

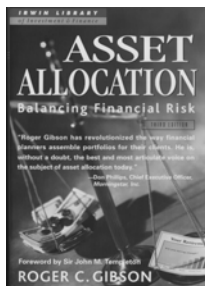


3rd Quarter 2005

How to Protect Your Assets and Financial Future

Have you looked at your financial assets lately? If not, you may want to adjust your allocation to reduce risk and maximize your rate of return.

“Asset allocation empowers the individual investor,” according to Roger Gibson, recognized as the best and most articulate voice on the subject of asset allocation today. Honeck•O’Toole and Roger Gibson have worked together for many years, and we caught up with him recently to provide you with an update on today’s investment climate and how it affects your retirement planning.



The principles within Roger’s 2000 book, *Asset Allocation: Balancing Financial Risk*, are still relevant in 2005 as we live in a world where diversification and a careful mix of investments can lead to more stable growth for your retirement funds. That lesson was certainly sobering for

employees of Enron and WorldCom who relied too heavily on their company stock for retirement planning. In fact, a recent asset allocation article on Etrade.com noted that, “research has shown that how you spread your money among stocks, bonds, and cash is more important than the individual securities you choose.”

The More Asset Classes, the Better

Roger Gibson has made it his mission to help everyday investors plan for a future of financial security by creating a “sensible, proven asset allocation strategy—concerned more with the optimal mix of investment asset classes than with today’s hot stock picks—to remain sane and successful in the long run.”

Your Summer Rental May Be Subject to 7% Sales Tax

The State of Maine recently issued a new tax law change, effective July 1, 2005, regarding “Casual Rentals of Living Quarters”—which applies to many of us Mainers! The law change stated that, “a person who owns a house, cottage, condominium unit, vacation home, camp or any other place kept, used, maintained, advertised or held out to the public as a place where living quarters are offered for rent to transient guests or tenants is required to register with the Maine Revenue Service and collect and remit sales tax at the rate of 7% beginning July 1, 2005.”

This means that your summer property rental, in which you allow paying guests to stay for fewer than 28 days, is subject to this sales tax. It’s very easy to register for a Maine Sales Tax Account at www.maine.gov/revenue or by calling 207-624-9693.

There are a few exceptions to this law, including:

- Rental to a sales tax-exempt organization
- Continuous rental to a person for more than 28 days when it’s the person’s primary residence
- Continuous rental to a person for more than 28 days where the person is residing away from their home due to temporary employment or education (a statement is required from the employer or educational institution)
- Casual rental for less than 15 days in a calendar year.

Please call us or contact Maine Revenue Services if you have questions regarding this change.



Assets - Continued from page 1

In particular, Roger focuses on multiple-asset-class investing as the most powerful long-term investment strategy one can follow. He defines classes as domestic bonds, domestic stocks, international bonds, international stocks, real estate, and commodities.

While his book provides an extensive and user-friendly explanation of the strategies behind spreading investments among multiple asset classes, simply put, his findings concluded that two-asset-class equity portfolios (for example, a mix of domestic and international stocks; or stocks and real estate), had higher returns with less volatility than most single-asset class equity portfolios. As he looked at equity portfolios that moved toward broader diversification (three-, and four-asset class approaches), rates of return increased and volatility levels decreased.

These findings were published in the year 2000...so are they still true today? Roger is certain of it. In fact, he'd argue that his recommendations are even more valid in today's economic climate. "In the third edition of my book, the data goes through 1998, and that was the last stage of the rip-roaring bull market. It was also a time when the multiple-asset class approach was called into question because large-growth U.S. stocks were hot. People had stopped investing somewhere along the way and started speculating. That always comes back to haunt people, as was proven when we experienced a downslide in the 2000-2002 bear market. Had investors followed the multiple asset class approach, they would have fared better. ▶

To put this into perspective, during the period from March 31, 2000-June 30, 2005, with full reinvestment of all income, the U.S. stock market (S&P 500) was down cumulatively by 13.7%. International stocks over the same time period were down 4.7%. Real estate securities were up 180.2%—almost triple. And commodities (Goldman-Sachs Commodity Index) were up 97.2%—just about double. So if you had even modest amounts invested in classes other than U.S. stocks, you would have filled the hole made by the downward slide in U.S. and international stocks. You can push a lot of the risk out of your portfolio just by diversifying more broadly."

How Does This Apply To Your Portfolio?

If you'd like to look at the possibilities of asset allocation for your portfolio, you can get started by putting together a model portfolio based on your financial goals, risk tolerance, and time horizon using Etrade.com's asset allocation tool (log on required). Go to www.etrade.com and click on the "Retirement and Planning" tab. Money.com also offers an asset allocation tool.

You can also contact your tax advisor at Honeck•O'Toole to review your specific retirement goals, your current portfolio and how various asset allocation options will affect your retirement planning and tax situation. Give us a call anytime to set up an appointment. ■

* Quote from Don Phillips, Chief Executive Officer, Morningstar, Inc.



Diversification & Stock Options

Is It Time to Diversify Your Employee Stock?



If you happen to work for an employer that offers stock options, count yourself lucky. But you may also want to examine the portion of your retirement funding that relies solely on company stock. It would be wise to think about Roger Gibson's asset allocation principles and determine whether or not your vested stock options

should be sold in order to spread out your portfolio among multiple asset classes.

