

THE FRAGASSO GROUP, INC.

A REGISTERED INVESTMENT ADVISOR SINCE 1972 | WE GUIDE...YOU DECIDE®

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Third Quarter 2005

Fulfilling Your Life's Goals

We all have specific goals for our lives. While these goals may differ in style, they can be similar in substance. Often, they involve helping our children, grandchildren and other family members. So, the topics of education funding, estate planning and gifting strategies are not mere titles in financial planning textbooks. They are the means to the desired end of providing for our family.

Education funding, or we would prefer the term pre-funding, allows for the financing of burgeoning education costs. Textbook principles involved include time, compounded rates of return and tax burden shifting. This means we should start as early as possible, invest for a solid diversified, balanced and asset allocated return, and structure the portfolio to pay little or no tax on the returns. This strategy will allow education expenses to be pre-funded for a portion of the future dollar cost.

Estate planning is planning for the maintenance and transition of your assets during your lifetime and after. First, you will want your assets to last as long as possible if you become incapacitated. You will probably also want your assets to benefit the people and charities that you care about at the right time. Working in conjunction with your financial planner here at our firm and with your attorney, this can be

accomplished in a way that satisfies your desires, with a minimum of asset dissipation at incapacity or death.

Gift-giving strategies cover gifts made to loved ones and charities during your lifetime and after your death. Your gifting plan is part of your estate plan. As such, they are formulated together. Sometimes, gifting must occur to family members during your lifetime, as they need our help. Can this be accomplished without jeopardizing your own financial security? Our life-planning schedules can help answer that question. Also, you may wish to assist a charity during your lifetime rather than later through your estate.

Our life-planning schedules can help determine what impact that strategy

will have on your overall portfolio.

Additionally, there are gifting strategies that allow you to give assets to family or charities, but also allow you to retain lifetime income rights from those assets. It is only through a thorough analysis of the assets themselves, your projected lifetime needs and through consultation with your attorney as to legalities involved that you can make an informed decision.

So please read on through this edition of our newsletter to find more topics that may have an impact on reaching your Life's Goals. Bear in mind, as you read, that the objective of these articles is to communicate the need for proper planning. Because it is only through solid life planning that we stand the best chance of reaching our objectives for ourselves and for our families. Once the life planning is done, you are free to enjoy the voyage. •



Bob Fragasso
President



RETIREMENT PLANNING • WEALTH MANAGEMENT • EMPLOYER PLANS • COLLEGE EXPENSE PLANNING • INSURANCE • ESTATE PLANNING

Fee-Based Asset Management and Securities offered through Linsco/Private Ledger Member NASD/SIPC

Fragasso Addresses Financial Advisor Convention in Europe

Bob Fragasso recently presented a paper to the Moventum Kongress of European financial advisors in Baden Baden, Germany. The topic was building and managing a financial advisory practice, with a special emphasis on fee-based investment management. Additionally, Bob held two workshops for selected advisors on the same topic.

The address and its context was interesting in that attendees came from several European countries including Germany, Great Britain, France, Luxemburg and the Czech Republic. Bob presented his talk in English, while it was simultaneously translated to German over headphones to the attendees. Interestingly, the delivery of financial advice is very different in Europe than it is in the United States.

The Europeans look to us as advanced financial service providers and as a guide to the evolution of the industry. That may seem to be ironic considering the age of the European countries involved versus our own. But, the Europeans consider us to be decades ahead in our methods and structure. Specifically, most financial advisors in Europe are independent and not affiliated with a firm. The large brokerage firms deal primarily with wealthy families and companies, while the middle class finds its advice, if at all, from independent advisors.

However, the “independent” advisors are not truly independent. They must make their own arrangements with a myriad of mutual fund companies and assorted investment product providers. Further, the independent advisors must hold their clients’ securities in custody at the various fund groups and other product providers. Finally, the advisors must negotiate separately with each fund group and provider. As a result, some have formed pools of advisors solely to negotiate



better terms of business dealing with those providers.

Financial planning for individuals as a discipline in Europe is at the level comparable to circa 1985 in the United States. As it was here, the industry and academia are teaming up in loose fashion to promulgate the profession. So the industry there is confusing, not systematized and unnecessarily costly. Also, no licensing is required for advisors in most European countries. And, there is no oversight agency such as our National Association of Securities Dealers and no state regulators. One knowledgeable industry insider in Germany referred to their financial services industry as being like the “Wild West.”

That is why Linsco/Private Ledger, our broker/dealer, created the Moventum Company in Europe to lessen confusion and costs and to bring U.S.-style systems to the independent advisors. Bob found it gratifying to assist in this endeavor and to find so many able and willing-to-learn financial advisors who desire to emulate the United States model.

We in the United States sometimes may feel adrift due to market movements. However, we can be buoyed by the quality advice, market solidness, efficient systems and the regulatory agency protection that we enjoy. •

Can I View My LPL Investment Accounts On-line?



Brian Robinette
Vice President of Investments

Many clients have recently asked if they can view all of their accounts on-line. The answer is YES!

