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# BRIAN D. LOWDER, INC.

## QUARTERLY NEWSLETTER

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### NEW YEAR'S INVESTMENT RESOLUTIONS

*I understand that we are in neither a bull nor a bear market.*

*I see the glass as half-full rather than half-empty.*

*I will be a deliberate and patient long-term investor.*

*Financial magazines, television and financial news programs are for entertainment.*

### FINANCIAL MARKET OVERVIEW

In this investment climate, it is no wonder that investors are cautious, confused, and pessimistic. Investors haven't experienced three consecutive years of negative stock returns since 1929-1931. Investors must be over 75 years old today to have had actual experience and a basis for comparing our future outlook today with the economic environment in 1929. Aside from statistical similarities, are we really worse off today compared to the economic conditions that existed during the 1930's?

Before discussing our perspective on what to expect in the future, below are sample returns for the 2002 calendar year.

<u>4<sup>th</sup> Quarter</u>	<u>Year 2002</u>	
+ 10.4%	- 16.8%	Dow Jones Industrial Average
+ 8.4%	- 23.3%	Standard & Poor's 500 Index
+ 13.9%	- 31.5%	NASDAQ
+ 4.8%	- 28.6%	Large-company stock-Growth
+ 8.4%	- 19.9%	Large-company stock-Value
+ 4.2%	- 15.3%	Mid-Size Stocks – Growth
+ 7.0%	- 13.5%	Mid-Size Stocks – Value
+ 4.6%	- 29.7%	Small-company stock- Growth
+ 5.1%	- 10.3%	Small-company stock- Value
+ 5.5%	- 16.7%	International (excludes U.S.)
+ 12.4%	+ 62.8%	Gold funds
+ 0.65%	+ 5.9%	Short-term U.S. Treasury (includes appreciation)
+ 0.56%	+ 14.8%	Intermediate U.S. Treasury (includes appreciation)

### PERSPECTIVE IN NEITHER A BEAR NOR A BULL MARKET

Whether you are an optimist or a pessimist, both camps have ample reasons to support their position with compelling arguments. Perhaps the biggest factors affecting rational decision-making are the losses investors have suffered over the past three years and the fear that further losses will permanently affect a family's upcoming or ongoing retirement plans. Ambivalence and uncertainty make investors oscillate back and forth between bullish and bearish sentiment or to make no decisions at all. Uncertainty and fear also increases the likelihood of making mistakes. The best way to approach the future is to assume that we are entering neither a bull nor a bear market.

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We have presented our case in the previous two newsletters of why we firmly believe the glass is half full and the risk / reward ratio is neutral to positive. The best time to buy stocks or real estate is usually when the outlook is a little cloudy even though it may not feel very comfortable at the moment. When nearly everyone feels confident that the risks are low and the rewards are immediate, it's time for a reversal. Examples of this truism are many, yet the lesson seems to be presented over and over again. Unbridled enthusiasm for common stocks in the late 1990's set the reversal in motion. Terrorism, corporate malfeasance, high-profile bankruptcies and confrontation with Iraq simply extended the suffering. Today, residential real estate is undergoing the same process; the only uncertainty is the timing of the reversal and the duration of the decline.

Since most investors do not have the background to assess the overall financial markets and the prospects for economic growth with a high degree of confidence, simply start by looking at the big picture. After suffering three straight years of negative stock market returns, are we as bad off today as Americans were in the third year of the Great Depression? Over the past **five** years, is the negative 0.6% return on the five hundred largest U.S. companies a true reflection of the value of these companies in the future? In our view, neither the high stock market valuations in late 1999 nor the current stock market valuations truly reflect reality.

Start the New Year with a fresh slate. Recall the decisions we've both made and any mistakes that can be avoided in the future. Review and acknowledge your portfolio performance since 1999 and then file it away. Historical performance has little relevance when deciding where to invest your funds in the future.

Forget about trying to successfully guess which sector (gold, technology, Internet, healthcare, etc.) will be the next ticket to get ahead of the market. It has been proven time and time again that this short-term strategy results in poor overall investment performance.

Maintain a core position in the equity or stock portion of your portfolio. This means that 50% or more of the stock portion of your portfolio should be well

diversified at all times. Use the balance of the equity portion of the portfolio to select individual stocks or mutual funds in specific areas. Diversification makes sense and it always has for time periods longer than a few months or a few years. Expect lower average returns (compared to the late nineties) from the stock and real estate markets. Returns should revert to a more normal range. Don't try to win the game – try to stay in the game.

Below are our opinions only after gazing into a cloudy crystal ball:

- As soon as the conflict or war with Iraq is resolved, the price of gold will plummet.
- Interest rates have little chance of falling further. The real risk is rising interest rates likely by year-end. Bond mutual fund values and individual long-term bond prices will fall, therefore keep your maturities short.
- Speculating in residential real estate should be avoided.
- Expect a moderate return on stocks ( 8%-10%) over the near future. The initial bounce off the bottom will likely be twice the normal expected return.

