

LFM&P

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.

REGISTERED INVESTMENT ADVISOR

April 1, 2003

Outlook & Trends

The last three months have brought continued financial uncertainty. The war in Iraq dominates the news, business projections and investors' thinking. During these times, when it is definitely not "business as usual", it is helpful to have a perspective of where we are in the continuous flow of economic events, as well as having a sound investment strategy and a financial plan as a guide. Hopefully this letter will help you with the perspective.

Economy

As has been said before, "the more things change, the more they stay the same". The economy continues to grow slowly but uncertainly. Interest rates remain close to 40 year lows as the Federal Reserve retains its policy of providing excess money to re-inflate the economy. Recent low rates produced still another round of aggressive mortgage refinancing by homeowners, but new homebuilding, which can be influenced by the weather, dropped off over the winter months. There has been a small pick-up in business activity, but consumer spending, which has recently been the economy's driving force, has retrenched a bit as consumer confidence has reached the lowest point since 1993. The key to moving the economy forward is business's ability to make a profit and employ an increasing number of people. Unfortunately analysts' current estimates of year-ahead profits and the number of unemployed workers have remained fairly steady while the official inflation-adjusted economic growth rate during the last quarter of 2002 was 1.4% and was 2.1% for the year. The reason for the sluggishness often sighted by pundits including Fed Chairman Alan Greenspan, is that decisions are being postponed due to uncertainty about the effects of the Iraq war. This may be true, but it also seems likely that we are still feeling the hangover from the overcapacity built during the late 90's "bubble" years, and that businesses are not overly motivated to buy new equipment.

Parallels continue to exist with the flat economic conditions in the early 1990's, including an Iraq war, higher than desired unemployment and lower than desired business investment. The good news that was unseen at that time, however, was that the economy was on the brink of a nine year expansion. While it is not possible to predict the future, it is likely that the seeds of the next expansion are being sown right now.

Financial Markets

Overall stock market indices have been fairly flat since October of last year, reflecting the lack of improvement in expected company earnings. Lower bond yields have been providing less competition for stocks, so money flowed from bonds to stocks when stock prices hit bottom on three separate occasions. When the overall trend is flat, the day-to-day price fluctuations are more noticeable, and these short-term movements have caused prices to bounce around, reacting to war prospects. Although stock price trends have flattened, there still has not yet been conclusive evidence that the long bear market trend has ended. Most of the short, sharp rallies we have seen are attributed to short-sellers buying back their positions rather than reflecting sustained buying interest. Sustained interest is likely to appear when expectations of profits begin to rise more vigorously.

This is usually an excellent time for the economy and stocks. The pre-presidential election year performs better than all other years in the four-year election cycle averaging gains over 10% since 1833 according to Yale Hirsch. By contrast, the first year after an election has averaged just 1.6% over the same period. The reason for this difference is that incumbent politicians want to stimulate the economy in order to be re-elected. The proposed tax cuts currently being considered by Congress follow this political pattern. As the economy improves, not only will profits rise, but so will interest rates. When interest rate rise, bond prices will fall and bond investors are likely to transfer more money to stocks. As I have said before, paradoxically, the best time to buy stocks is when risk aversion is at its highest and nobody wants to own them.

Planning

April 15th is approaching. For most people, this is the last time you can make contributions to tax advantaged IRAs for the year 2002. Although all people have different financial situations, and one strategy does not fit all, typically financial advisors urge people to save early and routinely to meet their long-term objectives. The usual suggestion is also to take as much advantage of tax deferred accounts as possible. What will happen if the tax legislation pending before congress passes? Until it is law, one can only speculate about its final form. It could include elimination of the double taxation of dividends and corporate retained earnings. It could also establish new tax advantaged savings and retirement accounts. If these initiatives do pass, they may have a significant impact on the attractiveness of some forms of IRAs and possibly 401K plans.

Regardless of how the legislative result influences your savings tactics, your strategy should remain the same. Explicitly consider your goals and your obligations. Determine how much you should set aside (or withdraw for retirees) to meet those goals, follow your approach consistently and re-evaluate it periodically.. The appropriate tactics and methods such as savings accounts, stock or bond investments, or insurance may change over time as conditions change. The most important element is to have a plan that is realistic for you and can be expected to deliver the results you wish. Once you have that, keep it up-to-date and follow it.

If you would like help managing your investments or planning how to reach your financial goals, please give us a call.



DAVID C. LINNARD
President



BARBARA V. LINNARD
Vice President

Linnard Financial Management & Planning provides investment management, financial planning and financial analysis services for people who value unbiased assistance and advice. We believe that people in all stages of financial growth and maintenance can benefit from personal assistance that is focused on their individual goals and needs. Since we sell no products and accept no commissions, we are able to evaluate the best solutions for each client. Our mission is to know each client personally and design and manage financial solutions that match their needs and goals. We will be happy to help you analyze a financial question, plan and achieve your own path to financial success, or help you manage your investments

LINNARD FINANCIAL MANAGEMENT & PLANNING, INC.
46 CHESTER ROAD
BOXBOROUGH, MA 01719

DCL@LINNARDFINANCIAL.COM
BVL@LINNARDFINANCIAL.COM
978-263-0025