



GOING LONG

Detterbeck Wealth Management, Inc.



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FLIGHT TO SAFETY WITH DECENT RETURNS

By Brett Detterbeck

The recent flight to safety mentality by the investing public has led bond prices up and rates down. You may feel like you've missed the boat if you're not already in some type of fixed income vehicle. It's easy to understand that you may be wary of "locking in" the relatively low interest rates in to-



day's market. Further, it should be of concern that the price (and therefore the principal) of bond mutual funds will likely plummet when interest rates start to rise in the future. Since no one can predict exactly when or how interest rates will change, what do you do?

One solution may be to employ an investment strategy known as a "bond ladder". Laddering helps investors position themselves to react to changes in interest rates.

What is a bond ladder? A bond ladder is made up of equal blocks of bonds with staggered maturities. For example, a \$500,000 bond ladder could consist of an equal amount (\$100K) of bonds maturing in one year, an equal amount in two years, an equal amount in three years, an equal amount in four years, and an equal amount in five years. Each block of bonds would serve as one "rung" on the ladder. By diversifying the maturities in the portfolio, the investor will have funds available for reinvestment at regular intervals. Here's an example of the structure of a typical bond ladder. Let's assume a normal yield curve environment:

Principal	Bond	Coupon	Maturity	YTM*
\$100,000	US Treasury Bond	5.50%	12/31/03	2.500%
\$100,000	US Treasury Bond	4.50%	12/31/04	2.750%
\$100,000	US Treasury Bond	5.00%	12/31/05	3.250%
\$100,000	US Treasury Bond	4.75%	12/31/06	3.500%
\$100,000	US Treasury Bond	5.25%	12/31/07	4.000%
\$500,000	Average YTM:			3.200%

As each bond matures, the investor purchases a new 5-year bond, thereby keeping the maturities evenly spaced and the ladder intact. Here's what the ladder would look like **one year later**:

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RETIREMENT PLANNING FOR BUSINESS OWNERS - IS THERE A GAP BETWEEN GOALS AND REALITY?

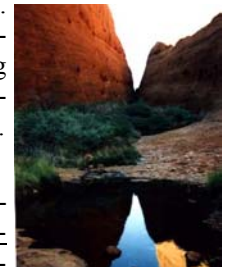
By Les Detterbeck

FUNDAMENTAL ISSUES

Busy, entrepreneurally-spirited business owners often have lofty retirement goals but poorly developed plans to achieve those goals. According to Mark Tibergien, a noted consultant to financial advisors:

- 50% of CEOs contemplate retirement within five years;
- 68% expect to keep the business;
- 61% have a strategic plan;
- 40% do not know the value of their business;
- 40% have no identified successors; and
- 28% do not have an estate plan.

This gap between goals and reality threatens to derail the business owner's retirement goals. However, a collaborative financial planning approach when retirement planning is non-existent or inadequate offers significant value added to business owners.



COMMON PLANNING FLAWS

Mr. Tibergien's article in the March-April 2002 issue of Journal of Retirement Planning discusses several commonly observed flaws in the current retirement strategies of business owners, including:

An Over-Emphasis on Saving Taxes

Often, a great deal of time and expense is allocated to saving taxes at all costs. Though important, this should be balanced with wealth maximization planning and healthy business planning.

Splintering Closely-Held Stock in the Hands of Multiple Family Members

Frequently, this is done in isolation—for example, caring only about "fairness" to all family members or as a part of and estate tax minimization strategy. The focus should be on the consequences to the business itself when ownership is so widely disseminated, often among family members with little business savvy or interest.

Failure to Recognize Retirement as an Identity and Emotional Challenge

Advisors can help business owners prepare for their "business afterlife," their relationship with their successors, and the loss of a personal leadership role that has defined them for years.

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FLIGHT TO SAFETY (Continued from page 1)

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\$100,000	US Treasury Bond	4.75%	12/31/06	3.500%
\$100,000	US Treasury Bond	5.25%	12/31/07	4.000%
<u>\$100,000</u>	US Treasury Bond	5.00%	12/31/08	<u>4.250%</u>
\$500,000		Average YTM:		3.550%

Notice the 2003 bond is no longer there since it matured. The proceeds were used to purchase the 2008 bond. By creating this new “rung”, we gain exposure to a higher yielding bond thus increasing our average *yield-to-maturity* (YTM) on the entire portfolio. If we jump one year ahead, the average YTM even gets higher:

Principal	Bond	Coupon	Maturity	YTM*
\$100,000	US Treasury Bond	5.00%	12/31/05	3.250%
\$100,000	US Treasury Bond	4.75%	12/31/06	3.500%
\$100,000	US Treasury Bond	5.25%	12/31/07	4.000%
\$100,000	US Treasury Bond	5.00%	12/31/08	4.250%
<u>\$100,000</u>	US Treasury Bond	2.00%	12/31/09	<u>4.500%</u>
\$500,000		Average YTM:		3.900%

This regular investment program offers the opportunity to average the rate of return on your portfolio over time as rates rise and fall, rather than committing to a one-time fixed return. If rates increase, you have proceeds from maturing bonds to participate. If rates fall, you avoid the penalty of having all your funds maturing in a low rate environment. Since you hold the bond to maturity, you never need to sell the bond in the secondary market, which depending on the level of interest rates could be at a price higher or lower than the original investment. Hence, your total return is fixed. We are in the camp that believe rates will start increasing in the next few years, therefore the average YTM will increase more so than the flat interest rate environment.

In conclusion, the bond ladder can help the investor because it can be structured to:

- Generate attractive average portfolio yields through the blended rate of the portfolio’s diversified maturity bonds
- Provide a reliable income stream generated by the bonds in the portfolio
- Minimize reinvestment risk by allocating a portion of the portfolio to longer-term, typically higher yielding bonds
- Maintain liquidity through the portfolio’s maturing of the shorter-term bonds
- Preserve principal investment as performing bonds in the portfolio return principal at maturity

◦Meet changing market conditions and specific financial goals by adjusting the maturities of the bonds in the portfolio

◦Can be used with fixed income vehicles including municipals, federal agencies and corporate bonds

If you need assistance in implementing a bond ladder or simply need more information, please contact us.

*The rates used were for illustration purposes only and do not reflect today’s actual rates.



RETIREMENT PLANNING (Continued from page 1)

Too Much Reliance on the Business Alone to Fund Retirement

Business owners are often too close to the business to be objective about its actual value and ability to generate future cash flow. Professional advisors can help business owners look at necessary planning and investing outside the business context and help to ensure and structure a profitable ownership transition.

Failing to Integrate All Facets of Planning

The collaborative approach should seek to synchronize estate, family, and financial planning goals and techniques with the owner’s business and retirement planning. This can be dangerous turf for isolated techniques or a patchwork approach.

As you can see, retirement planning for business owners requires an integrated picture that includes consideration of the family, the business, and retirement planning. We’ve created a checklist we use with clients as a starting point in this process. If you or someone you know would like to receive a copy to help in your planning, please give us a call.



ANNOUNCEMENTS

DWM would like to announce the addition of two new team members:

Phil Bandle & Amy Venditti

Phil is a registered rep who comes to us from AG Edwards & Sons, Inc. with six years of experience in all areas of financial planning.

Amy is our administrative assistant who comes to us from Cherry & Associates. She has over three years experience working in a financial planning and accounting office.



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