



## INVESTMENT OUTLOOK

OCTOBER, 2000

For the third consecutive year, the stock market finished the Third Quarter with a thud. But it wasn't that heavy. In fact, the Dow Jones 30 Industrials, which dropped 196 points in the final week of September, was up 1.65% for the Quarter. By contrast, the S&P 500 went down 1% while the NASDAQ lost 7.4% for the quarter. Basically, during the quarter, large cap stocks held firm while small-cap, mid-cap and technology related stocks were taking a hit. We note, however, that in the final week of September, when **IBM, Intel, Microsoft, Cisco and AOL** all went down, *Dreyfus Appreciation Fund, Fidelity Contrafund, Janus Fund, Neuberger Berman Mid-Cap Growth, Strong Opportunity, Warburg Pincus Small Company and Warburg Pincus Post Venture Capital* (all appear in our various portfolios) went up. Since the five companies named above are major factors in the DJIA, S&P 500 and NASDAQ averages, it makes the point that funds managed by good managers can perform well in spite of the averages.

Since most readers of this newsletter are invested in **BESTofAMERICA** variable life or annuity products, let's make the point another way. We maintain a profile of 25 client accounts which, after adding in year 2000 investments and subtracting year 2000 withdrawals was worth a net \$3,392,870 at the beginning of the year and \$3,335,663 as of September 29, 2000 for a net change of **-1.7%**. Sixteen of the 25 accounts in the profile, however, **showed a gain**. For the same nine-month period, the DJIA was **-7.36%**, the S&P500 was **-2.2%** and the NASDAQ was **-9.75%**. What does that suggest about having your money professionally managed? The **nine accounts out of the 25** that showed losses were larger accounts with significant positions in the three new Janus funds that we added last January. If I had to do it over again, I would place money into those three Janus funds again and again and again. I feel that over time, the managers running those funds have proven their worth and things will work out just fine.

Looking into the fourth quarter of 2000, the presidential election will make itself felt but only after the election. Following the past five elections beginning in 1980, the DJIA averaged a 2.93% increase, the S&P 500 averaged a 3.34% increase and the NASDAQ averaged a 4.5% increase. Given what the market has done so far this year, it suggests year 2000 will come close to break even. If that is the case, all the averages will complete an extraordinary five year period beginning in 1996, with 1994 remaining the most recent year in which the market showed an overall loss.

In managing money, we must assume occasional losses. A study completed in 1995 showed that for the 70 years ending 1994, the market went down in 20 of those years, for an average of one losing year every 3½ years. If year 2000 ends up showing a loss, that loss will simply be 2½ years later than what was projected and that's the good news.

Looking into the future, inflation remains reasonably low, there has been a slight up tick in interest rates but how much of that was caused by the Fed? Unemployment remains low and the recent decision by the U.S. to help prop up the Euro should make it easier for U.S. companies to sell their goods and services overseas. Oil prices remain a problem that both major presidential candidates acknowledge, so we should have a solution. The present levels of the market certainly reflect the recent bad news so any good news, which we fully expect, should have very positive results.

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*Many of you found me because you heard my advertisement on the Adriane Berg radio program. Now you may need some help in finding Adriane Berg. Beginning August 6<sup>th</sup>, Adriane created her own Wealthbuilder Radio Network. In the New York area it airs Sunday mornings on WEVD, 1050 AM from 9:00 a.m. to 10:00 a.m. Then it switches to smaller stations you can best pick up based on where you are. In Westchester – 1260 AM; Northern New Jersey – 103.1 FM; Rockland County – 94.3 FM; Poconos – 99.7 FM. The program can also be heard in Florida from 9:00 a.m. to 11:00 a.m. on 740 AM in Boca Raton and 770 AM in Fort Meyers. Look at Adrian's website, [www.wealthbuildernews.com](http://www.wealthbuildernews.com).*

## **Variable Life Insurance – the last legal Tax Shelter**

One of the ideas we've been talking about for a long time on which we're getting a great response is **Variable Life Insurance** used as a **non-taxable investment**. Let's assume that you don't need more life insurance. Let's fully acknowledge that life insurance imposes costs. In reality, the largest cost you incur in your equity investment program right now has to be taxes. If there is a way to reduce...no, let's say "eliminate"... income tax, what's the problem with taking on a little cost for life insurance you feel you don't need? That's when the tremendous advantage of Variable Life comes into focus.

Savvy investors have been trying to beat the taxman for years. After the Tax Reform Act of 1986 killed the shelters used by high tax bracket investors, only life insurance remained as a completely legal vehicle in which one could grow money and remove both principal and earnings without paying income tax. The emergence of **Variable Life**, in which mutual fund type portfolios are the basic assets, created the ultimate vehicle... **equity-based earnings with no income tax**. It's all very simple. Assets inside life insurance policies grow tax-free. You can withdraw tax-free an amount equal to what you paid in premium. Since withdrawals beyond that amount would be subject to income tax, you don't do any withdrawals beyond what you paid in premiums. Instead, you do loans... which are not taxable events. When you do loans, the question becomes, "at what cost?" The answer you want to hear is, "No-cost." In effect, the good policies credit you an amount inside the policy equal to the loan interest you are being charged so you never have to make any principal or interest payments and the loan does not negatively impact your account balance.

Let's look at how it works. Our investor is presently using mutual funds or an equivalent diversified equity investment. We are assuming the ability to earn a gross yield of 12% less any commissions and/or fees. We are also assuming half the gain is long term and half is ordinary income. "Tax Efficient Investing", a strategy introduced in the 1990's promoting the use of Index Funds, is not working out that well. Most actively managed funds are now outperforming their corresponding indexes and portfolio turnover averages over 100% per year. Even the S&P 500 Index changed 200 companies over the past two years. Replacing those 200 company stocks created taxable income in the Index funds. So our illustration assuming half long-term gain and half short-term gain seems reasonable.

The most difficult ages to illustrate are older ages with fewer years before money is taken out. If a top tax bracket 55 year old places \$100,000 per year into a **mutual fund** earning 12% (less 1% in expenses), the account grows to \$1,493,000 in ten years, after taking out funds to pay the taxes. That would permit an income stream of **\$109,755** per year from Age 65 until all funds were depleted at age 100. The same investment earning a 12% gross yield in a **Variable Life policy** becomes \$1,594,000 after ten years and pays **\$153,652** each year from Age 65 to Age 100. That's a **40% increase** in income.

If the 55 year old makes the same 10 year investment, but waits five years to Age 70 before beginning to take income, the **mutual fund** pays out **\$161,732** after tax but **the Variable Life policy** pays out **\$262,960 per year, a 63% increase**.

**If you are younger, the numbers favor Variable Life even more. If you are older, Variable Life still gives you a significant advantage. If you are a grandparent, consider a ten-year gift to your children and/or grandchildren.**

It doesn't take \$100,000 per year to get a plan started. If you're young enough, try \$2,000 or \$5,000 per year. The point is, Variable Life does the job you want done. You make the choice.

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