS FROM MANY PERSPECTIVES

Women Are Not Small Men, Living Well with Heart Disease, Heart Diseases and Disorders Sourcebook, The Heart of the Matter, and many more!

Be sure to ask about internet resources that are specific to your health concerns.

EXERCISE PRODUCTS/ RESOURCES

Includes:
Polar heart monitors, DigiWalker pedometers, videos, DVDs, such as *Heart Healthy Exercise*, and supplies (yoga equipment, exercise bands and balls), Spenco heel and arch supports, Exercise books, such as *Fit and Fabulous After Forty*, and more.

DIET AND NUTRITION RESOURCES

- Books, such as *Strong Women Stay Slim, Fight Fat Over Forty* and more.
- Cookbooks, such as *The What You Eat If You Have Heart Disease Cookbook*, the *Dash Diet for Hypertension* and many more.
- Calorie, fat and carbohydrate counters
- Food diaries and journals

Be sure to ask about personal nutrition evaluations offered by our dietitians!

CLASSES FOR LIFESTAGES

Froedtert & Medical College also offers “Classes for LifeStages” presented by Medical College of Wisconsin physicians. Call 800-272-3666 to reserve your place. You can also visit froedtert.com for a complete list of classes.

Small Stones Striders

September 20 & November 15
7:00 pm–8:00 pm

Preventing a Heart Attack

David Rutlen, MD,
Medical College of
Wisconsin Cardiologist
October 13
6:00 pm–7:00 pm

Latest Options in Treatment for Vascular Disease

Robert A. Hieb, MD
Medical College of Wisconsin,
Interventional Radiologist
November 3
6:00 pm–7:00 pm

VIDEOS

- Arrhythmias/Palpitations
- Are You at Risk for Heart Attack?
- Recovering From a Heart Attack



smallstones
a health resource center

STATISTICS & TRIVIA

- A third of workers haven't saved anything, yet nearly half of them still believe they'll have enough by retirement time.
- 30% of those ages 45-54 and 29% of those 55 and over have savings and investments, excluding their home, of less than \$25,000.
- 44% of those 55 and over have less than \$100,000 in savings and investments, and 13% have more than \$250,000.
- Even though 39% of current retirees in the survey say their current income is about what it was before they retired and 13% say their needs are higher, only 8% of the current workers think they'll need about the same amount of post-retirement income as pre-retirement income.
- 10% think they'll need less than 50% of pre-retirement income.
- 81% don't know the correct age they'll be eligible for full Social Security benefits.
- AARP found in a recent study that half of all current retirees rely on Social security for the majority of their annual income.
- 70% plan on working during retirement, but 37% of current retirees were forced to retire earlier than planned due to health problems or unemployment.
- The average worker spends 15 minutes per day saving money for themselves while the rest of the day's wages go to housing, food, transportation, taxes, medical care and other expenses. (Tax foundation)
- It takes 51 working days for a household earning \$75,000 gross income to pay off a \$9,340 credit card bill (national average) at \$200 a month and a 16.44% interest rate. (CNN Money)
- 20% of U.S. millionaires are planning to give away most of their money to charity because of their fear of spoiling their children. (CBS MarketWatch.com)
- The amount that a deceased individual with proper planning can pass on estate tax-free is 1.5 million in 2004. Five years ago (1999), that amount was \$650,000. Five years from now (2009), the amount is scheduled to be \$3.5 million. (Treasury Department)
- The most common drugs used by seniors rose in price by 22% over the last three calendar years (2002-2003). Inflation over the same period of time rose 6%. (Families USA, DOL)
- The USA has a population of 293 million using 198 million personal computers or two computers for every three people. China has a population of 1.3 billion using 29 million personal computers or two computers for every 90 people. (Morgan Stanley, BTN Research)
- The cost of raising a medium-size dog to the age of eleven is \$6,400.
- China is consuming 40% of the cement in the world today. (Morgan Stanley, Barron's)
- In Scotland, a new game was invented. It was entitled Gentlemen Only Ladies Forbidden...and thus the word GOLF entered into the English language.

ONLY 24 MORE WEEKS until Christmas



Even though the weather is finally hot and summer is in full swing, we are continuing to plan for our holiday "Hats and Mittens" project.

Last year we were able to provide hats, mittens and a bag full of goodies to each child in five separate classrooms at Kagel Elementary School. That was a total of 102 children whose lives were touched by the generosity of our staff, our clients and other associates!

Our goal for the 2004 holiday season is to increase the amount of children we impact to 150 and we also want to include the 15 teachers on this year's gift list. We already

have collected several sets of hats and mittens and each child can expect to receive a very special beanie baby donated by an extremely generous and loving client of ours.

If you are interested in contributing to the children or if you have any ideas or contributions towards the teacher gifts please contact Tina at (262) 938-9060. If you want to participate but don't want to shop, feel free to make a check payable to Ellenbecker Investment Group and we will do the shopping for you.

Thank you in advance for your generosity and kindness all year through!



WISCONSIN LIFESMARTS 2004

*sponsored by
Ellenbecker
Investment Group*

Ellenbecker Investment Group, Inc. is excited to be a sponsor for their fourth year of Wisconsin Lifesmarts. Each Spring the Center for Consumer Affairs and the National Consumers League sponsors a championship Wisconsin Lifesmarts contest. This contest is an enjoyable educational event for Wisconsin High School students that promotes their understanding of health and safety, personal finance, technology, environment and consumer rights and responsibilities.

