



Investment Advice
For Every Generation

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**Points of Interest
Third Quarter 2005***

- ◆ DJIA +2.9%
- ◆ S&P 500 + 3.1%
- ◆ NYSE Composite +5.8%
- ◆ NASDAQ Composite +4.6%
- ◆ Russell 2000 +4.4%
- ◆ AMEX Composite +12.5%
- ◆ DJ World (excl. U.S.) +11.1%

**Best Performing U.S.
Stock Sectors for the
Quarter***

- ◆ Coal + 45.3%
- ◆ Consumer Electronics +36.1%
- ◆ Steel +31.1%

**Worst Performing U.S.
Sectors for the Quarter***

- ◆ Mortgage Finance -18.0%
- ◆ Apparel Retailers -9.8%
- ◆ Travel & Tourism -9.3%

*As of September 30, 2005

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INVESTMENT PERSPECTIVE

Third Quarter 2005

Volume 3, Issue 3

EXPENSES AND THE INCOMPLETE PICTURE

BY DENNIS C. ROGINSKI

We Americans like to compare. We compare athletic ability, school grades, looks, positions, income levels, and a host of other things. While comparisons can be helpful when analyzing distinct parts, all critical information should be included if the objective is to see the complete picture. When investing in mutual funds, focusing only on one item such as expenses ignores some of that critical information. For example, I have been reading numerous articles concerning mutual fund expenses. These articles educate the investor about 12b-1 fees, sales charges, and expense ratios. The question is then asked, "How do these expenses compare to other mutual fund expenses?" That's a reason-

able question, but there is more to it than just expenses.

Fund descriptions, asset classes, total return, risk, turnover, and ranking among peers, in addition to fees and expenses, should all be examined as a whole, not as distinct parts.

The first question should then be, "What kind of mutual fund will I need to fit my asset allocation model?" (See *Investment Perspective, Second Quarter, 2005, Fine Food and Asset Allocation*). Is it a large-cap growth, small-cap value, or international fund? Expenses may vary between each one of these classes, so comparing expenses between a large-cap growth and a small-cap value is like comparing apples to

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oranges. Examine expenses among same classes of mutual funds, but the higher expense fund should not be eliminated automatically. One mutual fund might have a higher expense ratio but also generate a higher net total return.

How did the fund perform over the long term, say ten years? How does this return compare to the

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Did you know that there is a retirement plan called the Individual 401(k)? Designed for the small business owner, it offers immediate 100 percent vesting, loan provisions, and higher deductible contribution limits when compared to other retirement plans. Set-up cost is lower, and administrative filing is minimal. If your business is a C Corporation, S Corporation, sole proprietor, or partnership, you may qualify for the Individual 401(k).

MARKET COMMENTARY

The economic concerns of the third quarter can be summarized in four words: Katrina, Rita, Alan, and oil. Jeannine Aversa, the Associated Press (AP) Economics Writer stated, "The economy was growing solidly before hurricanes Katrina and Rita, whose double blow is expected to make for rocky business activity in the months ahead."

Because of the hurricanes, unemployment will increase significantly. It is estimated that 150,000 to 500,000 workers will be displaced.

For the second half of the year, pre-hurricane forecasts for economic growth were around 4 percent. After Katrina and Rita, that figure was revised to 3 percent. A 1-percent difference seems insignificant, but when it comes to the U.S. economy, its impact is felt. With GDP around \$12 trillion, a 1 percent reduction amounts to \$120 billion.

Because of the hurricanes, unemployment will increase significantly. It is estimated that 150,000 to 500,000 workers will be displaced. Employment will rise quickly in certain sectors, such as cleanup and construction, but other areas of employment will lag behind because of the tremendous amount of devastation and flooding. The rebuilding process will be



slow, but once underway, overall economic activity is expected to increase – but not until 2006.

Oil prices were a concern in the second quarter, and this concern continued into the third quarter. Katrina and Rita disrupted petroleum supplies. Economists are split on what impact this will have on the economy. Some say the negative impact will be short lived and will not hurt the overall economy sig-

nificantly. This, of course, will depend on the speed in which the Gulf refineries come back online. Some pipelines have already been restored, but some of the major refineries are still not operating. Other economists see the price of oil being a major detriment to economic growth. These economists not only site high oil prices, but other factors such as high consumer debt, low savings

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And unlike Educational Savings Accounts, where the beneficiary gains control at a certain age, the 529 account owner maintains control.

INVESTMENT ADVISE FOR EVERY GENERATION

Your child is off to college. Financially, if you can help a little or a lot, the 529 College Savings Plan is worth exploring. Named after its section in the IRS code, a 529 Plan can be opened for anyone: you, your child, a relative, or even your bartender. Benefits include no income limitations or age restrictions, tax-free earnings growth plus ownership retention. Although

contributions to the plan are not tax deductible, their earnings grow tax free as long as the money is used for qualified college expenses. And unlike Educational Savings Accounts, where the beneficiary gains control at a certain age, the 529 account owner maintains control. You don't have to worry about the beneficiary buying a Porsche or running off to Paris! If the benefi-

ary decides not to attend college, the account can be rolled over to another family member. Family members include the original beneficiary's spouse, children, sisters, brothers, nephews, nieces, first cousins, and spouses of these persons. Plus, anyone can contribute to the account – you, Homer Simpson, or Grandma. Sound interesting? Give us a call to learn more!

