



# The Fragasso Group, Inc.

*The Retirement Planning and Wealth Preservation Specialists*

*A Registered Investment Advisor*

*...For the Serious Investor*

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## Where Is The Market Going In 2001?

The answer is the same as we give every year: Who knows? However, given the precipitous drop in market values in late year 2000, the question becomes more than academic. It touches upon the financial security of all of our clients.

Because *no one* can look into the future and predict, we base our observations on the same two factors we always use to guide our financial and investment decision-making. Those are: 1) the current status of the economy and 2) historic re-occurrences. You'll recall that the last newsletter cover story dealt with Chaos Theory's giant feedback loops. That means that trends tend to repeat themselves over time, i.e., history repeating itself.

First, let's consider the current state of the economy. In sum, it's good relative to historic norms and the rest of the world's economies. Right now, the markets are struggling to revalue the stocks of U.S. companies in light of lessened levels of profitability. Consider that. We are not facing a lack of profits, just a different level than the overly good levels of recent years. We are not dealing with the massive layoffs or plant closings of the late 1970s and early 1980s. We are hearing of companies upgrading their product mix for today's marketplace. An example would be General Motors discontinuing Oldsmobile over five years. It likely should have

been discontinued 10 years ago, but GM is now upgrading its fleet by finally closing out an antiquated nameplate. If that decision is correct, it means potentially higher profitability, not an inability to make payroll.

Second, let's consider the U.S. economy. For the first time in our adult lifetime, we are preeminent within the world's economies. Just a short while ago, we worried about foreign economies overshadowing ours. Now we, after a very long time, are once again leading the world in productivity, innovation and we face no credible military threat. Both political parties are focused on economic advancement. The workforce is not lobbying for higher pay; it's busy contributing to its 401K plans. Inflation is under control. No less an inflation hawk than Alan Greenspan has declared inflation a non-threat.

Other than a normal and overdue economic slowdown and leveling, can you think of any thing bad about this economy? Well, then why are you so worried?

Now let's gain some perspective and comfort from economic history. Let's assume for a moment that there will be a recession. And, that's far from sure! Some economists caution that there may be a slight recession, and many more are looking for no recession. But, for a moment, pretend there will be a

recession. What does history tell us will happen. We'll use the Standard and Poor's 500, a widely quoted stock market index. Most of our clients are balanced in both stocks and bonds, so we'll also view a balanced blend of stock and bond indices. Seeing how recessions and recoveries interact – invariably – should give even the most pessimistic among us great comfort.

The S&P 500, representing the stock market, has had 20 down years out of the 74 years inclusive between 1926 and 1999. That means 54 years were up. Of the 20 down years, only 7 years were down 10% or more. The remaining 13 down years were down less than 10%. Further, only three times during that time period was the market down more than one year consecutively. Those included: one time at the beginning of the Great Depression; one time at the beginning of World War II and the third time was the oil embargo-induced recession of 1974-75. So, other than a Depression, a World War and a world-wide oil embargo, downturns lasted only one year. Very importantly, every downturn - the two dips during the Depression included - was followed by an upturn. And, in every case the upturn was greater than the downturn, once again, Depression included. The

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## Funding Education Costs:

# The Uniform Transfer to Minor Account or the Section 529 Plan

by John Barbe



If you are ready to fund your child's or grandchild's education and you're not sure how to do it, consider the Uniform Transfer to Minor Account and the new Section 529 Plan. They are both great ways to save. But before you choose one, you may need to understand a little more about them. The first thing to know is that there are no income limitations for either funding method. Whether you make \$10,000 or \$500,000 per year, you are eligible to contribute to an UTMA or 529 Plan. Maximum annual contributions to the UTMA are usually considered to be \$10,000 per year, per donor for each recipient. For the 529 Plan it is \$120,000 if you are married (\$50,000 if you are single) per recipient. You may not transfer the assets to another member of the family inside an UTMA. However you have that ability with the 529 Plan. That means the 529 Plan allows for transfers of gifts from child to child, within limitations, as the years go on. Early withdrawals from the UTMA and the 529 Plan for non-education purposes could cause penalties. The UTMA does allow for some non-educational uses within somewhat narrow limitations. The UTMA penalty will fluctuate depending on what tax bracket mom and dad were in while the UTMA was being funded. The 529 Plan will force you to pay a 10% penalty on the earnings.