I am sure you will find the process to be both convenient and user-friendly. Please follow these 10 steps to set up your on-line access today:

1. Go to our Web site: www.fragassogroup.com
2. Click on “LPL Account view” in the upper right hand corner of the site.
3. Click on ‘Sign up for account view’ (you will need LPL 8 digit account number, primary Social Security Number and email address).
4. Read “Account View Authorization and Terms of Use.” Accept and continue.
5. Complete personal information (name, phone # and email address).
6. Choose a username and password.
7. Complete account information (8 digit LPL account #, primary Social Security or tax ID # and a nickname for the account - Example: Dave's IRA).
8. Continue to “add an account” until all accounts are added.
9. Email us at fgi@fragassogroup.com once you have added all accounts and we will activate them for viewing. Otherwise, you will need to wait for LPL to mail you an activation code.
10. Once you have access to your accounts you can choose the paperless option and agree to the terms of another contract and LPL will not mail statements. This step is optional. •

Headlines, Greed, Fear & Freedom

High energy prices, inflation fears, trade and budget deficits, loss of manufacturing base, job outsourcing, rising interest rates, real estate bubbles, health care costs, the dollar's collapse, terrorism.

Headlines of Greed and Fear

The popular news media know how to keep people on the edge. All of the above concerns are real and worthy of attention. At The Fragasso Group, we take a comprehensive approach to analyzing how economic forces may impact our clients' financial security. When taken out of context and without proper analysis, such headlines are virtually devoid of any practical use, except to increase circulation and viewership for media outlets.

As the popular media is naturally and predictably acting in own interest, its headlines today seem to be more focused on sensationalism. To attract more viewers and readers, the media must create a strong sense of urgency for its audience. The most effective way of creating urgency is to appeal directly to the main drivers of investor psychology: "Fear" and "Greed."

Pushing the "Fear" button when markets are down and the "Greed" button when markets are up works very well for the bottom line of media companies. Unfortunately, it is a losing proposition for investors who are repeatedly pushed to buy high and sell low.

Looking Beyond the Headlines:

Buying from the Fearful and Selling to the Greedy



Andrei Voicu
Managing Director,
Portfolio Management
& Financial Planning

At The Fragasso Group, exercising good judgment in making investment decisions requires looking beyond the popular headlines. Too often, the overall market remains largely pre-occupied with short-term factors and considerably less mindful of long-term trends. Successful investors recognize and prepare portfolios for long-term opportunities afforded by secular trends.

Secular trends are the fundamental currents driving the financial markets over a period of years. While these secular forces can be neither avoided nor reversed, as investor advisors, we seek to use them to our clients' advantage. We believe sound investment decisions begin with the ability to recognize these powerful secular trends and differentiate them from shorter-term, volatile cyclical events.

For example, as the baby boom generation retires across most industrialized nations, a higher integration of "younger," emerging market nations, as well as higher levels of productivity, will become necessary to maintain global economic growth. Technological as well as financial engineering advances can facilitate increased productivity and a freer flow of capital.

Also, until the globalization trend reaches the economically non-integrated nations of the world, government defense expenditures can be expected to remain high. As the world becomes both more integrated and safer, we would expect defense expenditures to decline.

Cyclical factors are also important to consider. No two business cycles are exactly alike. However, they all share many common elements. For example, economic sectors tend to rotate in and out of favor. Stock prices tend to overshoot both on the upside and the downside as market psychology shifts from exuberant

and greedy to gloomy and fearful. Prior to economic expansions, high volatility sectors such as Technology or Consumer Cyclical take the lead. Mid-cycle economic expansions tend to favor the Materials and Energy sectors. The focus tends to shift to the Healthcare and Consumer Staple sectors in the late stages of economic expansion. Economic contractions usually favor the Financials sector.

At The Fragasso Group, we continuously analyze the valuation of our clients' investments. Generally, leadership sectors tend to generate a lot of excitement, pushing prices beyond fair values. Such investments become expensive and risky. Out-of-favor sectors may provide good opportunities for the next business sector rotation. And, regardless of what the headlines say or what sector is currently in fashion, the successful investor must always remember these three words: diversify, diversify, diversify.

Economic Freedom: The Trabant and the Mercedes

Many of the economic concerns touted in the news are cyclical. Some are more secular. Regardless of their nature, the market will adjust itself in a free economy. The freer and more flexible an economy, the smoother and less painful the adjustments will be.

There is perhaps no better anecdotal proof of the power of economic freedom than the stark contrast between otherwise similar people living across the artificial divide of their economic systems.

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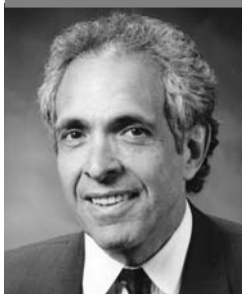
Profiles in Progress: Client Stories

Sometimes, in the process of living our day-to-day lives, we happen upon a circumstance or a situation that demands our attention, and ensures that our routine will never again be the same. Such has been the case for Joe Lagana and Bill Wolfe.

