



The Fragasso Group, Inc.

The Retirement Planning and Wealth Preservation Specialists

A Registered Investment Advisor

...For the Serious Investor

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The 80/20 Rule, Chaos Theory And Your Money

The 80/20 Principle states that 80% of results comes from 20% of activity. Conversely, the other 80% of activity yields only the remaining 20% of results. This is also known as Pareto's Law, named for the 19th century economist who first identified and articulated the phenomenon. Why should you be interested? It translates to multiple applications in our daily lives. And, it has important implications for your investment portfolio. For example, 20% of your customers will generate 80% of your firm's revenues. Or, 80% of your individual productivity is attributable to 20% of the time spent. The other 80% of the time resulted in only 20% of the output. A restaurant finds 80% of its traffic during 20% of the day, and the examples go on. The one that's most important here though is: *80% of your investment returns occur during 20% of the time your money is invested!* But here's the problem: *Which 20%?* That's where Chaos Theory comes into play.

One might think, considering the 80/20 rule, that if you could just identify the 20% of the time that money is most productively investable, you could avoid losses and have only gains in your portfolio. But, that trick requires clairvoyance. No one has the ability to look into the future and predict which days, weeks or months in the future will be the profitable ones and which

not so profitable. Chaos Theory tells us that things happen in random sequence and are not predictable. Thus, it is impossible for people, or even for computers, to look into the future and predict. Chaos Theory and the 80/20 Principle do *not* tell us that



everything is a hopeless and incomprehensible mess. "Rather, there is a self-organizing logic lurking behind the disorder, a predictable nonlinearity" that is "terrifyingly exact." This is quoted from theorist Richard Koch and economist Paul Krugman.

There is the secret! And, one that we can use with our investments! The short term of events is undecipherable.

There is no way that we can know and take advantage of short-term events before they happen. But, Chaos Theory and the 80/20 Principle tell us that *over long spans of time, events become more predictable.* We can't know which periods will be more profitable or in what order events will occur. In fact, it is intellectual arrogance to presume that we - or anyone - can. But, we can, with fair mathematical accuracy, look for Chaos Theory's recurring "feedback loops." That means that long spans of history repeat themselves.

What does that mean for your investments? Well, it implies exactly what we have been doing for our clients for years, and that is employing asset allocation principles that are based on fairly predictable "loops" over longer spans of time. Remember our phrase? *It's time not timing* that makes your investments successful. You cannot predict timing movements. But, by utilizing all appropriate asset categories, we hedge the short term vagaries of market action and put ourselves in position to reap the rewards that the markets have historically provided to those who have employed these textbook principles of money management. Violate those principles at your own risk. Or, use them to your best advantage. We're here to help you do just that!



Parking Downtown Is A Problem...Here Is Some Help

Construction downtown and on the North Shore has rippled through the downtown area creating a severe shortage of parking spaces. We hear this daily from clients who are struggling to make their appointment times at our Koppers Building offices on Grant Street.

There is some help in the offing. However, meanwhile, a short-term solution is one that most folks don't consider. If you can't find parking adjacent to our building, consider parking at the Chatham Center garage. It's economical, most always has space available, and is only a 5-6 minute walk from our offices. Take the walkway that comes from Chatham Center and then behind the USX Plaza to Grant Street right across from our building. When you park, ask for directions at Chatham to the walkway if you are unfamiliar. Other parking facilities are currently available to include a garage near the bus terminal, as well as the Convention Center garage, both within easy walking distance of our building. Or, use the garage under the new Lazarus store. It's close and relatively inexpensive. Finally, if you have other business in town the same day, consider the open lots servicing the new county jail facility at the south end of Grant Street.

The longer-term solutions include the opening of new parking facilities. For example, a 625-space garage will open in October between Sixth Avenue and the Cross Town Boulevard. That's very close to our building. Rates will be \$4 for under two-hour parking. Other parking will become available over time with the reconstruction planned in the Forbes/Fifth corridor.

