Ellenbecker Investment Group, Inc.

In Touch

Your Guide to Lifetime Planning

2nd Quarter 2005

FINDING DIRECTION *with your internal compass*

Karen J. Ellenbecker, President
ELLENBECKER INVESTMENT GROUP, INC.

At our last client event the guest speaker was Terry Pavlic, President of Pavlic Investments. I recently interviewed Terry on *"Money Sense"* and he shared with my listeners an experience he had over the Christmas holiday. He and his family decided to spend their Christmas in Colorado skiing. One of his daughters flew in a few days after the family arrived and Terry needed to drive to the Denver Airport to pick her up. He rented a car outfitted with GPS, keyed in Denver airport, pushed the button and his route was determined. This seemed an easy, foolproof solution. He turned the key and set off for Denver, trusting GPS to safely take him to his destination. The trip started out fine until Terry found himself going over mountain passes late at night. The snow began to fall, road signs were everywhere alerting drivers that an avalanche was possible and, to make matters worse, he became very aware that there were no guard rails along the side of the road and the bottom was a long way down.

In a panic, he asked himself three questions. "How did I get here?" "Why am I here?" "How will I get out of here safely?" Terry then promised himself that he would never make this mistake again.

How did I get here?

I know that I have asked myself that question more than once. What Terry realized after well into his journey, was that GPS takes you the shortest way to your destination, not necessarily the safest or most prudent. There were no qualifying questions such as: What are the current weather conditions? What time of day is it? Is getting there quickly the most important thing to you or would you rather take a slightly longer route with less stress? Are you afraid of heights? If something goes wrong, are you prepared?

Planning for life is very much like Terry's experience, it is not about having all the right answers, but about asking the right questions. It is about broadening the conversation from investing your money as it relates to each aspect of your life. Each person's life destination is unique. In the past, most plans have been age-weighted and events occurred during predictable times in your life. Today, however, due to increased longevity, new perspectives on aging, high incidence of divorce and remarriage, delayed child bearing, multiple career changes and a greater emphasis on lifelong learning and returning to school has made our lives less predictable and more difficult to plan for events.

Why am I here?

Terry relied on GPS to set his course and what he soon learned was that he had a strong internal compass of his own. What became apparent was that his course of action was not in harmony with his own inner compass. Terry's values and priorities had been compromised and he found himself in conflict with the direction he had taken. How often do we rely on other sources to influence our financial decisions? Perhaps it is the "hot" stock tip, the article in the newspaper, our barber, friend or parent. It is clear, you cannot push a button and be guaranteed that you are going where you want to go nor can you take a pill and become the young, healthy, vibrant, happy individuals you see leaping across your television set. Yet we live in a world that tells us we can and that there is a quick fix for everything. Listening to your internal compass will generally lead you in the right direction. The problem as I see it is not so much that we don't know what our intuition is telling us, but that we don't take the time to listen.

(continued on next page)

FINDING DIRECTION *with your internal compass*

(continued from page 1)

How will I get out of here safely?
Terry saw all the signs warning him of danger but often, even when we see the signs, we are unable to act. What are some of the problems I see individuals face?

- A combination of optimism that leads people to believe that no matter what they need to overcome, it will work out ***OK*** in the end, so they procrastinate and do nothing.
- Information overload can paralyze a situation.
- Having an over confidence in your ability to invest.
- Media can play a role in creating an unhealthy decision-making environment.

The warning signs are always there, but somehow we just don't see them until we are forced to look at the situation head on. Like Terry, at that point of recognition we no longer have many of the options and solutions that would have been available early on.