Both men are deeply involved with the Homeless Children's Education Fund (HCEF). Joe founded this organization in the spring of 1999 after retiring from his 17-year position as Executive Director of the Allegheny Intermediate Unit. In Joe's experience as a teacher, principal, school superintendent and then executive director, he was appalled by, and felt helpless about, the terrible learning impediments children faced when their families became homeless. The children would spend many hours in shelters, removed from their school studies and normal environment. In addition to missing valuable instruction, the idle time sometimes spawned the wrong kind of activities. Joe vowed to change that and his retirement afforded him the opportunity to engage this problem full time.

Joe immediately began to attack the issues facing homeless children that he had previously witnessed. First, Joe lobbied for a change in federal and state legislation to mandate transportation to school for children in shelters. Eighteen months and many bureaucratic obstacles later, Joe got his legislation. Then, he turned his attention to insufficient educational resources for the kids. Often, children enter the shelter with no more than the clothes on their backs and certainly without proper school supplies and additional clothing. Joe's Homeless Children's Education Fund provides those necessities. Also, the Fund has built learning centers in many of the shelters. These computer-based learning centers provide the setting and tools for the

children to do homework and broaden their horizons beyond the limited scope of their current situation. An interestingly unexpected byproduct is that the learning facilities are attracting the mothers of the children to their own learning opportunities. The Fund aims to provide learning centers to all 16 shelters in Allegheny County.



Joe Lagana

Joe is supported in his efforts on behalf of homeless children by a board of directors he has fashioned from business and community leaders. His board chair is Bill Wolfe. Bill is a Vice President of Marsh, Inc., and has spent

his career in the human services and business development areas, primarily with large insurance companies. Bill grew up in Pittsburgh and lived away from our city for 26 years, returning in 2001.

Bill has always been devoted to children's issues, serving on the boards of organizations such as the YMCA. So it was natural for him to pair with Joe shortly after his repatriation to Pittsburgh. Bill is "committed to help this region grow and prosper, and providing for those among us needing assistance is one of the best ways to accomplish this."

Bill sees the initiative of assisting young people as an investment in our area's future. He was elected HCEF board chair early this year and has added innovative fund development initiatives such as The Haunted House in South Park held during the month of October.

The current challenge is to raise \$300,000 to fully equip the learning centers in all area shelters. The equipment includes hardware, software and educational materials of various types. It is no small project. But, with continued community support and the unstinting energy of Joe, Bill and the board and

volunteers, it surely will happen.

Joe grew up in Cambria County and attended high school in Ebensburg. He came to Pittsburgh for his first job and found a home. He currently lives in the city with his wife, Lynne, and his daughter, Dr. Frances Lagana, is a podiatrist in Boston.

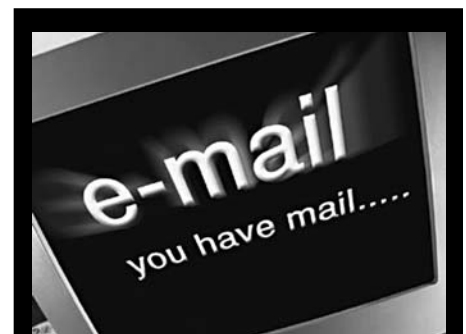
Bill grew up in Pittsburgh, and though he traveled and lived in many cities and countries, always pined for the time when he could return to his roots. Bill and his wife Eileen reside in Sewickley. Their daughter Katie is a recent graduate of Duquesne University and teaches at the Watson Institute in Sewickley. Their son Bill is a student at the University of Dayton.

Joe Lagana and Bill Wolfe embody the spirit of our region in their attempt to better the lives of those less fortunate. We are proud to call them clients and friends.

Contact The Homeless Children's Education Fund at 412-562-0154 to make donations of money, equipment or supplies. •



Bill Wolfe



If you are not currently receiving our monthly eNewsletter or other e-mail updates, please send us your e-mail information at:
fgi@fragassogroup.com

Choosing Life Insurance

The obvious need for life insurance is to ensure that your family is financially protected in the event of your death. But, while most people buy insurance to protect their homes, cars, jewelry and other valuable possessions, some neglect to purchase life insurance. Others who do have life insurance do not have enough coverage to meet their needs. In today's world, it's important that you are able to

understand and determine the appropriate amount of coverage you need.

For example, let's say you work and your spouse stays at home to take care of your children. As the sole means of income, you might determine your minimum level of coverage by thinking in terms of how much insurance it would take to replace your income. However, this approach only scratches the surface when selecting life insurance levels.

Even though your spouse has no earnings, you might consider purchasing enough insurance to cover the child-care expenses you would incur in the event he or she passed away. Or, if you're a business owner, you may want to use insurance as part of a succession plan for your business. Of course, everyone's needs are different, and these examples just give you an idea of how to start thinking about your level of life insurance coverage.