Additionally, *The Fragasso Group expects to initiate suburban offices during the year 2001, the first of which is to open by January.* This will make accessing us much easier during the Fort Pit Bridge reconstruction and the (inevitable in our opinion) downtown revitalization construction. We have enclosed a survey with this newsletter for completion by our clients and other visitors to our offices. If your survey has gone astray, or if you would prefer an electronic medium, please view and complete it on our web site, www.fragassogroup.com. You can help us to help you better! Please complete the survey and return it in the envelope provided or do it electronically. Please accept our thanks for your assistance in creating improvements for you.

Securities Paperwork That You Receive

As owners of investment securities, you sometimes receive paperwork to complete dealing with securities-related litigation. Someone is suing a company you own or once owned on a class action basis and you are being asked to fill out paperwork to participate or not. We will complete the paperwork for you or determine that completion is not necessary. Often you are included in the class action settlement without having to do the paperwork. There is no reason to waste your time when doing this is a part of the service we provide to you, and is handled at no cost. Here is the procedure. Sign the back of the release form that is always supplied in such mailings. You do that to eliminate unnecessary back and forth mailings. Once signed, send all of the paperwork to the attention of your financial consultant here or to **Michael Trainor**, our Assistant Portfolio and Systems Manager. That's all there is to it! Mike will do the research for you to find if you owned the security during the time covered in the litigation, and he will do any other information digging that is necessary. He'll send the paperwork on to the court and your problem is handled.

CHECKS: A REMINDER

When making checks for deposit to your accounts here, please make them payable to **LPL Financial Services**, unless specifically instructed by us to make it payable to a mutual fund or insurance company. Please do *not* make checks payable to The Fragasso Group or to our old custodian, Pershing. By making checks payable to LPL, your deposits will not be delayed and, very importantly, your SIPC account insurance will be maintained for securities and funds transfer and deposit. If you have any questions about a check's payee, call us before sending and we will be happy to "guide."

Education Funding – The New 529 Plan



The key financial planning principles have always been, and remain 1) time and 2) tax burden shifting. Utilizing Uniform Transfers to Minors accounts and trust accounts have proved time-tested methods when coupled with sound investment principles. Now, a new tool presents itself in our arsenal of education funding methods. It's called the 529 Plan and it is sponsored in various formats by different, but not all, states.

We believe that this is a viable method for education funding for many families. As such, and in keeping with our history of educating clients on such opportunities, we are holding a lecture for our clients, their advisors and invited guests on this subject. Details are enclosed with this newsletter and can also be viewed on our web site, www.fragassogroup.com. While the lecture is not open to the general public, interested persons can reserve seats by calling our Seminar Department at (412) 227-3200 or 1(800) 900-4492.

New Faces and Promotions

We Continue To Grow



PROMOTIONS include **Palmer Masciola** who has been our Paraplanning Department Supervisor and a member of the Fragasso Group for almost six years. Palmer has become a financial consultant with major account and asset responsibility.



Chad Hamilton has been promoted from Paraplanner to Paraplanning Department Supervisor. This is the department that creates all of the financial projection and analysis schedules that are used in new clients' financial plans and for financial planning work with existing clients.



Karen Launikonis has been promoted within the Paraplanning Department, assisting Chad Hamilton.



Brian Robinette has been promoted to financial consultant from his previous position as Seminar and Marketing Department Manager.



Ron Rivera has been promoted to Seminar and Marketing Department Manager.



Diana Schroeder has been promoted to Administrative Manager.



Helen Berthold has taken on enhanced responsibilities in the seminar department under the direction of Ron Rivera.



Shelli Roach has been promoted to new accounts specialist.

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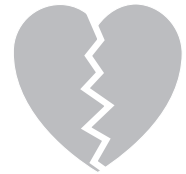
Divorce: Will You Be OK Financially?

by Christine Robinette



Many emotional issues need to be worked through when a couple begins the divorce process. That becomes so draining that, when they are finally ready to evaluate the financial repercussions of their settlement offers, they tend to rush through this process because they want it "over with".

There are two significant problems I have noticed when a couple begins to evaluate settlement offers. The first is that a settlement may seem fair on the surface, but may not be if projected forward several years. Most people do not project offers for a sufficient period into the future to understand the full repercussions. Often, the person with lesser earning potential is the one who gets into financial trouble because of this lack of planning. This is usually because they left the workforce to raise a family. And, even if they return to work, their income potential is much less than their spouse. Therefore, a few years after the divorce that spouse tends to have spent the retirement plan money, the IRA and the savings.