Now that we have covered the outer shell of each plan, let's get into the core of the vehicles. Taxes are a major concern as with every other investment item in your portfolio. The UTMA account's annual earnings are taxed in different ways. When the child is under age 14, annual portfolio earnings (growth and income) between \$0 to \$750 are tax-free. Earnings from \$701 to \$1,500 are taxed at the child's ordinary income and capital gains tax brackets. Earnings of \$1,501 and above are taxed at the parent's bracket. This is important to know because if you are a grandparent or friend of the family, your tax bracket is not a concern in the UTMA account. However if mom and dad are in, for example, the 31% bracket, any growth above the \$1500 barrier will be taxed at 31%. At age 14, the UTMA provides a different scenario at the upper tier. The first two tax levels of \$0 to \$750 and \$751 to \$1500 of earnings remain the same. At the child's age 14, any earnings above \$1500 remain within the child's tax brackets, not at the parents' higher brackets. Taxes on the earnings in 529 Plans are completely deferred

until the money is withdrawn. When you take out the money to pay for college, the earnings are taxed at the student's ordinary income tax rate. The donor and the child escape any taxes until the child begins withdrawing money for college. The UTMA may be funded by any security (i.e. cash, stocks, bonds, etc...) while the 529 Plan may be only funded with cash. If you are planning to gift appreciated stock to a child/grandchild into a 529 Plan, you must first cash in the security thus accepting a tax event for that year. The UTMA will accept those appreciated stocks thus exempting the donor from that taxable event. Eventually, the child will pay at his or her bracket when the security is finally sold.

The most significant difference between UTMA's and 529's may be the control factor. An UTMA becomes an individual account when the child reaches the age of 21 (in Pennsylvania, 18 in some other states). The child is likely finished with college at this point. If there is money remaining in the UTMA then, the child can walk into your financial advisor's office, ask that the securities inside the UTMA be sold and have a check sent to their address. The money inside that account is legally then the property of the beneficiary. The chance of this happening is slim based on our experience, but it is a legal possibility. In the 529 Plan, the child never gains control of the asset. The person who sets up the account decides when withdrawals may be made. The beneficiary has no say on when disbursements will be sent from the account, regardless of age. The donor remains in control of the 529 plan until the account is completely liquidated.

Finally, the 529 Plan may offer the better alternative when the financial goals include both education funding and estate planning. Grandparents should take special note here. This is so because five years of gifts may be made to 529 plans in one year. By contrast, the UTMA requires that each year's gift be limited to the current calendar year. Estate planning requires both investment advice and competent legal advice. This explanation is meant to start you thinking. Correct judgments can only be made through a complete analysis of your individual situation, considering all relevant factors.

Hopefully, you now have a little better understanding of the UTMA and 529 Plan. We invite you to contact your financial consultant with The Fragasso Group or **John Barbe** at (412) 227-3200 or 1(800) 900-4492 if you have questions about college planning and how these options may apply to your family's situation.

*Happy  
Holidays!*

Please understand our sincerity when we say that our greatest joy in business is to assist our clients toward their financial goals and security. Our compensation is directly tied to your success and satisfaction, so you and we move forward together.

It is with the greatest humility and gratitude that we thank our clients for their confidence in us. We hope that each of you have wonderful and happy holidays, and we wish you a healthy, prosperous and joy-filled year 2001!

## South Hills Branch Office Opens



For almost 29 years, we have serviced Allegheny and surrounding counties from downtown Pittsburgh. However, the changing demographics of our area, and pending

downtown bridge closings, have indicated the need to make our services more accessible to suburbanites. We surveyed you, and you made it clear that branch offices would make your experience with our firm more enjoyable. Thus, the first of our branch offices opened at **2000 Oxford Drive** abutting South Hills Village and the Village Square Shopping complex. Approximately 30% of our existing clients chose to assign themselves to that convenient location from our downtown headquarters. **Michael Fertig** has moved to that branch as Branch Manager. He was joined by financial consultants **Leslie Coulson** and **Christine Robinette**. **Kevin Daeschner** also joined our firm as a financial consultant at the South Hills branch. Finally, **Vicki Fragasso** has rejoined us from Denver, CO as that branch's Administrative Manager, and **Lori Szala** was kind enough to provide temporary additional assistance to get the branch up and running administratively.

Our next branch will open in the North Hills during the first half of 2001. After that, we likely will open east and west offices. Once the branch network is fully operational, the downtown office will remain both corporate headquarters as well as a downtown branch office to serve the downtown business district, the North Shore, Oakland, Squirrel Hill and Shadyside. Clients, of course, can determine which branch and which financial consultants within our organization best meet their needs. Portfolio management, seminars and centralized financial planning will remain downtown as corporate resources serving all branches.