In addition to determining the amount of insurance you need, you also need to decide what type of life insurance is appropriate for your situation. The two types of life insurance are term and permanent. Simply put, term insurance is appropriate when a time period for

coverage is definable. A good example for the use of term insurance would be to cover a mortgage debt that has a definite end in sight. If your goal were to make sure that your 20-year mortgage note would be taken care of in the event of your premature death, a 20-year term policy would certainly be appropriate.

On the other hand, if you have a time period that cannot be defined, you need to consider a permanent policy. A good example is the eventual payment of estate and inheritance taxes. Assuming you do not know when you will pass away, you must have insurance in place at the time of death in order to cover those tax issues. A term policy will not work in this example, because if you won the bet and lived beyond the term of the policy, you would leave your family unprotected.

As you begin to consider the amounts and types of life insurance that are appropriate for you, you will need to answer the following questions:

- Would your family's financial security be at risk if you were to die?
- How much money will your dependents need in order to live comfortably after you're gone?

- What are your monthly expenses, including mortgage payments and utilities? Could your family afford to continue living in your home?
- How much debt would you be leaving behind that your family would need to be able to pay off?
- Could your children's college education be paid for?
- How would your family pay for emergency expenses, such as an expensive home repair?
- How much coverage can you afford? How high a premium can you pay on a monthly or quarterly basis?
- What is the claims paying ability of the insurance company you're considering, and how is the company rated by industry experts?
- Will your family need assets to handle taxes on your estate?
- Business owners: Will your successor have enough assets to purchase your interest in the business in the event of your death or disability?

This is by no means an easy task. At The Fragasso Group, we help folks with these issues every day. Please do not hesitate to call us to help you find your

way through this very important exercise. •



Mike Fertig
Managing Director, Sales & Marketing



Five Steps to a Successful Workout

By Len Spagnolo¹

Note from Mike Fertig:

After receiving and reading this article I immediately thought about how many areas of our everyday life may benefit from this exercise. Anyone, from a business owner, to a parent dealing with a child, may find some good advice in the words that follow.

Mistakes don't age very well. And when mistakes are embedded in a business or commercial transaction, the transaction doesn't age well either.

Any number of mistakes can make a transaction gray: failure to include critical terms and conditions in the transaction documents; poorly-worded provisions; unclear expectations; overestimation of abilities; underestimation of responsibilities; misplaced trust; and failure to anticipate and provide for changed circumstances, to name just a few. The weight of these mistakes can cause a seemingly robust transaction to wobble and fall. If not fixed, they can cause the transaction to die.

This is where a workout comes into play. In simple terms, a workout is a process for fixing a broken transaction. At bottom, it's a negotiation.

Every workout has, or should have, three overarching objectives: (1) it should produce a wise agreement, if agreement is possible; (2) it should be efficient; and (3) it should improve, or at least not worsen, the relationship between the parties. A workout that achieves all three objectives generally leads to success. A workout that doesn't often leads to a bad-debt deduction. The following are five steps to a successful workout:²

1. Don't Bargain Over Positions.

How many times have you heard this exchange:

Party A:

"It's my company's policy to do X."

Party B:

"Well, it's my company's policy to not do X."

This is an example of "positional bargaining." Each side locks itself into a position and defends itself against an attack from the other side. As more attention is paid to positions, less attention is paid to meeting the underlying concerns of the parties.

Positional bargaining has three infirmities: (1) it generally does not produce a wise agreement because it focuses on positions instead of the parties' underlying concerns; (2) it is not efficient; it encourages each side to start with an extreme position, stubbornly hold to it, deceive the other side about one's true views, and make small concessions, as necessary, to keep the negotiations going; and (3) it tends to damage rather than preserve or improve the parties' relationship.

In positional bargaining, decision making is often a zero-sum game (You can't have policy X and not have policy X at the same time). Each decision requires one side to yield something to the other. This, in turn, encourages foot dragging, threats to walk out and stonewalling. Positional bargaining is hard on the parties, soft on the problem-- just the opposite of what an effective workout should be.

When in a workout, resist the temptation to engage in positional bargaining. Focus instead on the merits of the parties' underlying concerns.

2. Separate the People From the Problem.

Human beings are not computers. We are creatures of emotion. All too frequently, our emotions become entangled with the merits of our problems. Strong emotions can radically

affect our perceptions and make it difficult for us to communicate our interests and concerns. So before we can work out underlying substantive problems, we must first separate, and deal with, the "people problem." People problems fall into three general categories: perception, emotion and communication.

A. Perception.

Ultimately, conflict lies not in objective reality, but in people's heads. Truth is simply one more argument (perhaps a good one; perhaps not). Fears, even ill-founded, are real fears that need to be dealt with. Deal with perception problems by:

- Putting yourself in the other side's shoes. Empathize!
- Withholding judgment while you "try on" their views.
- Putting the best interpretation on what they say or do.
- Not blaming them for your problem.
- Discussing your perceptions and theirs.
- Acting inconsistently with their perceptions (If they perceive you as inflexible, make a meaningful concession).
- Giving the other side a stake in the outcome by making sure they participate in the process of reaching a solution.
- Affording the other side opportunities to "save face."