EXPENSES AND THE INCOMPLETE PICTURE

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benchmark and its peer group? How did the fund perform during the last bull and bear market relative to its benchmark and peers?

Risk should also be considered. Look at figure 1.1. This is called the *Historical Risk to Reward Scatter Chart*. It shows how a mutual fund compared to its benchmark, such as the S&P 500 (blue circle), and how it compared to its peers (hollow circles) on a risk/return basis. The ideal situation is represented by the green triangle. It shows a mu-

tual fund that had less risk but earned a higher return relative to the benchmark. The yellow triangle represents an aggressive investment. The risk is greater, but the reward is higher. The orange triangle is for a conservative investor, whose return was less, but so was the risk. Finally, the red triangle area should be avoided by any investor. This investment was not only riskier but generated lower returns. Not a good scenario.

Expenses are important,

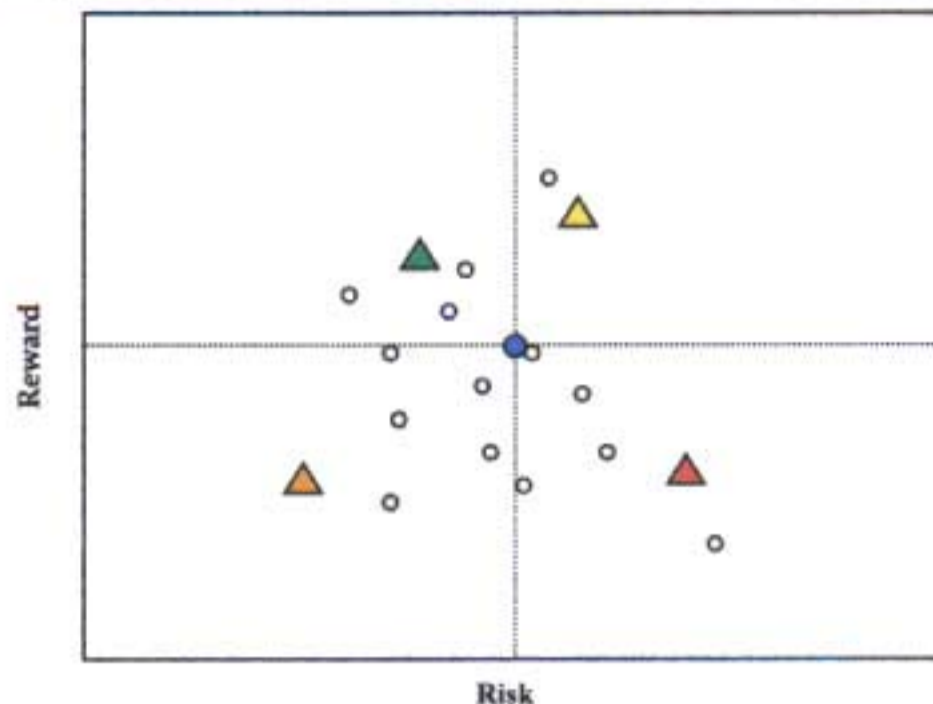


Figure 1.1 Historical Risk to Reward Scatter Chart

but so are the other aspects of a mutual fund. For a complete picture, examine all the parts.

This will give you a better idea of the mutual fund that's best suited for you!

MARKET COMMENTARY

(CONTINUED FROM PAGE 2)

rates, and record budget deficits. The AP reported, as of this writing, that American Airlines was canceling, temporarily, 15 round-trip flights due to fuel costs.

I think consumers are beginning to revise their spending habits because of the price of oil. The other day I pulled into the gas station at my neighborhood Safeway. Every gas pump was being used and five cars were waiting to get that 3-cent-per-gallon discount. Not willing to wait, I drove down the road to the next gas station. There were eight pumps and only one was being used. I suppose

they were all at the Safeway saving that 3-cents-per-gallon. Filling my 18-gallon tank at the Safeway pump would have put a mere 54 cents back in my pocket. If gas went back to \$1.00 a gallon, then we could save some real money. What are your thoughts about oil prices and the economy? E-mail me. They could be published in the next newsletter.

Then there's Alan Greenspan. There has been speculation that, because of Katrina and Rita, the feds would leave the Federal Funds Rate alone. This didn't happen. Instead they raised its key short-term interest rate

target a quarter of a point to 3.75 percent. Mr. Greenspan also hinted there was more to come. Janet Yellen, president of the Federal Reserve Bank of San Francisco, said, "... Hurricane Katrina, by raising energy prices, would dampen economic activity while adding to inflation pressures. The likeliest outcome is a sharp dip in growth in the current quarter and the next, followed by a rebound in the first half of next year as the region rebuilds. As a result, continuing to raise rates made sense." Remember, it takes about 6 to 9 months for these rates to take effect. That brings us to mid March of 2006. Time will tell.

The other day I pulled into the gas station at my neighborhood Safeway. Every gas pump was being used and five cars were waiting to get that 3-cent-per-gallon discount.

And let's never forget the human element. Estimates put lives lost over 1,100 and those left homeless over 1 million. Some things just can't be measured.