If you determine that it's time to sell company stock and invest in other funds, be aware that your stock sale will be taxed. It all depends on your income tax rate and your overall financial situation—but you'll want to plan on setting aside that money for next year's tax bill. We can help you take a look at this more closely. ■


Mutual Funds

Choosing Funds for Your Portfolio

Mutual funds, or companies that make investments on behalf of investors, are very popular because they allow you to participate in a fund's performance (gains and losses) without having to buy individual stocks yourself. You can choose from thousands of different funds based on your goals and preferences. The Web site

www.streetauthority.com offers the following definition of mutual funds: "Mutual funds are open-ended investment companies that pool investors' money into a fund operated by a portfolio manager. The manager then invests this large pool of shareholder money in a portfolio of various assets, or combinations of assets—including stocks, bonds, options, futures, currencies, treasuries and money market securities. Depending on the stated objective of the fund, each will vary in regard to content and risk."

A word of caution: distributions from any mutual fund, even a so-called tax-free bond fund, can have unanticipated tax consequences for you. "Tax-managed" mutual funds may be a useful choice when investing for the long-term because they can help you avoid short-term capital gains that would be taxed to you at your regular tax rate. ►




For investors with liquid assets that exceed \$1 million, "We recommend an individually-managed portfolio rather than mutual funds," noted Jeffrey Carlisle, Managing Director of VIGILANT Capital Management, LLC. "With this approach, the portfolio can be tailored to achieve the specific goals and objectives of each client, while balancing the appropriate risk/reward profile. An actively-managed portfolio of individual securities offers appropriate diversification, while providing the manager with the ability to optimize tax efficiency for those accounts that are tax-sensitive. In addition to individual securities, the advent of exchange traded funds (ETFs) has enhanced the opportunity for investors to gain efficient exposure to specific economic sectors and specialty areas of the various financial markets." Jeffrey Carlisle can be reached at 207-523-1110 or jcarlisle@vigilantcap.com.

Your tax advisor at Honeck • O'Toole can help you review your financial situation to discuss various investment options and their tax implications so you can avoid an unpleasant surprise in the future. ■

HOW TO REACH US

T: 207 · 774 · 0882 ★ F: 207 · 773 · 2047

www.honeckotoole.com
info@honeckotoole.com



HONECK • O'TOOLE
...where people count

Stocks & Bonds

What's the Difference between Stocks and Bonds?

Stocks represent ownership of companies—Stockholders literally own a piece of the company and share in its performance over the time period in which they are invested.

Bonds represent loans made to companies—when you buy a bond, you are lending money to a bond issuer (the borrower, which can be governments or corporations) in return for a set rate of interest...and your principal and interest are paid back to you on a specified maturity date. ■

New Deduction for 2005

The IRS has announced a new "Domestic Production Activities Deduction" available for production and construction businesses. The rules are complex, so you may want to contact us to see if you qualify and to get assistance with making the calculations. ■



Honeck•O'Toole Staff in the News

We've had a number of exciting developments here in the Honeck•O'Toole office and it's time to give you an update. Here's the latest news on our staff as we gear up for another busy tax season beginning January 1, 2006.

Welcome our two new accountants who joined us in August:



Heather Keast joined us after serving as Financial Advisor at Mercy Hospital in Portland. At Mercy, she worked closely with patients who needed financial assistance and help working through Medicare, Medicaid and other insurance and financial programs and procedures. She has also been a staff



accountant, tax accountant, bookkeeper and loan officer/loan processor at various organizations in Maine. Heather explained why she's delighted to be joining Honeck•O'Toole: "Honeck•O'Toole has established itself as a prominent accounting firm in the Portland area and has earned the respect of many business people in Southern Maine. I am thrilled to be given the opportunity of providing tax and financial services to their present and future clients, and look forward to a long-lasting relationship with the firm."

Katy Chapin has made the leap from a large accounting firm to our smaller firm, and she's quite happy about the transition. "Having just been a staff accountant at Macdonald Page & Co., it will be exciting to work more closely with clients and the team at Honeck•O'Toole."



Katy's background includes corporate and individual tax returns, financial statements, private banking, mutual fund accounting, and other varied financial positions—all which make her a well-rounded resource for our clients. She has worked all over the country, from Maine and

Boston to San Francisco, where she received her MBA in Finance. Katy currently resides in Falmouth with her husband.

Welcome our new front office staff member:

Kelly Wilson joined us this summer to assist our office manager Patti Wilson in managing a variety of administrative functions that keep our firm running. Kelly's previous positions include Hannaford Bros. Co. and Curtis Thaxter Law Firm.



Exciting baby news

Congratulations to **Patti Wilson** and her husband, Mark, who are expecting their second child in November! Their first child, Ashley, will be nearly two years old at that time.

Farewell and best wishes to two of our accountants and friends:

Wendy Farmer and **Julie Sengleman** have both moved on to new ventures in their careers, and we wish them well. After nine years of providing terrific service at our firm, Wendy has joined Pierce Promotions as a project accountant. Julie is devoting her time to helping her husband run his architectural firm. She was part of our team for eight years.

HONECK • O'TOOLE

Fifty Portland Pier
Portland, Maine 04101

In This Issue

PROTECTING YOUR
ASSETS &
FINANCIAL FUTURE