The second problem is that most couples do not understand the impact of settlement offers and counteroffers. They do not understand the rules associated with different types of investments, nor are they aware of the possible penalties of liquidating certain investments. And, many do not understand the tax importance of knowing cost basis information on investments prior to settling. That latter surprise could cost plenty.

Because of insufficient knowledge and missing projections, couples struggle to make a financially sound decision. People want and should be able to say "I know I will be ok," not "I hope I will be ok financially." This lack of knowing can lead to a longer divorce process and can be costly to both spouses.

In the next article, we will discuss the methodology for knowing if you will be ok financially.

For further information, please contact Christine Robinette with The Fragasso Group, Inc. at 227-3218 or by e-mail at chris_robinette@fragassogroup.com. Please also feel free to visit our website at www.fragassogroup.com.

Taxes and Taxes and Taxes and Taxes

The fourth quarter of the year is the time when prudent investors look to their year end tax planning. There are several ways that tax issues should be addressed. First, gains and losses realized during the year and current potential gains and losses should be scrutinized in an attempt to offset and show the smallest possible tax liability. We do that for our clients. Second, otherwise taxable investments should be considered for switching to tax deferred investments. This is not for everyone. Your tax bracket and how long you will remain in that bracket as well as your need for portfolio income all must be evaluated before making a decision. Further, the switching will not help you this year. It may even make it worse. But, it could save considerable taxation in future years. Fourth, contributing to retirement plan opportunities – both employer sponsored and individual – could save tax dollars. Our financial consultants are trained to look for tax saving opportunities on your behalf.

Your Social Security Statement

by Michael Fertig



In October of 1999, the Social Security Administration began mailing benefit estimates to some 125 million American workers. The statement is timed to arrive approximately 3 months prior to your birthday. Some folks may find the contents to be a pleasant surprise, while others will view it as a shocking disappointment. The difference in the way you view the statement will likely depend upon how well you have prepared for retirement with personal savings. For many, the Social Security benefits will not provide adequate income for a desired standard of living in retirement. Therefore, a significant portion of your retirement income may need to come from your personal savings and investments.

Most experts agree that you will need 80-100% of your pre-retirement

income in order to maintain the same lifestyle you have become accustomed to during your working years. For example, if you make \$60,000 a year when you retire, you'll need at least \$48,000 afterward. You will also need to be aware of the two archenemies we all face: Inflation and taxes. Inflation and taxes can have a significant impact on the purchasing power of your investments over time. If you doubt that, think about what you paid for your first home and then think about what you paid for your last car. That's inflation at work. The key is investing sooner, rather than later, to give your investments as much time as possible to grow and potentially stay ahead of the rising cost of living.

Back to the Social Security benefit statement now. You can expect to find the 2 page report to detail the amount you would receive if you elected benefits at 1) age 62; 2) your full retirement age, currently 65, but rising to age 67 for workers in their 30's; and 3) age 70, when benefits max out. The report

will also list amounts you and your family would receive if you were disabled or died. Finally, it reports whether you have earned sufficient credits to be eligible for Medicare.

Because you will be able to see the amounts you will receive from Social Security, the statement can be an excellent tool to use to evaluate other likely retirement resources. It may serve as that well needed wake up call that it's time to start putting away additional funds for retirement security. If you accept that 80% figure as the amount you will need in retirement, you can compare that figure with the estimated Social Security benefit, and calculate the shortfall. The gap is what you'll need to cover through personal investments and savings in retirement plans. Whether you are optimistic or pessimistic about Social Security, the statement can serve as a reality check. We would be pleased to take that "reality check" one step further and create a financial plan for your situation if you have not already gone through that process.

We Missed It And Would Have Been

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The *Pittsburgh Business Times*, whose Editorial Editor is good friend Betsy Benson, recently ran a compilation of the fastest growing companies in area. Well, we didn't submit our data, so the fault is ours. Please indulge a moment of bragging. If we had submitted our numbers, we would have been #29 in the ranking of the 100 fastest growing Pittsburgh areas companies. Our sales and employees both grew by more than 100% during the 1997 to 1999 period measured in the compilation. All of that is because of the confidence that our clients have placed in us, and we thank them sincerely for that.