If you have a high school aged student or if you know a student that would be interested in participating this is an unbelievable opportunity to get started. There is NO FEE to participate and it is open to the high school public, home school students, 4-H groups and other community organizations. All you need is an adult leader.

For a coach's guide please call (414) 227-3250. To get started link to www.lifesmarts.org and read the official rules, take a practice exam,

signup for a password and order classroom materials.

The best part about this competition is that not only will the top scoring team be invited to the Wisconsin State Championship but then the Wisconsin State champions will be given assistance with travel, lodging and expenses to compete in the national championship.

When I am at the competition this year I hope to know a team or two who is competing! It is a wonderful way to help our young adults become responsible and informed consumers. In addition, it is a great way for parents, teachers or any adult leader to become a mentor and pass on a legacy and experience to a group of young adults. If you have any questions or would like any additional information, feel free to call Julie at (262) 938-9060.

— Julie

WISCONSIN Athletic Club



America's weight problem is rapidly overtaking cigarette smoking as the leading cause of preventable deaths. Although tobacco is still the top cause of avoidable deaths, the widespread pattern of physical inactivity combined with unhealthy diets is poised to become No. 1 because of the resulting epidemic of obesity, officials said. "Obesity is catching up to tobacco as the leading cause of death in America. If this trend continues it will soon overtake tobacco," said Julie L. Gerberding, director of the federal Centers for Disease Control and Prevention, which conducted the study.

If current trends continue, obesity will become the leading cause by next year, with the toll surpassing 500,000 deaths annually, rivaling the annual number of deaths from cancer, the researchers found.

Being overweight or obese makes people much more likely to develop a variety of deadly health problems, including diabetes, heart disease and cancer. "Americans need to understand that overweight and obesity are literally killing us," said Health and Human Services Secretary Tommy G. Thompson. "To know that poor eating habits and inactivity are on the verge of surpassing tobacco use as the leading cause of

preventable death in America should motivate all Americans to take action to protect their health." Tobacco still ranked No. 1, accounting for about 435,000 deaths, or 18.1% of the total. But poor diet and physical inactivity were close behind and rapidly increasing, causing 400,000 deaths, or 16.6%. That represented a dramatic change from 10 years earlier, when tobacco killed 400,000 Americans (19%) and poor diet and physical inactivity killed 300,000 (14%).

Despite intense public concern, the number or overweight or obese Americans has continued to climb to epidemic proportions. In 1990, about 60% of adult Americans were either obese or overweight, including about 20% who were obese. By 2000, that number had climbed to 64% being obese or overweight, including about 30% who were obese.

*Information obtained from The Washington Post Company

Make an investment in your future today. Start an exercise program at Wisconsin Athletic Club. If you would like more information or a trial membership at the club, please contact Anne Kulikowski at 414-443-5000.

CLIENT FEATURE

Mary Carver & Barbara Johnson



First Lady Laura Bush, Barbara Johnson,
President George W. Bush

“The highlight was going in the Oval Office and just looking around. Seeing the President and the First Lady was like a teenager seeing a rockstar. It was just awesome!”

— BARBARA JOHNSON

2004 WISCONSIN

STATE TEACHER OF THE YEAR

Whatever age your children are, you’re never too old to be a proud parent. Mary Carver, a client of ours since 1992, has good reason to be proud. Her daughter, Barbara Johnson, was named 2004 Wisconsin State Teacher of the Year. Barbara teaches Kindergarten and First Grade at Irving Elementary School in West Allis, WI.

The journey began last year, when her principal, Margaret Crowley, nominated her for a Herb Kohl Fellowship Award. She was one of 100 Wisconsin teachers selected and received \$1,000 plus \$1,000 for her school, which was used to buy books for the students who speak English as a second language. From the 100 recipients, four teachers were chosen to interview in Madison with a committee of 31. Of the four, Barbara was the one chosen to represent the state of Wisconsin for consideration as National Teacher of the Year.

A WEEK OF PROFESSIONAL DEVELOPMENT

In January 2004 all of the state teachers traveled to Dallas for a week of professional development. During the week they heard many speakers, networked, shared ideas and enjoyed an evening of “wining and dining” at the Texas School Book Depository. Barbara returned home with goodie bags from all of the other states to share with students and faculty at her school.

Then it was on to Washington D.C. in April to the official award ceremony at the White House. The highlight, said Barbara, “Was going in the Oval Office and just looking around. Seeing the President and the First Lady was like a teenager seeing a rock star. It was just awesome!” She said the President was friendly, talkative and wanted to have their photo retaken because during the first he had turned his head, and he said, “I don’t think Barb wants a picture of my right ear.”

Barbara went back to Washington in May to meet with Secretary Page at The Department of Education and later this summer will travel to Alabama to attend International Space Camp.

VISITORS IN THE CLASSROOM

Since receiving the award, more than 80 people have been to Barbara’s classroom to observe her teaching. Fortunately she’s comfortable with visitors as she’s been teaching for 30 years, with 17 of them at Irving School.

Barbara’s colleagues tell her they’re living vicariously through her. She feels humbled by this honor and hopes that others have the opportunity to experience what she has. “It’s not about being the best, but about representing the state,” said Barbara. “Even though I didn’t grow up here, I’ve taught in Virginia, South Carolina and Connecticut and I’m really proud of being a Wisconsin teacher.”

While Barbara said she was surprised to be selected, her mother was not. Mrs. Carver said, “I can, I most certainly can believe that you were the one. You deserve it!” Her students, too, were proud but in the eyes of the five- and six-year olds, the neatest thing to them was that she got to pet Barney, the president’s dog!



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