B. Emotion.

In a workout, particularly one that is bitter, feelings may be more important than talk. Deal with emotion problems by:

- Understanding the emotions being expressed, yours and theirs.
- Asking yourself what is producing the emotions.
- Making emotions explicit, and acknowledging them as legitimate.
- Allowing the other side to let off steam (stay quiet for a bit).
- Not reacting to the other side's emotional outbursts (arguments usually begin with the second emotional outburst, not the first).

¹Partner, Bentz Law Firm, P.C. Len has practiced bankruptcy and creditors rights exclusively for 20 years, including a two-year clerkship with a United States Bankruptcy Judge. He has handled over 3,500 such cases in virtually every bankruptcy court in the country. Len Spagnolo and Bentz Law Firm are not affiliated with Linsco/Private Ledger.

²The principles, examples and, in many instances, language used in this article are based substantially on those appearing in the book "Getting to Yes," by Roger Fisher and William Ury, of the Harvard Negotiation Project. For brevity and ease of reading, page references to principles and examples, and identification of verbatim quotes, are omitted. Any shortcomings in this article are my own. For a fuller appreciation of this topic I heartily recommend the book in its entirety.

- Using symbolic gestures (such as bringing coffee and doughnuts to the meeting).

C. Communication.

A successful workout is impossible without effective communication. That said, expect that whatever you say, the other side will almost always hear something different. Deal with communication problems by:

- Listening actively and acknowledging what is being said (“Did I understand you correctly that . . .”).
- Phrasing what the other side says positively from their point of view, making the strength of their case clear (“You have a strong point. Let me see if I can explain it”). Note: this is not the same as agreeing with the point!
- Speaking to be understood by the person with whom you’re talking. (A workout is not a trial, debate or other appeal to some third party. It’s a communication between two interested parties).
- Speaking about yourself, not the other side (say “I feel let down” rather than “You broke your word.”).
- Speaking with a purpose. Some thoughts are better left unsaid.

When in a workout, separate people problems from the merits of the underlying problem. The participants should view themselves as working side by side to attack a common problem, not each other.

3. Focus on Interests, Not Positions.

The object of a successful workout is to satisfy the underlying interests and concerns of both parties, insofar as possible. This is best accomplished by focusing on the parties’ interests rather than their stated “positions.” When you look behind opposed positions for motivating interests, you can often find an alternate position that meets not only your interests but theirs as well.

Consider two people arguing in a library. The one’s “position” is that the window should be open. The other’s “position” is that it should be closed. They bicker back and forth about how much to leave it open: a crack? halfway? three quarters of the way? No solution

satisfies them both.

Enter the librarian. She asks the one why he wants the window open: “To get some fresh air,” he says. She asks the other why he wants it closed: “To avoid the draft.” After thinking a minute, the librarian opens a window in another room, allowing fresh air in without a draft.

The librarian scenario is typical of many workout situations. The librarian could not have invented her solution if she had focused only on the men’s stated positions. Instead, she looked to their underlying interests of fresh air and no draft. Having understood the underlying concerns, she was able to fashion a solution that satisfied both. This difference between positions and interests is critical. Never forget it.

Here’s how you can identify interests:

- Ask the other side why it’s taking the position it’s taking.
- Ask yourself what interests are standing in the way of the other side doing what you want to do.
- Realize that each side has multiple interests; try to reconcile them.
- Understand that the most powerful interests are basic human needs (security; economic well being; a sense of belonging, recognition and control over one’s life) and that in most workouts there’s more involved than just money.
- List the various interests on each side and look for mutual interests.
- Talk about your respective interests.
- Focus on where you want to go instead of where you’ve come from. Attempting to untangle history is rarely productive.
- Convert your interests into concrete options (Ask yourself, “If tomorrow the other side agrees to go along with me, what exactly do I want them to go along with?”).
- Be hard on the problem and soft on the people. Avoid the “blame game.”

4. Invent Options for Mutual Gain.

Consider the proverbial sisters who quarreled over how to divide an orange. After they finally agreed to divide the orange in half, the one sister took her half, ate the fruit and threw away the peel.

The other sister threw away the fruit and used the peel for baking. You get the idea.

Here’s how to invent options for mutual gain:

- Brainstorm possible solutions.
- Separate the process of thinking up possible solutions from the process of selecting among them. Invent first, decide later.
- Once you’ve identified possible solutions, broaden them by examining the problem from the perspective of various people from different disciplines (for example, if you are working out a failed business transaction, invent options that might occur to a labor leader, physician, salesperson or economist).
- Identify shared interests.
- Don’t assume a “fixed pie” (“More for you, less for me”). Chess looks like a zero-sum game until a dog knocks over all the pieces. Be mindful that in addition to a “win-lose” outcome, there are also “win-win” and “lose-lose” outcomes.
- Look for solutions that will leave the other side satisfied as well.
- Ask the other side for their preferences.
- Make their choice as painless as possible.
- Few things facilitate a decision as much as precedent. Look for it, particularly if the other side was involved in it.