We Continue To Grow *(continued from page 3)*



NEW FACES include **Jan Carr** who is responsible for the writing of our seminars and who will

also become product manager of an exciting new initiative to be announced during 2001. Jan spent the last 25 years in the field of aging, and most recently was the Executive Director for New Heritage, an agency serving the retired community.



Both have strong backgrounds in their respective areas and were previously with other financial services firms.



Jennifer Hill and **Jacquie Llewellyn** have joined us. Jennifer is in administration.

Jacquie is a receptionist.



Jim Danko and **Matt Watt** have joined us. Jim became a member of our Portfolio Management

Department as a research analyst and Matt joined us as a paraplanner.



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Please note our corporate format, address and our telephone and fax numbers.
Please include in your records.
Thank you.

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Securities offered through Linsco/Private Ledger
Member NASD/SIPC



View Your Investment Accounts

You can view your investments over a password protected, secure Internet site 365 days a year, 24 hours a day. It's called Account View and is available through us from our clearing broker/dealer, Linsco/Private Ledger. If you want this helpful feature, contact **Michael Trainor** at our group by direct dial at (412) 227-3216 or toll free at 1(800) 900-4492. He will arrange for your initial password, which you can subsequently change. You can also email Mike directly from our web site, www.fragassogroup.com by clicking on the directory button there and then clicking on Mike's direct email address in the directory. Spend some time in our web site while you're there. You may find it interesting.

**For ease and speed of communication,
email us your email address at:
fgi@fragassogroup.com**



*We are pleased to welcome
Connor Jamison Robinette
to the Fragasso Group family.*

Connor was born July 28, 2000.

The parents are Christine and Brian Robinette.

SAM Still the Leader

According to a competitive analysis recently done by our broker/dealer, Linsco/Private Ledger, the Strategic Asset Management (SAM) program remains the clear leader in the field of fee-based, mutual fund management. SAM utilizes more than 3500 no-load and load-waived mutual funds in its program, while the next closest challenger, Schwab, makes available only 2000 mutual funds.

Beyond mutual funds, the SAM program allows for the full integration of individual stocks and bonds, together with that wide assortment of funds.

More important though than sheer fund and stock availability numbers, is the advice we provide to you in selecting, monitoring, and potentially removing investments from your portfolio. Accessing investments is a mechanical consideration. You and we want the widest possible array from which to choose. Yet, it is knowing which ones to choose that separates the best portfolios from the rest. That is our role on your behalf – guidance and advice. Your financial future is too important to leave to chance or random picks made from magazine articles. SAM incorporates our asset allocation philosophy with the widest possible selection of potential investments, untainted by the potential bias of proprietary products. That combination is spelled SAM, but spells a whole lot more that's beneficial for you!

SAM is offered through Linsco/Private Ledger, a registered investment advisor. No-load and load-waived funds may incur 12b-1 fees. Nominal transaction costs may occur.

State Inheritance Break

Effective July 1, 2000, the Pennsylvania legislature lowered the state's death tax. This is different than the federal estate tax that is being debated currently by the candidates for national office. The state death tax is levied on assets not left to a surviving spouse, and the new rates are as follows.

Assets Left To	% Tax
Lineal relatives (grandparents, parents, children & grandchildren)	4.5% (down from 6%)
Siblings (brothers & sisters)	12% (down from 15%)
All others (Other relatives, friends or your financial planner)	15% (as before)

Transfers from children age 21 and under to their parents are exempt. But, be careful! Transfers from adult children to their parents accrue a 4.5% liability as shown above. Consult with your tax advisor before putting a grown child's name on an investment with you. While this is routinely done, it has both tax and litigation risks. What if your child is sued or divorces? So, get solid professional advice before making any such investment titling changes.



University of Pittsburgh Providing a Bargain

Pitt has a program for people 55 years of age or older where they can attend any undergraduate course at the university for \$25. No course credit is given toward a degree, but it is the same course being taken by degree students at a much higher cost. That's quite an offer! Here's the chance to take that subject you always found fascinating, and for only \$25. Call Pitt at (412) 624-7308 for more details.