I'll never make this mistake again.
Recently I removed several of the pictures in our front lobby and replaced them with two pictures I purchased in New York. I was there several months after September 11, the weekend they turned off the spotlights that took the place of where the twin towers once stood. I placed those pictures in our waiting room to reflect on the past, and to remind us to apply the lessons from the past to our future decisions. I remember when I wrote our 2001 fourth quarter newsletter, the feeling of helplessness in the loss of our innocence as a community and as a nation. Staying focused on long-term objectives in times of tragedy can be very difficult and may be the hardest part of investing. History has shown that generations of investors have been rewarded for maintaining a long-term perspective during a wide variety of crises. When Terry declared, *"I will never do this again,"* it was in the heat of the moment when things seemed very dangerous and unsettling. It will take a conscious decision on Terry's part to remember next time to do it differently and the same holds true for each of us as we look to our future. You can be assured that we are committed to your long-term prosperity and are working hard to maintain your current investment strategy regardless of what is happening in our economy or the world. Our focus is on you as an individual and I always say and believe, "no one shoe fits all."

Karen

"Are you building the life you want?
It is essential to develop a vision for your life.
This will draw out the purpose for you to use your money to enhance your life rather than using your life to make money."

Karen J. Ellenbecker

New Office Hours:

Monday	8:00 am – 4:30 pm
Tuesday	8:00 am – 4:30 pm
Wednesday	8:00 am – 4:30 pm
Thursday	8:00 am – 4:30 pm
Friday	8:00 am – 3:30 pm

Check out our
great new look on the website

www.ellenbecker.com

MORTGAGE *News*

Nicholas MacCudden
MAJESTY MORTGAGE, INC.

Many of us have been predicting long-term mortgage rates to creep up for several months now. Remarkably, interest rates ranging from the low sixes to the mid fives have been available since the early part of 2002. Is the party finally coming to an end? It looks like it may be. As the first quarter winds down and we begin to assess the rest of the year, higher mortgage rates seem likely.

The higher rates are the result of a number of factors. The economy has improved which has led the Federal Reserve to raise short term interest rates six times over the last ten months. Typically the long-term rates tend to follow suit. Lastly, the increasing national deficit and weakening dollar has put added upward pressure on the bond market.

The question then is, what is the best way to handle higher rates? There are a number of solutions and options now available that allow homebuyers to still qualify for the ever-increasing expense of a home. **Here are two of them.**

We have seen a dramatic increase in demand and use of **interest-only mortgages**. As the name implies, it is a loan in which you do not pay down any principal with each payment, only the interest. How much can you save? On a two hundred thousand dollar mortgage at six percent interest the monthly payment savings is about two hundred dollars a month.

Another choice is an **option pay loan**. These are adjustable rate loans that allow you to choose different payment amounts each month. Typically the loan has a very low starting rate (usually below two percent) for a very short period of time (usually three months) that borrowers are allowed to base their payment on for the first year with limited increases each year after that. They may also choose to make interest-only payments on the loan. Finally they may make fully amortized payments based either on a fifteen or a thirty-year payoff.

These two loans can be a good tool for people who want to maximize the amount of house they can afford or want flexibility in the amount that they pay each month (good for self-employed or commissioned borrowers). Like any loans there are advantages and disadvantages that you want to be aware of, but these are two options that can be very helpful in the face of rising rates.

Please give Majesty Mortgage a call at 262-785-1363 to find out if these or other loans would work well for you!

Don't forget to listen to
"MONEY SENSE"
on WISN AM 1130

Saturdays 2:00 - 3:00 pm
Sundays 12:00 - 1:00 pm

Hosted by Karen J. Ellenbecker

STATISTICS & TRIVIA

"The human frog"

Karen J. Ellenbecker, President
ELLENBECKER INVESTMENT GROUP, INC.

"In the Great Little Book of Sports, we read about Raymond Enry, of the U.S., who won more Olympic gold medals than any other athlete in history — even more than Mark Spitz or Carl Lewis.

As a child, Raymond Enry was an invalid and confined to a wheelchair. One day a doctor suggested that Raymond start an exercise program to strengthen his legs. Ray, never a quitter, was determined to walk under his own power some day. He began to invent exercises of his own. After years of hard work, Ray performed the impossible, he walked by himself!