## **YEAR-END TAX REPORTING: 1099 STATEMENTS COMING SOON**

Financial institutions (brokerage firms, banks, mutual fund companies, etc.) must send summaries of all interest, dividend and capital gain distribution information to account holders by January 31, 2003. The information is used to accurately complete your 2002 federal and state income tax returns. Many of our clients receive similar information from us on a quarterly basis while others may receive the same information on an annual basis. Please be advised that all of our clients will receive an *Income Report* and a *Realized Gain/Loss Report* on their managed (taxable) accounts beginning in February, 2003.

We maintain this information on a daily basis to compare and confirm the accuracy of the 1099 statements generated by Charles Schwab, Vanguard,

trust companies and others. In addition, financial institutions do not normally report accurate cost basis information to their accountholders nor do they advise you on which of three cost basis methods you should use. This information and more detail are included in our reports. Most of our clients have requested copies of the same reports be sent to their accountant or tax preparer. If you would like duplicate copies sent to your tax preparer, please contact our office.

## FORM ADV – REGISTERED INVESTMENT ADVISOR APPLICATION

Brian D. Lowder, Inc. is registered as an Investment Adviser with the Securities & Exchange Commission. Our firm must complete and keep current a lengthy government document that comes in two parts – Form ADV Parts I & II. Part II is designed to be a disclosure document to clients and potential clients. We are required to keep this SEC Registration Disclosure Document available at anytime in our office, provide it to potential clients, and to formally offer an updated copy at least annually to our existing clients. *Please consider this reminder our official offer to send Form*

*ADV Part II.* If you would like for us to mail you a copy please call our office. In addition, the SEC is in the process of making this information available on the internet. To date, only Part I is available on the web at [www.adviserinfo.sec.gov/IAPD/Content/Search/iapd\\_OrgSearchInit.asp](http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearchInit.asp) and Part II should be available sometime in the near future.

In addition, we are also required to distribute our Privacy Policy Statement to clients annually. This one-page statement has been included in this newsletter.

## THANK YOU & HAPPY NEW YEAR

We are very happy to bring in the New Year and are grateful to have so many individuals and families rely upon us to make a difference in their lives. We would also like to thank our clients for the well wishes, photos, cards, baskets and gifts over the holiday season. We are especially thankful for all of the personal referrals we received from you during these difficult times. We appreciate your trust and confidence and will continue to work hard to maintain that trust.

Best regards



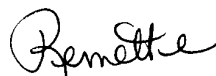
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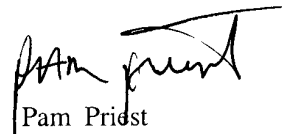
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## Privacy Policy Statement

Brian D. Lowder, Inc., an independent financial planning firm, is committed to safeguarding the confidential information of its clients. We have a long-standing policy of protecting confidential information about our clients and their transactions. We hold all personal information provided to our firm in the strictest confidence. These records include all personal information that we collect from you in connection with any services provided by Brian D. Lowder, Inc. We have never disclosed information to nonaffiliated third parties, except as permitted by law, and do not anticipate doing so in the future. If we were to anticipate such a change in firm policy, we would be prohibited under the law from doing so without advising you first. As you know, we use financial information that you provide to us to help you meet your personal financial goals while guarding against any real or perceived infringements of your rights of privacy. Our policy with respect to personal information is listed below.

- ◆ We limit employee access to information only to those who have a business or professional reason for knowing, and only to nonaffiliated parties as permitted by law. (For example, federal regulations permit us to share a limited amount of information about you with a brokerage firm in order to execute securities transactions on your behalf, or so that our firm can discuss your financial situation with your accountant or lawyer.)
- ◆ Each of our employees has responsibility for maintaining the confidentiality of client information. We require all of our employees to agree in writing to protect the confidentiality of client information and to use it only for our business purposes.
- ◆ We maintain a secure office and computer environment to ensure that your information is not placed at unreasonable risk.
- ◆ The categories of nonpublic information that we collect from a client depend upon the scope of the client engagement. It may include information about your personal finances, information about your health to the extent that it is needed for the planning process, and information about transactions between you and third parties.
- ◆ For unaffiliated third parties that require access to your personal information, including financial service companies, consultants, and auditors, we also require strict confidentiality in our agreements with them and expect them to keep this information private. Our primary unaffiliated third party is Charles Schwab & Co. Aside from the personal information already contained on your Schwab account application(s), we do not disclose any additional information about you to Charles Schwab and Co. Federal and state regulators also may review firm records as permitted under law.
- ◆ We do not provide any information about you to mailing list vendors or solicitors for any purpose.
- ◆ Personally identifiable information about you will be maintained during the time you are a client, and for the required time thereafter that such records are required to be maintained by federal and state securities laws, and consistent with the CFP Board of Code of Ethics and Professional Responsibility. After this required period of record retention, all such information will be destroyed.