## RSVP Volunteer of the Year Award

Each year we sponsor the Red Cross' Retired & Senior Volunteer Program's Volunteer of the Year Award. This year the Volunteer in Community Service award was given to **Robert Lewis**. This busy man's schedule includes 32 hours per week of preparing meals on wheels, assisting a volunteer fire company and installing personal alert systems for seniors. Beyond that he donates an additional 18 hours per week to repairing talking books for the visually impaired. The Fragasso Group believes it's every person's privilege to donate service back to the community, and Robert Lewis personifies that privilege to the fullest! If you are interested in donating time to organizations needing assistance, contact the RSVP office at 225 Boulevard of the Allies or phone (412) 263-3184. RSVP will assess your interests and match them up with their volunteer needs, and help you get involved with the organization that can best use your skills.



*Bob Fragasso (right) presents Volunteer in Community Service award to Robert Lewis.*

## Where Is The Market Going In 2001? *(continued from page 1)*

source for all of this data is the Standard and Poor's organization, and we use these statistics in our University of Pittsburgh and corporation-sponsored adult education classes. If you haven't already, come to class. You'll learn what you need to dispel myths and to make sound investment management decisions. A flyer describing the winter semester's classes will be mailed to you in January.

More so, as mentioned, most of our clients maintain a balanced portfolio of both bonds and stocks in an individually asset allocated posture. An evenly balanced portfolio of bonds and stocks would have reduced the down years mentioned above from 20 to 16. More importantly, the severity of the downturn would have been cut by 41%.

Source again is the S&P data that we use in our classes.

So, what is it you are fearing? A recession? A normal market correction? With proper investment management techniques, downturns and market volatility can become much more plannable and handleable. The basic principles of investment management do not change. They include: time, not timing; diversification; balance and asset allocation. If you are not now a client, call us. We can help you through this market period. If you are a client, please feel secure in your asset model and investment posture. Call your financial consultant with The Fragasso Group to discuss in more detail how these principles are being implemented within your investment portfolios.

## *Holiday Calendar for 2001*

**T**he following **holidays** will result in our **offices** being **closed** at all locations **during 2001**. All of these dates, except the Friday after Thanksgiving, represent a national holiday where the stock and bond markets are also closed.

Monday, January 1, 2001 – New Year's Day  
Monday, January 15, 2001 – Martin Luther King Day  
Monday, February 19, 2001 – Presidents' Day  
Friday, April 13, 2001 – Good Friday  
Monday, May 28, 2001 – Memorial Day  
Wednesday, July 4, 2001 – Independence Day  
Monday, September 3, 2001 – Labor Day  
Thursday, November 22, 2001 – Thanksgiving Day  
Friday, November 23, 2001 – Fragasso Group offices closed  
Tuesday, December 25, 2001 – Christmas Day

Our offices close at 4PM on the business day preceding any 3 or 4 day holiday weekend.



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Toll-free . . . . . 1-(800) 900-4492

### Direct dial numbers for Group members are:

John Barbe . . . . . (412) 227-3213  
Judith Boros . . . . . (412) 227-3222  
Jan Carr . . . . . (412) 227-3207  
Kelley Coulter . . . . . (412) 227-3214  
Jim Danko . . . . . (412) 227-3227  
Robert Fragasso . . . . . (412) 227-3220  
Chad Hamilton . . . . . (412) 227-3226  
Jenn Hill . . . . . (412) 227-3234  
Karen Launikonis . . . . . (412) 227-3218  
Jacquie Llewellyn . . . . . (412) 227-3230  
Melissa McManus . . . . . (412) 227-3235  
Palmer Masciola . . . . . (412) 227-3206  
Receptionist . . . . . (412) 227-3200  
Ronald Rivera . . . . . (412) 227-3203  
Shellie Roach . . . . . (412) 227-3217  
Brian Robinette . . . . . (412) 227-3238  
Deborah Sales . . . . . (412) 227-3202  
Diana Schroeder . . . . . (412) 227-3215  
Daniel Tatomir . . . . . (412) 227-3236  
Mike Trainor . . . . . (412) 227-3216  
Andrei Voicu . . . . . (412) 227-3204  
Matt Watt . . . . . (412) 227-3209

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### Extensions for Group members are:

Leslie Coulson . . . . . Ext. 104  
Kevin Daeschner . . . . . Ext. 106  
Barbara Dressler . . . . . Ext. 102  
Mike Fertig . . . . . Ext. 103  
Vicki Fragasso . . . . . Ext. 101  
Christine Robinette . . . . . Ext. 105

**E-mail addresses for all Group members  
are available at  
[www.fragassogroup.com/director.htm](http://www.fragassogroup.com/director.htm)**

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## **REMINDER:**

All checks should be made payable to:

Linsco/Private Ledger (LPL),  
and not Pershing,  
unless otherwise instructed.

