



Horton Financial Services, LLC

Insights about financial choices

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Financial Choices TM

The Bull is Walking!

The bull is off the ground and at least is now walking, (not me, the market) resulting in a second quarter of 2003 with net gains for nearly all our securities clients. When that stack of quarterly reports came in from every investment company we do business with, I poured through them as if they were my own. Indeed, I do have a vested interest in seeing that my clients do well. On that point, we are happy to say that most of our clients stay with us on a long term basis.

One of the most fundamental strategies we utilize is to buy and hold. However, that is not absolute by any means, and when reasons and circumstances call for making changes, I am happy to comply and execute said changes.

Also fundamental is to buy good value, but I never try to time the market. With the market as huge as it is, there are always good values to buy, and good strategies to pursue.

The risk tolerance ratio of an individual, or couple, is one of

Now Is A Good Time To Be In The Market

I have seen numerous examples of investing on the market's best day compared to investing on the worst day of the market every year for twenty years. The end results are generally less than 2% difference.

Typically, the biggest mistake one can make with the market is not being in it. That line was

the primary determinants as to the securities we recommend to accomplish their goals. Occasionally, we discover someone who doesn't need to be in the market at all, because their fear of the ups and downs is just too great to justify the angst associated with potentially volatile trends. We place these folks in guaranteed annuities. When they don't lose money, and often show a modest gain, they think we have hung the moon. I am happy for them to think that way, because it means that we have either met or exceeded their desired expectations.

Another product I frequently utilize is balanced mutual funds. These funds will never lead an up market. Although past performance is no guarantee of future results, they historically have respectable gains over a long period of time. They might be seen as a great equalizer in a sudden down market, or a good hedge bet when it is anyone's guess which way the market might go.

hard to sell during the last three years, as the market regurgitated to correct long overdue adjustments.

While no one can predict the future of the market, the reason I say now is a good time to be in the market is because the recession is over and many economists predict slow, but positive



Raymond C. Horton, Sr.

One of my professional clients bought into the "value" strategy in a big way. Value investing is buying assets, in this case, mutual funds, that are comprised of companies that may be under priced for their potential.

The client covered the market with investments in small capitalization, medium capitalization, and large capitalization funds. We did this a short time before the market hit bottom, but all is well above the starting point now and positioned for growth.

The bull may not be running, but he is definitely walking with a little swagger.

growth of the economy for the next year or so.

This generally means that there will be some growth in enough of the market to produce positive figures in the Gross National Product of the Nation.

Investors can often gain from being positioned well in the early stages of a new bull market.

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Special points of interest:

- *Second quarter gains are a welcome sight to see!*
- *Now might be a good time to position oneself in the market.*
- *Persons with low risk tolerance usually like annuities.*
- *Value investing is an interesting strategy.*
- *It pays to know your financial situation.*
- *Tax breaks can help fund retirement.*



What were we thinking?

"There goes the savings, the business, the investments, and perhaps the home to pay these costs."



Determine your position!

The Way We Were

Before March of this year, most of us that were invested were wondering how much lower our holdings could go. We were also concerned that when the market turned around (and it always has) whether we were invested in the best portfolio for us for a financial recovery.

Most of our clients were holding in the trenches, but they were holding with assets that have the potential to recover well. Others needed a change of pace.

Mutual funds are inherently diversified, holding assets of many companies. They can also

be more refined, such a fund that specializes in companies in a particular sector of the economy, such as leisure and recreation properties.

There are even socially conscious funds that do not directly invest in "sin" stocks, such as alcohol, gambling, tobacco, and such.

Some of us have a history with technology assets, and experienced the "irrational exuberance" of Alan Greenspan's comment about the market at its overpriced highs, only to be thrown into the doldrums of despair when the bottom of the

technology sector fell out. Fortunately, not many of our clients were very deep in technology.

The mid to late '90s spoiled some of us into feeling certain entitlements of performance. We could throw a dart at the list of stocks and do well with those struck. So could a chimpanzee.

