

October 10, 2006

Dear clients,

Greetings! First, just a quick update on the letter I sent last month regarding adding mutual funds from Dimensional Fund Advisors to our lineup. I have already spoken with a handful of you and smoothly made the conversion to many of these new mutual funds. For those of you with whom I have not yet spoken I fully expect to contact you and discuss before the end of November.

This quarter I thought I would take a little time and review the components and structure of your quarterly customized report from Fox Financial. It has been several years since I have done this and I think a little refresher would be a good idea. The report is essentially divided into three sections. Here is a brief description and summary of the key things to keep in mind for each:

Retirement Nest Egg Analysis

Your job here is to make sure the “Assumptions” data I am using is still current and accurate because I use this to crunch the numbers and produce the “Total Annual Retirement Income Projection” amount you see in the upper right corner of this section. I can’t emphasize enough that this is a **total annual income** projection amount and not just a projection of the income you can expect to derive from just the Fidelity accounts I manage for you. This point is so important I often include it in the “Personal Notes” section at the very bottom of your report. If you are over 50 and do not have an analysis yet, please call me anytime and we can get started. There is a very simple reason why this section is first on your report. It is the most important part **and** it is the part in which we have the most control. This is because unlike year-to-year ups and downs in the markets which tend to force portfolio returns to revert toward their long-term averages, material changes in your assumptions can significantly change income projection amounts.

Portfolio Statistics

Top ten holdings is always an interesting thing to know but I spend my energies analyzing all your various allocations. For periodic rebalancing purposes I compare your Aggregate Portfolio Allocation percentages with the Allocation Target percentages at the very top center of your report. These percentages are critical because it is here where we ultimately decide how much risk and volatility is appropriate for you. The higher the percentage in stocks the more volatile your portfolio will be and of course vice versa. The Equity and Fixed Income allocation sections I use to make sure your portfolios are as broadly diversified as I can make them. Although I send you a complete version of this report quarterly, I actually update and analyze this particular section far more frequently to make sure your portfolios stays balanced and within the parameters that we have agreed are best. This section is in the middle of your report because it is not as crucial as the Nest Egg Analysis section but is much more important and relevant than the Performance Statistics section beneath it.

Performance Statistics

I know. I know. How can I possibly categorize this section as the least important of the three? Let me explain. All an intelligent investor can do is invest his/her nest egg smartly and appropriately and consume it in the same way. That’s it. Like it or not the markets will then dictate your performance numbers. As much as we might want to control investment return percentages we can’t! As much as so many people fixate on absolute return percentages, it is pointless. The bottom line is actually nothing more than common sense. Worry about the things you can control and not those that you can’t. This is why I guarantee you will always be smartly and appropriately invested but I never guarantee investment returns. This distinction is important and far more than a mere semantical exercise.

Happy autumn everyone!