## New Faces and Promotions

### We Continue To Grow



**Judith Boros** joins us as our **Staff Accountant**. Judie's 20 year career with Pepsico has prepared her well for the multiple duties she'll perform for us in the areas of budgeting, forecasting and productivity measuring of the various segments and initiatives within our operation.



**Vicki Fragasso** has rejoined us after almost two years in Denver, CO. She has assumed the position of **Administrative Manager** of our **South Hills branch office**.



**Kevin Daeschner** comes to our South Hills branch office as a **Financial Consultant**. Kevin was most recently a financial advisor for a large regional firm and before that worked as a financial advisor for a national financial planning firm.



**Kelley Coulter** comes to our downtown branch as a **Financial Consultant**. Kelley was most recently the Regional Compliance Officer for a major international financial services firm, and before that a financial consultant with a Pittsburgh investment management firm.



**Melissa McManus** joins us as a **Financial Planning Analyst**. Melissa is well experienced coming from both local and national financial services firms during her career thus far.



**Jennifer Hill**, who joined us during the year 2000, is being promoted to **Seminar Administrator**. Jenn will have ample opportunity to utilize her degree in marketing in her new position.



**Jacquie Llewellyn** is also being promoted from receptionist to **Administrator**. Jacquie will take the position being vacated by Jennifer Hill as she moves to seminars and marketing.



**Karen Launikonis** has been promoted to **Financial Consultant**. Karen has been working in our Financial Planning Department in our downtown office.

## Portfolio Policy Implemented Centrally

A change of policy is being implemented to help assure uniform quality of portfolio management. We have always created our investment policy via our internal Investment Policy Committee. This committee is comprised of our financial consultants, portfolio managers, and financial planners. The *implementation* of that policy in client portfolios was then left to the individual financial consultants. This has worked well. However, different folks have differing ways of viewing the same information, and they have differing workloads that may cause timing differences in implementing policy. And, sometimes a lesser-experienced person might chose a riskier posture for a client than warranted based upon that consultant's inexperience with full market cycles. As a result, we have centralized all portfolio policy implementation within our Portfolio



Management Department. In that way, your financial consultant can be freed from unnecessary technical work and can concentrate on analyzing your individual situations and communicating even more frequently with you regarding your finances.

Also, we have implemented new analytical software to be used in your quarterly portfolio re-balancing and annual review meetings. We believe you will immediately see the value of this additional and improved analytical tool. And, we have standardized the annual review procedure to better assure that all aspects of your finances are thoroughly discussed when you visit with us.

We take our responsibility for advising you seriously, and continue to add resources and refine our processes to become even better advisors to you. We owe nothing less to you in return for your confidence in us.

## Courses and Lectures

We are pleased to partner with the Allegheny County Bar Association (acba) in providing continuing Legal Education credit courses for attorneys. These courses will be held at the acba Conference Center Auditorium, 920 City-County Building, 414 Grant Street, Downtown Pittsburgh.

### Schedule of acba Courses:

- Fiduciary Ethics & Retirement Plan Management:** Thursday, February 1, 2001, 8:00 a.m. to 11:15 a.m. or Tuesday, February 13, 2001, 3:00 p.m. to 6:15 p.m.
- Ethical Considerations in Financial Matters in Civil Litigation:** Thursday, February 15, 2001, 8:00 a.m. to 9:00 a.m. or Thursday March 1, 2001, 3:30 p.m. to 4:30 p.m.
- Financial Coordination in Estate Planning:** Wednesday, February 21, 2001, 8:00 a.m. to 11:15 a.m. or Tuesday, March 6, 2001, 3:00 p.m. to 6:15 p.m.
- Financial Planning in Divorce:** Tuesday, February 27, 2001, 3:30 p.m. to 4:30 p.m. or Wednesday, March 14, 2001, 8:00 a.m. to 9:00 a.m.

### Adult Education Lectures

Look for our upcoming lecture flyer in your mail box in January. We will be offering our newly rewritten seminars through The University of Pittsburgh, Pitt's Informal Program. If you or someone you know would be interested in attending, you can contact Pitt's Informal Program for reservations at (412) 648-2560 or visit our website at [www.fragassogroup.com](http://www.fragassogroup.com) to view a brochure.