We are in a new reality now, and one that I believe will be more stable well into the future. No, I have no crystal ball, but I have learned a great deal from the way we were.

Long Term Care

The average nursing home cost is around \$56,000 per year, which includes the highest cost in Connecticut of about \$90,000 to the lowest cost in Louisiana of around \$36,000.

Two classes of individuals do not need Long Term Care Insurance. They are 1) the rich, and 2) the poor. Everyone else does need to consider it.

A millionaire may be rich by many standards, but a person

with \$1,000,000 of income producing property, will essentially pay all earnings of 6% or so for the cost of nursing home care. That is a fortunate person indeed, but he or she is no longer able to grow the estate for heirs and generations to follow.

The poor are provided for by the government, although perhaps not quite the same accommodations as the rich.

The middle class are the most

burdened. They typically do not qualify for government benefits, and the costs can erode their assets quickly. There goes the savings, the business, the investments, and perhaps the home to pay these costs.

About half the population over age 65 will require some length of stay in a nursing facility, and the average visit is about three years.

Long Term Care Insurance is usually the solution.

Insurance Audit

Most of us have heard of the IRS audit, but we might ask, "What is an insurance audit?"

This is the process of not only reviewing all of one's insurance coverage, but also verifying its provisions and current status.

Then, the specifics are compared to current needs to determine whether the portfolio still meets expectations.

Also, the documents are looked

at in terms of any tax ramifications that may be lurking in the shadows.

Consider a case where a life insurance policyholder who had taken out a policy naming his spouse the beneficiary, only to change the beneficiary later to his mistress.

Upon his death, in a community property state, to the widow's surprise and amazement, the

mistress received the complete death benefit income tax free, and the widow was deemed to have made a gift to the mistress of half (community property interest) of the death proceeds and was required to pay a gift tax for the right to transfer such funds from her estate to the girlfriend.

Most persons are simply not aware of the potential for disaster within their own plans.

Tax Efficient & Tax Deferral Investment Vehicles

One of the insidious, yet nevertheless viable elements of some investment vehicles is how they impact your income taxes.

In a mutual fund we are interested in their turnover ratio. The lower the turnover, the lower the current capital gains.

This is so because when assets are sold, those gains (or losses) are determined and reported. If it isn't sold, the capital gain isn't realized.

In the last few years, many mutual funds have been repositioning their holdings for another holding period, resulting in capital gains to the shareholders, even, in some cases, if the shareholders lost money. The mutual

fund company may have bought their shares, from which you bought yours, at a much lower price long ago. Then, the investment company sold its shares, they had a gain which was passed along proportionately to the mutual fund shareholders.

You might want to study the income tax efficiency of any mutual funds you are considering.

Of course, there are tax free investments, such as Municipal Bond Mutual Funds. The tax free element usually infers their tax treatment for Federal taxes, as gains are often taxed by the State.

An investment vehicle for pay-

ing no current income tax on capital gains is the Deferred Annuity,* yet it technically isn't an investment product at all. It is an insurance product, as only insurance companies, not investment companies, issue annuities.

There are several tax advantages with the deferred annuity. First, you pay no income tax currently on the gains. They are deferred. Secondly, you are earning interest on the tax portion which you did not pay currently. The third dip is upon distribution if you decide to annuitize. An exclusion ratio is developed that lets you get a portion of each payment as a return of your basis, so you only report the gain on your tax bill.



Don't hesitate to pick up the phone.

* Distributions from annuities are taxed as ordinary income. There are penalties for withdrawals prior to age 59 1/2, and surrender charges may apply.

The Annual Review

One of the best techniques for staying on course with decisions you have made in the past, is to set up an annual review session.

Depending upon your portfolio, it generally takes less than two hours, but can save countless hours spent in re-learning what you have done on your own.

Experts in planning tell us that every hour spent in planning saves up to ten hours in the exe-

cution of your plans.

Typically, we will prepare a portfolio summary as a place to start. As we review the summary, we discuss the reasons we did what we did, and see if they are still valid.

We help determine where one is in relation to his or her goals, and look at any adjustments that need to be made.