Consider again the two sisters quarreling over the orange. In that case, as in most workouts, a satisfactory agreement was made possible because each side wanted different things. This is genuinely startling when you think about it. People generally assume that differences create the problem. Yet differences can also lead to a solution.

5. Insist on Using Objective Criteria.

Despite all your best efforts, you will encounter certain differences and conflicting motives that simply cannot be reconciled. Blithely talking about a win-win solution won’t change that. The workout will not be successful if you pit your naked will against theirs. You need to negotiate on some basis that is independent of the naked will of either

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Out of Sight But Not Out of Mind



Kevin Daeschner
Vice President of Investments

As I drive past a nearby public swimming pool, the fact that the pool is packed could mean only one thing. Summer is here and another school year is over. For those currently in school, this is a good thing. But, for those of us who are in the process of saving for our kids education, or worrying out how we are going to pay for that education, every school year that ends represents a year closer towards that expense.

Education planning is the same as retirement planning in one regard. Both are a year-round exercise. Where the two differ involves options. With education funding, every dollar saved reduces cost of the education and there is the availability of loans, scholarships and grants. Retirement planning is an all or nothing effort; you either have the funds to retire or you do not. There are no loans, scholarships or grants for retirement.

Listed below are several different options for saving for a college education along with some distinct advantages and disadvantages.

UTMA (Uniform Transfer to Minors Act)

This is a simple way for minors to own securities without the need for an attorney to set up a trust. A donor must appoint a custodian and specify the recipient. The donor then irrevocably transfers assets into that account.

Advantages:

- UTMA allows the opportunity for taxes on the account to be calculated based on the child's tax bracket.

- UTMA can be used for any educational expense at any age.

Disadvantages:

- A gift to a UTMA is irrevocable, and there are penalties if this rule is violated.
- In Pennsylvania, the child gains full control of the account at age 21 (18 in some states).

Coverdell Education Savings Account (Formerly called an Education IRA)

Money is contributed to this account in the child's name to fund education expenses.

Advantages:

- This account offers tax-free and penalty-free distributions when used to fund any educational expenses.
- An unused account can be transferred to family members.

Disadvantages:

- Penalties and taxes apply to nonqualified expenses.
- Contribution limit is capped at \$2,000 per year.

529 State College Savings Plans and 529 State Prepaid Tuition Plans

Many people confuse these two plans because of their common origin. These Section 529 plans are named as such because these plans are authorized under Section 529 of the Federal Internal Revenue Code. Both plans are state-sponsored initiatives. However, The 529 State College Savings Plan, more commonly referred to as the 529 Plan, acts more like a savings account with

better tax benefits. The 529 State Prepaid Tuition Plan, more commonly referred to as TAP, facilitates the

exchange of money for post-secondary education credits at today's tuition costs. Below the advantages and disadvantages of both are explored.

529 State College Savings Plan (529 Plan)

In a 529 Plan, the participant directs money into an investment account. While there are certain stipulations, the participant controls the investment mechanisms.

Advantages:

- Earnings at the federal level are tax-deferred and become tax-free when withdrawn for qualified educational expenses.
- The donor controls the assets and determines how funds in the account will be distributed.
- Funds can be used for ANY accredited post-secondary school.
- The beneficiary of this 529 can be changed.
- This plan allows for large funding levels. An individual can fund a 529 plan with a maximum lump sum amount of \$55,000. The maximum lump sum is \$110,000 if those funding the plan are married and file taxes jointly.
- Some states may offer additional tax benefits for persons investing in their own state's plan.

Disadvantages:

- The funds can only be used for post-secondary education.
- Nonqualified withdrawals are subject to taxes and penalties.
- There is an early withdrawal penalty that includes taxation of the funds. If the account is less than two years old, there is a possible 10% penalty.
- Proceeds cover tuition and mandatory fees only, not room and board.
- The plan can only be funded with cash. For example, the value of stocks, property and other assets that have been gifted to the beneficiary of the account must first be determined and appropriately taxed before the amount (now after-tax) can be contributed to the account.
- This plan can have a negative impact on the financial-aid process, because the plan is considered to be an asset and will be used in the financial-aid formula.

529 State Prepaid Tuition Plans (TAP)

Participants in this plan buy college credits at today's dollars, and the state invests this money with the guarantee that the credits purchased will be available at the start of the child's education. The guarantee is only as good as the state's ability to insure funding. Thus, if you live in a state experiencing financial difficulties, this program could be under-funded by millions. Analysts believe that if a state was in serious financial difficulty and could no longer fund TAPs, either the federal government would step in to assist or that the money invested would be returned without growth.

Advantages:

- You can pay today's cost and have a guarantee that it will cover tomorrow's cost.
- Gains made by purchasing at today's costs are tax-free. For example, if a participant is purchasing credits today at \$500 per credit and by the time their child is ready for college, credits cost \$2,000 each, the \$1,500 gain per credit is tax-free.

Disadvantages:

- College choices are sometimes limited.
- These plans have limited growth potential.
- If a child does not attend college, the principal amount is returned without interest or growth.
- The funds in this plan can only be used for tuition, not room and board.