But that wasn't enough for Ray. He continued a vigorous exercise program that gave him superhuman springing abilities that amazed coaches as he began to compete in track. He was given the nickname **"The Human Frog."** In 1900, at the age of 27, Ray competed in the Olympics and won three gold medals. In 1904, he won three more in jumping events. In 1906 and 1908, he won a total of four, for a grand total of ten gold medals!

Raymond Enry's leap into the record books from a wheelchair proves, once again, that there is no greater power than a mind made up." (*source: Mitch Anthony*)

How can we relate this story to our lives and financial planning? Remember, Ray Enry accomplished what many people believed impossible — by having a plan, setting realistic goals, sticking to the plan, monitoring the plan when necessary and never giving up.

Statistics

- In the last 50 calendar years (1954-2003), the S&P 500 has averaged +10.8% per year (total return), and in the years following a negative year posted a positive return 75% of the time. Those numbers are similar to the entire 50-year history, which has produced an annual average of +11.6% (total return) with 76% of all 50 years showing a gain. (*source: BTN Research*)
- Three out of five Americans believe that today is a good time to invest in U.S. stocks. The average return expected over the next year by investors is 10.5%. (*source: UBS, Gallop Poll*)
- Three out of every eight American workers less than thirty years old has zero money inside their 401(k)s. (*source: Employee Benefit Research Institute*)
- Three out of four retirees surveyed believe they have done a good to excellent job preparing for the unexpected events (e.g. rising interest rates, inflation, stock market tumbles) that can occur after their income generating years are over. (*source: Lincoln Financial Group*)
- Only one out of every eight retirees has a standard of living, after they've stopped working, that exceeds their pre-retirement level. (*source: Brightworks Partners, Putnam Investments*)
- 49% of Americans believe their standard of living will decline during their retirement years when compared to their working years. Only 24% of Americans anticipate that their savings will be sufficient to cover basic living expenses during their retirement years. (*source: Principal Financial Group*)
- 56% of affluent seniors aged 70-79 use a financial advisor to manage their retirement assets. (*source: Lincoln Long Life Institute*)
- In the last 200 years, five Presidents have run for reelection while the nation was involved in a major war. All five won their election bid. In the last fifty years, no incumbent President with a job approval rating below 50% in May of the election year has won reelections. Bush was at 46% in May. (*source: USA Today*)
- A 25-year old investing $1,000 per month and earning 7% annually will accumulate $1.72 million by age 60. If the $1,000 per month dollar-cost averaging is halted for the five years from age 40-45 but resumed thereafter, only $1.52 million will accumulate by age 60. To make up the loss of $200,000, an annual rate of return of 8% is needed from age 45 on. (*source: BTN Research*)

TIME FOR AN ESTATE PLAN *Checkup*

Nancy M. Bonniwell
Attorney at Law
WEISS BERZOWSKI BRADY, LLP

Although married couples have an advantage when it comes to estate tax planning because they can make full use of their estate tax deduction as well as a full marital deduction, married couples need to be sure that their estate plans comply with both federal and recently revised state tax laws. Traditionally, a Will or revocable living trust directed that the Family Trust (also known as the Credit Shelter Trust) be funded with the maximum amount of assets that can pass free of federal estate tax. The balance of the estate would either pass to the surviving spouse or to a Marital Trust for the benefit of the surviving spouse. That plan worked very well when Wisconsin's estate tax worked in tandem with the federal estate tax.

In recent years, the federal government has significantly reduced the amount that it is willing to share with the various states. For that reason, Wisconsin created its own estate tax system with a lower estate tax exemption amount. Although the current federal estate tax exemption is $1.5 million per person and is scheduled to increase to $2 million in 2006, and $3.5 million in 2009, Wisconsin's estate tax deduction currently is $675,000. Thus, if a married couple prepared their estate plan several years ago, they will take advantage of the full federal estate tax credit, but they may be liable for State of Wisconsin estate tax up to $64,000 in the year 2005, and even greater amounts when the federal estate tax exemption increases to $2 million next year.