We also discuss distribution of

assets, whether you are currently taking any distributions, or plan to in the future. Every distribution has some element of a tax consideration.

Sometimes beneficiary designations need to be updated. Has the beneficiary predeceased you? Is there a contingent beneficiary?

In summary, it just makes good business sense to review things in total at least once each year. A small investment in time will save you possible grief down the road.

"it just makes good business sense to review things at least once each year."

Cash Value Life Insurance As A Supplemental Income Stream For Retirement

If the krugerrand had as many inherent favorable tax benefits as cash value life insurance, we would use it as a supplemental income stream for retirement, but it doesn't.

The cash value of the life insurance policy builds on a tax-deferred basis. Upon retirement, an income stream can be set up to return the cash build up, both principal and gains as tax-free under current law by

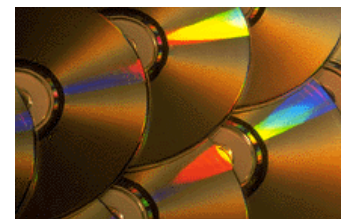
using loans. The guaranteed crediting rate is continued to be paid on the borrowed proceeds of the policy to largely offset the interest charges for the loans. In any event, any difference is paid out of the cash value.

The death benefit of the policy is reduced by the income stream, but must be expected to continue well beyond normal life expectancy to prevent the policy from running out of gas during

one's lifetime, as that occurrence would create a significant taxable event.

Usually, there is a residual amount of life insurance that will be paid, even after all of the income is paid out, and this death benefit is income tax free. It also bypasses one's probate estate and is paid directly to one's beneficiaries named in the policy.

Tax benefits make it work!



"Income tax benefits make it work"!



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Meeting Financial Challenges Every Day!

WE are on the web.
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About Us

For almost forty years, I have been helping people solve financial problems. The slogan of Horton Financial Services is "***Meeting Financial Challenges Every Day!***"

Our firm is paid for distributing insurance and investment products, but the nature of our business is planning, working with each client, one at a time, to help them achieve certain financial objectives.

We have never focused upon our personal income, but upon doing the right thing for the client, considering the income a by-product of our service.

We have impacted over 2,000 lives in a positive way over the years, and continue to grow our business one client at a time, typically upon referral from existing satisfied clients.

Our pledge to you is that we will always strive to merit your continued trust and confidence.

Raymond C. Horton, Sr.

How Can I Know What Is Best For Me?

The short answer is that it is really difficult to know. Most persons are busy being successful, or otherwise running their own lives to the best of their abilities, no small challenge in itself.

The total information known to mankind is said to be doubling about every eighteen months.

If you run a business of making widgets, you know widgets, your family, most of the big story world events, your hobbies and a few other things.

You can't possibly have time to research and learn the essential elements of knowledge, nor to develop the skills to advise yourself on the myriad of financial challenges unless you majored in Finance, acquired professional designations, or logged

a lot of experience in the field with persons similar to yourself.

You are intelligent enough to go to an auto mechanic to repair your car, to a physician for a physical ailment, to a CPA for tax resolutions, or an attorney to draft your will.

Likewise, it makes sense to use the services of a financial services professional for insurance and investments. That person needs to know your circumstances, be knowledgeable, approachable, and have a genuine interest in helping you.

With this in mind, I apply for the job of either continuing to serve your needs, or to begin serving your needs, as it may apply.

The best way for one to know what is best, is to acquire

enough of the basic knowledge about the subject matter to understand the essential elements of recommendations made by the professional, and to have trust and faith in the professional that is acquired either through a strong referral source, or by actual experience.

Trust, but never be without prudent observation and interaction.

In most situations, the professional is continuing to earn money on your portfolio. Don't hesitate to call and ask questions, or inquire to be informed about your portfolio, or any of its specifics.

Rarely is the customer always right, but the customer is king. Without them, we serve no purpose.



Do the math!

Sources include:

- Wall Street Journal
- Fox Financial News
- The Shreveport Times
- Dow Jones
- National Assn of Insurance & Financial Advisors
- American Health Insurance Association