Beyond that, Pitt's PIP program, run by long time friend and capable director, **Ellen Caldwell**, is available to you also at a nominal cost. You can take a wide variety of immediately useful courses in a myriad of areas. These

courses are taught by folks currently working in the subject area. You can even take some great personal and business investment management courses taught by the Fragasso Group's financial consultants! Call the PIP program at (412) 648-2560 for a complete catalog of course offerings. You can also call our seminar department at (412) 227-3200 or 1(800) 900-4492 for a flyer describing our investment management courses taught for the PIP program at Oakland, South Hills and North Hills locations.

Client and Visitor Survey

Please complete this and return it in the postage paid, return envelope provided.
(Alternatively, you can go to our web site – www.fragassogroup.com – and complete and submit this survey electronically.)

This is your opportunity to tell us what is important to you!

Location Survey

1. When you visit our offices, do you come from:
a. Home ____ b. Work ____
 2. Your home is located:
a. North ____ b. South ____ c. East ____ d. West ____
e. Downtown ____ f. Oakland/Shadyside/Squirrel Hill ____
 3. Your work place is located:
a. North ____ b. South ____ c. East ____ d. West ____
e. Downtown ____ f. Oakland/Shadyside/Squirrel Hill ____
 4. Do you enjoy coming to town?
a. Yes ____ b. No ____
 5. When coming to town, what aspects do you:
a. Most enjoy:
(1) Shopping opportunities ____
(2) Dining opportunities ____
(3) Other _____
b. Least enjoy:
(1) Parking ____
(2) Driving in ____
(3) Other _____
 6. If a suburban location were available, would it cause you to:
a. See us more often and more easily ____
b. See us less frequently because town is more convenient ____
c. Really make little difference in your ability or desire to access us ____
 7. If limited evening hours were available at a suburban location, would you:
a. See us more often and more easily ____
b. Make little difference ____
-

Service Survey

1. What aspects of our service to you are meaningful? *(Check all that apply.)*
a. Your original financial plan ____
b. Subsequent financial planning projection schedules that reflect how you are progressing toward your goals ____
c. Your annual review with your financial consultant ____
d. Financial education courses available for attending locally ____
e. Attention to other financial areas for you such as debt placement and management, property and casualty insurance evaluation, etc. ____

(continued on reverse)

Client and Visitor Survey *(continued from reverse)*

2. In thinking of when you have interaction with our administrative personnel for appointment scheduling or assistance with statement or check questions, do you generally feel:
a. Well handled and satisfied ___ b. Somewhat unsatisfied ___ c. Unsatisfied ___
Feel free to add comments here _____
3. When dealing with your financial consultant with our Group, do you generally feel:
a. Well handled and confident in our ability to counsel you ___
b. Uncomfortable with or unsure of the attention and guidance you receive ___
4. How would you rate your experience with the Fragasso Group in general?
a. Excellent ___ b. Good ___ c. Poor ___
5. Would you like more client informational lectures throughout the year?
a. Yes ___ b. No ___
6. How often?
a. Monthly ___ b. Quarterly ___ c. Semi-annually ___
7. What topics would you like to see covered at client informational seminars?
a. Estate planning ___
b. Long term care financial planning ___
c. Asset allocation and portfolio management ___
d. Retirement planning opportunities ___
e. Retirement planning management techniques for plan trustees ___
f. College education funding ___
g. What parents and their grown children should discuss about finances ___
h. Other _____
8. If you feel that it would be enjoyable and valuable for you to participate in client social events, please check all of those that may hold interest for you. Remember that the purpose here is fun, not education.
a. Golf outing ___
b. Competition sports (like paintball or volley ball) ___
c. Summer picnics ___
d. Holiday party ___
e. Ice cream social ___
f. Classes on non-financial topics:
i. Child rearing ___
ii. Volunteering opportunities ___
iii. Pet behavior and training ___
iv. Personal or business self-defense ___
v. Non-medical aspects of patient care for medical and dental practitioners ___
vi. You name a class topic _____
g. Other client-get-together social activities that would appeal to you _____

Please feel very comfortable sharing any other thoughts in any area of client service or investment management that would help us assist you better.

PLEASE ACCEPT OUR SINCERE THANKS FOR THE TIME THAT YOU SPENT WITH THIS SURVEY.

Name (optional) _____

Date _____