



GOING LONG

Detterbeck Wealth Management, Inc.

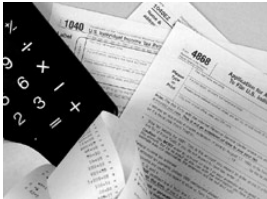


MARCH 2004

THE DEFICIENCIES OF MUTUAL FUNDS

By Brett Detterbeck, CFA, CFP® Separate Managed Accounts (SMA) are portfolios of individual securities (e.g. bonds and equities) that are directed by institutional-caliber money managers. Now a SMA makes more sense than ever. The recent market timing and late trading scandals surrounding mutual funds have made many headlines. Yet, even before these current problems, mutual funds have had structural drawbacks. These include:

- **No Customization** - Mutual fund money is pooled with other investors and has identical relative characteristics. With a Separate Managed Account (SMA), you can work around a low cost basis stock or inherited position that you choose not to sell.
- **Taxation** - Mutual funds don't look at your financial situation come year-end and don't care if you realized a sizeable gain or loss somewhere else. In fact, in the year 2000, many mutual fund investors were hit with realized gains even though the fund lost in value. With a SMA, you and your investment advisor can realize gains and/or losses where appropriate to minimize your year-end tax liability.
- **Costs** - Mutual fund fees are on the rise. While we would all intuitively expect the fee (as a percent of assets under management) to drop as their assets increase, we have



seen just the opposite. It is not unusual for a fund to charge 1.5% of assets under management, plus a 5% sales fee, plus other trailers and sales fees. Primarily because of this cost, each year 80% or more of the mutual funds have not been able to keep pace with the "market". Moreover, funds typically have many positions (sometimes hundreds) and high turnover which means heavy transaction fees. This is pushed off to the holder.

- **Over-diversification** - Again, funds typically have many, many holdings. Diversification is definitely a plus but you don't need 200 holdings to accomplish that. In fact, empirical studies show that holding 50 positions can eliminate virtually all non-systematic risk. When you have too many names, your handful of winners is so diluted that you tend to get mediocre results.
- **Style Drift / Transparency** - Mutual funds only need to report their holdings every six months, and by the time they report them, the profile could have easily changed. With a SMA you always know exactly what you have. Also, some mutual funds have used this non-transparency to jump on momentum names that don't follow the fund's style in hopes of better returns. You think you're holding a value fund when in actuality, it's more like a growth fund.



Separate Managed Accounts that follow some type of model like DWM's **Solid Growth 55**® have the best of all worlds. You are not subject to

LONG-TERM CARE: WHY A 10 YEAR PREMIUM MAKES MORE SENSE NOW

By Brett Detterbeck, CFA, CFP® In previous newsletters, we've touched on Long-Term Care (LTC) insurance and how it is an important part of a solid financial plan. We'd like to reinforce this concept by explaining the highlights of LTC and also pointing out one of the most beneficial ways of obtaining it - the 10-Year Premium Plan.

Long-term care expense is one of the greatest uninsured risks among Americans today. Planning ahead for potential LTC expenses can relieve the entire family of unnecessary financial and emotional burdens. LTC is extended care that includes both medical and non-medical services provided in a patient's home, nursing home, or assisted living facilities. LTC refers to a broad range of medical, personal and environmental services designed to assist individuals who have lost their ability to remain independent. LTC insurance is a safety net that supplements America's unraveling health care system. Unlike Medicare or most private insurance plans, which pay primarily for hospital stays or doctor visits, LTC insurance pays for the cost involved in providing for long-term convalescent and custodial care.

The need is significant. LTC represents the largest out-of-pocket medical expense faced by older Americans. More than 50% of Americans are expected to need some form of long term care, either home based care or institutional care, at some point in their lives. A year in a nursing home costs an average of \$55,000; half of which is paid out-of-pocket by patients or their families.

The number of LTC policies that have been written are growing at a tremendous pace due to this significant need. This is a generally young area for the insurance companies and when they first starting writing the policies, they made some conservative assumptions. They are just starting to witness first hand that more and more people are actually making claims on these policies to the point where costs, expenses, and reserves are outweighing premiums. The insurance companies therefore will need to ratchet up prices to offset the difference. At the same time, long-term care expenses are increasing at an alarming rate. This is because of the lack of available skilled laborers, society's changing family structure (more geographically diverse), higher divorce rates, and improved life expectancy. Because of this, it is inevitable that prices will continue to rise for these products. Fortunately, there is a way to protect yourself now from these escalating prices.