Depending on the size of a couple's estate, the age of individuals, and their health, their current estate plan may suit them. They may wish to take advantage of the full federal credit and pay some Wisconsin estate tax because the federal tax is a much higher rate. On the other hand, in the world of constantly changing federal tax laws, a married couple may want to defer all tax until the surviving spouse passes away. This plan has its advantages. It allows all assets to be used for the surviving spouse's benefit, without reduction for taxes. At the time the surviving spouse passes away the federal estate tax credit may shelter all that the surviving spouse has in his or her estate. Moreover, the State of Wisconsin estate tax may no longer be in effect. In that case, all taxes may be avoided.

Each person should seek advice from their advisors with respect to the estate tax issue. If you have not seen your advisor in the past few years, there are also other issues that need to be addressed, such as the impact of federal privacy laws on some of your estate plan documents (HIPAA) and changes in Wisconsin's laws that will effect your agent's ability to act under powers of attorney, as well as your executor's ability to administer your estate under a Will or trust.

SII Investments, Inc. is not affiliated with Weiss Berzowski Brady, LLP and does provide tax or legal advice.

NEWS FROM *Small Stones*

Froedtert & Medical College of Wisconsin is partnering with WKTI and WTMJ radio to bring you the latest in health information from Medical College of Wisconsin physicians.

WKTI (94.5 FM) hosts *"Women's Wellness Wednesdays"* at Small Stones on the first Wednesday of each month. WTMJ (620 AM) airs *"Every Day Health"* segments – a new health tip each month.

You can also find a complete listing of education classes and health screenings offered by Small Stones and register for them online.

For more information, visit *smallstones.com* or call (414) 805-3666 or (800) 272-3666.

THE LONG-TERM CARE *Dilemma*

Joleen Kane
Vice President
Director of Special Products
ELLENBECKER INVESTMENT GROUP, INC.

Long-term care (LTC) insurance can be both complicated and intimidating. Certainly none of us wants to think about needing assistance with our daily activities. But we also don't want to imagine our family facing the financial and emotional issues that can result when a family member needs long-term care. You may even know someone who has had to care for an adult family member, so you already understand the value of long-term care insurance.

Unfortunately, we have seen many families struggle through the emotional side of an accident or illness and then are forced to find the time and the resources to transition into a facility or assisted care at home. Planning ahead can alleviate much of the confusion and financial struggle.

We all do our best to take care of our health, but the reality is, the older we get the more likely we are to require long-term care. To complicate matters, it is not just the elderly that are receiving long-term care. Accidents can happen at any age. Christopher Reeve was very young when he became paralyzed. According to www.ConsumerReports.org, the average stay in a facility is 2.5 years. Reeve, however, required 9 years of care.

Consider these facts:

1. Only 60% of people who may need LTC are age 65 or older[1]

2. 40% of people who are receiving LTC are adults between ages 18 and 64[2]

3. 25% of America's 22.4 million families provide care to elderly relatives[3]

Have you taken an inventory of your assets to help you assess how you would be able to fill such a need? What other financial resources do you believe will be available to you? Health insurance typically covers only acute care and disability insurance only replaces current income. Medicare covers only 14% of long-term care costs,[4] and certain conditions apply. Medicaid is available only after your assets have been depleted. So where will the money come from? The fact is a large portion will come from personal savings.

According to the Wisconsin Department of Health and Family Services, the average cost in 2001 for a day in a nursing home in Wisconsin was $132. That is an annual cost of $48,180. Extensive 24-hour home care can cost as much or more than a nursing home.[5] And inflation doesn't pardon long-term care. The costs will continue to rise in line with other heath care costs.