U Promise

U Promise, Inc. has formed relationships with almost every major company in the United States. These companies have agreed to take a pre-determined portion of the dollars you spend on their products, goods and services and put that portion into a U Promise Education savings account. You can then take the dollars you have accumulated and invest them in a 529 State College Savings Plan.



Advantages:

- U Promise can help you save a little bit more money for college over and above what you are already contributing monthly into your 529.
- It is essentially free money toward college education via the purchase of products you already use.
- Relatives and friends can help fund a child's education by registering their information for the child of their choice.

Disadvantages:

- U Promise has no real drawbacks. At worst, if the child does not use the dollars available, you have not lost anything since the funds resulted from the purchase of products and services that you would have purchased anyway.

Regardless of which investment vehicle is best for your situation, it is important to remember that higher-education savings mechanisms, as with any investment, do not guarantee a gain; there is a risk of loss of principal. Proper management and monitoring is a necessity to minimize these risks. •

continued from page 7

Five Steps to a Successful Workout

party—that is, on the basis of objective criteria. You must commit yourselves to reaching a solution based on principle, not pressure. Here's how:

- Agree on a fair procedure to resolve the conflict (consider, for example, the age-old way to divide a piece of cake: one person cuts and the other person chooses). Neither can complain about an unfair division.
- Consider allowing a disinterested third party to play a key role in the workout.
- If there are two standards (such as market value and depreciated cost) that produce different results, but which both sides agree are equally legitimate, split the difference. The outcome is still independent of the will of either side.
- Never yield to pressure, only principle. A refusal to yield except in response to sound reasons is easier to defend—publicly and privately—than is a refusal to yield combined with a refusal to offer sound reasons.

Conclusion

Mistakes sometimes “just happen.” Effective workouts do not. They require much thought and hard work. Use these five steps in your next workout and get to “yes!”

This article is for general information only and not to be construed as legal advice for any individual. To determine what is suitable for your situation, consult experienced legal counsel. •

Wither Reform?

So, what progress has been made since the subject of Social Security reform first hit our national consciousness late last year? Precious little I am sorry to say. Initially, it seemed that positive momentum was building to find solutions for a problem that, while still seemingly far off, will likely invade our lives sooner than we think. Unfortunately, that momentum has stalled, and we now stand at a stalemate between partial privatization and resistance to that idea. This current lack of dialogue and new ideas make meaningful Social Security reform an unlikely pipe dream.

It seems that progress on the road to Social Security reform is blocked by the divergent interests of different age groups. Those who are retired, or close to it, wish to receive the expected benefits of a system they have contributed to their entire work lives. Those who are younger understand that they are not likely to receive those same benefits even though they are paying into the system at the same levels as their predecessors. The need to reconcile these divergent interests while not forcing the government to borrow far more than it



Greg Daily
Vice President of Investments

can handle with an already bloated budget deficit is the test before congress and the administration.

The approach to resolve this problem is two-fold. First, we must not waste any more time debating whether a problem exists. Further, it is not acceptable to argue that the system is flawed, but "we only need to make very minor repairs." We must quickly arrive at a consensus that Social Security is seriously flawed and is in need of significant reform.

Second, substantive, productive debate is necessary to bring about change that will allow the system to provide future generations with benefits. New ideas must be brought to public forum and examined thoroughly. This effort will require those in disagreement with current proposals to provide meaningful options of their own. It does not advance the cause to simply disagree with whatever is suggested by others.

Waiting for Washington to initiate meaningful Social Security reform is not an advisable strategy. At this point, it appears that only pressure from those with an interest in finding a solution will push the re-election conscious members of Congress toward further proposals, debate, and hopefully action. •

Headlines, Greed, Fear & Freedom

continued from page 3

The first Trabant automobile rolled off the factory floor in the East German city of Leipzig in 1957. The 26-horsepower, 2-cylinder, 2-stroke engine, pressed cardboard car represented the "crown jewel" of East Germany's centrally planned economy. The car was produced literally unchanged for 35 consecutive years. Today, the thick, whitish blue exhaust smoke of the few remaining Trabants continues to fill the air of cities across Eastern Europe, as a constant reminder of central planning experiments.

Meanwhile, across the border, West Germans were busy building the world's third largest economy. Over the years, West Germans have enjoyed one of the highest per-capita incomes in the world. Unlike the Trabant, West German automobile brands like Mercedes-Benz have become status symbols for the well-to-do around the world.

The contrast between Mercedes and Trabant are symbolic of a clear, undeniable reality: countries with the most economic freedom have also experienced the highest rates of long-term economic growth and prosperity.

The United States is the largest, and by no coincidence, one of the freest

economies in the world. In order to guide our clients towards securing their financial goals, The Fragasso Group aims to utilize to our advantage the flexibility of our economy. Our goal is to make the most of long-term, secular trends, while safely navigating the stormy waters of ever changing economic cycles.