One way to mitigate this price increase risk is to purchase your contract all up-front or mostly up-front. Most people are familiar with the normal insurance policy that one pays annual premiums on for the rest of your life. With a single premium policy, you can pay for the policy completely up-front. Of course, paying completely up-front means laying out a huge sum of money which is usually unavailable or simply impractical for most people. But there's another alternative that falls in the middle and that is the 10-year Premium Payment. The

(SMAs Continued from page 1)



the mutual fund timing problems associated with an underlying basket of stocks fluctuating throughout the day since you own the security outright. Not to mention, you get customized professional management, higher tax efficiency, lower fees, transparency and no over-diversification. We also employ ETFs, or exchange-traded funds, that operate like mutual funds but are traded openly on the exchanges and therefore not subject to the potential trading violations and other issues inherent of mutual funds.

Some frequently asked questions about SMAs and how they work within the Detterbeck Wealth Management platform are the following:

- **Am I limited to one investment style?** No. Not only are you not limited to an investment style, you are not limited to just one money manager. DWM can provide you a wonderful low-cost solution to your large-cap core equity needs, but at the same time, we recognize your need for additional investment styles through active diversification channels. Through our Managed Account Connection Platform, you can access the expertise of some of the greatest money managers available such as State Street Global Advisors, Northern Trust, Fred Alger Management, etc. Alternatively, you can capture exposure passively through ETFs and closed-end funds.

- **What asset classes are available?** Through our platform, you'll be able to gain exposure to all the necessary asset classes including equities (large cap, small cap, international, etc), fixed income, real estate, and alternative assets.
- **How will the reporting be handled? Won't it be confusing with so many different statements?** No, DWM will provide you with a consolidated report on a periodic basis that will detail all your holdings and performance measurement in an easy-to-read format.
- **This sounds great but won't multiple money managers cost a lot?** No, the beauty about doing this with the DWM Managed Account Platform is you get all this flexibility at a cost less than the average mutual fund.
- **Are there any special requirements or minimums?** The DWM Separate Managed Account Platform has a minimum of \$500,000 for separate managed accounts.

How do I apply? Simply call DWM at 847-359-6262 to get started or go to www.detterbeck.net for more information.



Congratulations to Amy Venditti on passing the Series 7 and 66 National Association of Securities Dealers exams and becoming a Registered Representative.

(LTC Continued from page 1)

beauty about this is that you don't have to come up with a huge lump sum upfront but you also put yourself on a program where you completely pay off the policy in ten years. At the end of the 10th policy year, the policy is non-cancellable for the rest of the insured's life, regardless of health conditions. No further premiums are required. And most importantly, you are no longer subject to any rate increases. Even if the insurance company raises the premiums for your entire state, you are not subject because you are paid up.

The chart on the right shows you representative LTC rates as of February 2004. If you wish, we can obtain quote information for you through our affiliate, Midwest Financial Center, LLC.

Per Spouse for Preferred Non-Smoker:

Lincoln Benefit Life			GE Classic			MetLife		
Age	Annual	10 Year	Age	Annual	10 Year	Age	Annual	10 Year
40	\$ 1,105	\$ 3,550	40	\$ 1,480	\$ 4,940	40	\$ 1,140	\$ 3,530
50	\$ 1,200	\$ 3,465	50	\$ 1,580	\$ 4,540	50	\$ 1,470	\$ 3,990
60	\$ 1,670	\$ 4,070	60	\$ 2,230	\$ 4,900	60	\$ 2,245	\$ 4,780
70	\$ 3,830	\$ 6,280	70	\$ 4,560	\$ 7,480	70	\$ 4,670	\$ 7,140

* Rates shown are based on February 2004 figures and may be subject to change without notice.

Detterbeck Wealth Management, Inc.
 100 W. Palatine Road, Suite 200, Palatine, IL 60067
 Phone: 847-359-6262