Of course the cost of long-term care insurance can vary and the older you get the more expensive it becomes. Our belief, however, is that a reasonable amount of insurance can be purchased as a supplement to your existing assets. Every situation is unique, and it is important to weigh the costs in relationship to the potential benefits. You can't protect yourself from every unforeseen circumstance, but for many, this is an investment in "peace of mind."

Looking at long-term care insurance can be overwhelming. If you would like help in taking an inventory of your assets or reviewing your personal situation, please feel free to call me at (262) 938-9060. We can help you take the first step in understanding how you can protect your family and the wealth you have worked so hard to build.

---

[1] US General Accounting Office, "Where Does the Population Live and Who Cares for Them"
[2] US General Accounting Office, "Where Does the Population Live and Who Cares for Them"
[3] Study by Brandies University's National Center of Women and Aging, December 1999.
[4] Department of Health and Human Services Office of the Actuary, National Health Statistics Group, Personal Health Care Expenditures, 2001
[5] Long-Term Care Planning Guide, United Seniors Health Council, 2001

MARKET OUTLOOK

1st Quarter 2005

Terence Pavlic
President
PAVLIC INVESTMENTS

Note: Abstracted from Pavlic Investment Advisor, Inc. newsletter, Spring 2005

The stock market has started out this year much like it did last year: going nowhere in a hurry. You may recall that for the first 10 months of 2004, the stock market was virtually unchanged and moved in a very narrow range, i.e., a trading range. All of the gains were made in the last 70 days of the year.

We may be in a similar environment this year, which, incidentally, is not very unusual. Historically, most of the gains in the stock market have been compressed into relatively small periods of time and two strategies have emerged to address this. First, there are those who believe that they can time the market. The "market timers" try to move into the market just before it rises and then sell out of it just before it falls (or moves sideways). A good idea, if you can do it! The other strategy is to stay invested under all but the most extreme circumstances recognizing that it is very difficult to consistently predict when the market is going to suddenly move higher, like it did late last year. With this strategy, the belief is that you have to be invested before these moves occur because by the time they become obvious, they are largely over.

As you may have guessed by now, we fall into the latter camp. The problem with market timing is not that it is theoretically unsound or won't produce large profits. Rather, the problem is one of execution and implementation. Predicting the near-term direction of the stock market is very difficult in its own right. But a good market timing strategy not only requires that you get the direction right, but also that you get it right consistently. We have yet to see such a model. Some market timing models work for a while and then they don't. Others are more accurate, but they make only one or two predictions per decade, so they aren't very useful in the short or intermediate term. Until there is evidence to support both aspects of a good market timing methodology, we can't in good faith recommend this strategy to you or use it ourselves.

So given that we are not market timers, we would nevertheless make a strategic decision to pare back our stock holdings if (1) stocks looked unattractive at current prices and (2) there were better opportunities in other asset classes like bonds, cash equivalents or real estate. Neither is the case today.

First, the stock market is fairly valued today. This means that it should appreciate in line with the growth in profits, which we expect to be 7-9%. Additionally, the economy continues to improve, 150,000-250,000 jobs are being created monthly and overall inflation, including the impact of higher gasoline prices, remains remarkably contained below 3.5%. That the fed is raising interest rates is not yet a cause for concern. We expect them to stop when short-term interest rates equal the inflation rate. This is the long-term historical relationship and in an expanding economy, it is reasonable to assume that money-market investments should earn enough to cover inflation.

Secondly, the alternatives to the stock market do not look especially attractive today. Money markets are yielding about 2%. While the yield has doubled over the past year, it is still well below the inflation rate, which is a minimum threshold for measuring the attractiveness of cash equivalents. Those who are currently heavily invested in money markets are seeing their purchasing power erode at about 1.5% per year.

Another alternative to stocks is bonds. With the overall level of interest rates moving up, bond investments are likely to earn less than their coupons. This is because bond prices move in the opposite direction as the overall level of interest rates. Currently the yield on the 10 year US treasury bond is 4.5%. If the overall level of interest rates moves up 1.00%, the price of this bond will drop 3.9%, so the combination of the income less the depreciation in price (4.5%-3.9%) will provide a total return of only 0.6%. This is even worse than money market investments. Historically, 10 year US treasury bonds have provided returns that are 1-3% above the inflation rate.