Economic freedom is not simply an abstract concept-it can be defined and measured. Generally speaking, the governing bodies of free economies:

- Do not hinder the free flow of foreign commerce through tariffs or other barriers
- Limit their fiscal burden of over-taxation and over-spending
- Do not routinely intervene in the economy through ownership, subsidies, etc.
- Maintain an effective monetary policy, able to keep inflation in check
- Do not restrict foreign capital flows and foreign ownership of land and businesses
- Do not overly restrict the financial offerings of banks and financial institutions

- Refrain from direct or indirect price control on labor, materials, goods or services
- Effectively enforce property laws in a corruption free environment
- Limit the burden on businesses by limiting requirements and regulations

Historically, the U.S. had achieved world economic dominance because of its high relative economic freedoms. On a different scale, Hong Kong, the perennial leader of economic freedom, has achieved the highest long-term economic growth rates of any country on the planet. A relative increase in economic freedom has recently been responsible for explosive economic growth in India, China, Eastern Europe and Latin America.

We expect the global trend towards freer economies around the world to continue, presenting an expanding set of investment opportunities, flexibility and improved safety through broader diversification for our clients.

The news media will continue to play upon our fears. However, a patient, thoughtful approach to investment can make those fears unfounded. •

Education is Key!

As you prepare your kids for school this fall, why not consider a financial education for yourself, your family, your friends or co-workers as well. As with the spring semester, our educational workshops will be sponsored by Community College of Allegheny

County (CCAC) in four convenient locations in and around the city. You can register online at www.fragassogroup.com/registration.

The 2005 Fall Semester schedule is listed below:



Joy Holden
Assistant Manager,
Seminars & Marketing



Boyce Campus

Mondays

Can You Afford To Retire
September 12, 19, 26

6:30PM-9:30PM

Financial Security
During Retirement

October 17, 24, 31

or

November 28,
December 5, 12

1:00PM-4:00PM

Achieving Life's
Goals - A Personal
Financial Planning
Workshop

November 7, 14, 21

6:30PM-9:30PM

Allegheny Campus

Tuesdays

Financial Security
During Retirement

September 20, 27,
October 11

1:00PM-4:00PM

Can You Afford To Retire

October 18, 25,
November 1

6:00PM-9:00PM

Financial Security
for Women

November 8, 15, 29

6:30PM-9:30PM

Bethel Park Campus

Wednesdays

Financial Security
During Retirement

September 14, 21, 28

1:00PM-4:00PM

Can You Afford To Retire

October 26,
November 2, 9

6:30PM-9:30PM

Achieving Life's
Goals -A Personal Financial
Planning Workshop

November 16, 30,
December 7

6:30PM-9:30PM

North Campus

Thursdays

Can You Afford To Retire
September 22, 29,

October 6

6:30PM-9:30PM

Financial Security
During Retirement

October 27,
November 3, 10

1:00PM-4:00PM

Achieving Life's
Goals -A Personal
Financial Planning
Workshop

November 17,
December 1, 8

6:30PM-9:30PM

COME AND EDUCATE YOURSELF!



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Fragasso Group Staff News: Welcome & Congratulations

We welcome our newest employee, **Raymond Amelio**. Ray has accepted the position of *Manager, Seminars and Marketing*, and we are excited that he has joined our group.

Raymond C. Amelio, SPHR has been named Manager of Seminars and Marketing at the Fragasso Group, and Joy Holden has been promoted to Assistant Manager, Seminars and Marketing.

Ray is responsible for marketing and client acquisition and will organize corporate and college financial education seminars; work with the firm's existing client base to obtain referrals and new business and promoting the Fragasso Group through various networking opportunities. Ray graduated from Duquesne University with a BA in Political Science and received his Masters Degree in Human Resources Management from LaRoche College. He served with the United States Navy as a Hospital Corpsman and was a Field Corpsman with the United States Marine Corps in Vietnam.

Additionally, Ray has been a board member of the Veterans Leadership Program of Western Pennsylvania and the North Hills YMCA for the past 20 years and has served as Chairman for both organizations. He has taught as an adjunct faculty member at LaRoche College, Duquesne University and Chatham College and is a member of the Society for Human Resource Management



Raymond C. Amelio

and the American Society for Training and Development.

Ray lives in Franklin Park with his wife Paula and son Marc. He has a married daughter, Kaylyn, who resides in Mars, Pa. with her husband Mark. •



Joy Holden

Congratulations to **Joy Holden** who has been promoted to *Assistant Manager, Seminars and Marketing*.

Joy provides invaluable support for The Fragasso Group to develop and implement The Fragasso Group's advertising and publicity events. She is responsible for maintaining current marketing and seminar literature that meet compliance regulations for the industry. She also handles the administration and coordination of our corporate and university seminars, which include workbook assembly, database maintenance and direct mailings. •



Jacquie Llewellyn

Congratulations to **Jacquie Llewellyn** who has been promoted to *Administrative Supervisor*.

In her new role, Jacquie oversees the administrative staff of the Group. She is familiar with all phases of investment administration including fund transfers, new and managed account applications, and follow-up procedure with outside investment sources to insure prompt and accurate processing of all client paperwork. •