The final alternative to stocks is real estate. We are not experts in this asset class by any means, but it seems that real estate is no bargain at current prices. First, for several years now, prices have risen at rates that are 2-5 times above historical norms. Certainly, falling mortgage rates have allowed "renters" to qualify as "owners" and this has added to demand, however, now rates are rising and we would expect to see this demand dissipate. Another short-hand way to evaluate real estate is based on the old rule of thumb that properties ought to generate monthly rents equal to 1% of the purchase price. It is very hard to find any properties that meet these metrics: either the prices are too high or the rents that a given property could command are too low.

To summarize, our expectations for the remainder of the year are that stocks will earn 7-9%, money markets currently earning 2% will see yields rise throughout the year to perhaps 3.5% and intermediate term bonds will earn 1% or less. Regarding real estate, some have argued prices are rising as if in a "bubble." We would only say that it seems too late to begin investing here. Therefore, our belief is that stocks are likely to produce the greatest returns this year, although we certainly cannot guarantee that result.

CLIENT FEATURE

Doug & Sally Unger

Doug & Sally Unger have been clients of Ellenbecker Investment Group since 1997. Recently they started a new phase in their lives becoming franchise owners of Cold Stone Creamery.

The idea started with a visit to their daughter at college. While in Ohio, Doug and Sally Unger's daughter, Katie, introduced them to Cold Stone Creamery. "You're going to love this place," she said. Not only did they love the super-premium ice cream, they decided they'd like to open a franchise in Milwaukee. The Ungers had been planning to buy a business but hadn't found a good fit until now. They completed the application process, then worked with Cold Stone personnel for site selection and build-out of their location just south of National on Hwy. 100. Sally spent ten days learning the business, training at Ice Cream University (ICU) at the company headquarters in Scottsdale. "We tasted everything," said Sally, whose favorite flavor is coffee.

In true Wisconsin fashion, there was a snowstorm on the first day the store opened at the end of January. The malls were closing but they decided to stay open. Then it was "baptism by fire," said Sally because after roads were cleared customers started coming and they were busy. Cold Stone Creamery offers 16 flavors of super-premium ice cream made fresh daily and 32 Creations, which include mix-ins of candy, fruit and nuts. The Creations are blended on a frozen granite stone before being served in a choice of three sizes — Like It, Love It and Gotta Have It. Freshly made waffle cones and bowls plus an extensive variety of ice cream cakes round out the selection.

The Unger's new business venture is a family affair. Twin sons, Mike and Phil, and nephew Andy work after school and on weekends. Although Doug still has his "day job," he's there on weekends and involved with the marketing. Sally spends many 12-hour days at the store working with her manager and 19 part-time crew members. Sally really enjoys the crew and customers. "It's a welcome change after spending too much time in front of a computer as I did in my previous career," she said.

Next year the Ungers will be empty nesters, with all three kids in college. Doug and Sally will keep themselves busy with their business and another location planned to open in Waukesha. "We couldn't see ourselves sitting on the couch for the next 20 years," said Sally. "I don't coast well."

Doug and Sally would like you to experience twice the happiness! Visit their Cold Stone Creamery store at 2935 S. 108th Street, and simply mention seeing their article in this newsletter. Then, buy one and get one free of any "Love It" sized Creation of equal or lesser value. "Love It" size is equal to a regular. Includes "Love It" size ice cream Creations only.

Limit one per customer. Not valid with other offers.
Offer expires May 31, 2005.

COLD STONE CREAMERY

ELLENBECKER INVESTMENT GROUP, INC.
740 N. Pilgrim Parkway, Suite 202 • Elm Grove, WI 53122
(262) 938-9060 or (888) 642-7526 • www.ellenbecker.com