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The LegendEdge

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Dollar Cost Averaging: A Share-Building Strategy for the Long-Term

Market volatility is an ongoing phenomenon that all investors must face. One day the markets are up, the next day they're down. Many would-be investors get stuck on the sidelines, trying to determine the "right time" to invest. But over the long term, investment success results from *time in the market*, not *timing the market*.

Dollar cost averaging is a systematic share building tactic that eliminates the need to decide when to invest, and may help to minimize the effects of market swings on an investment portfolio. With this strategy, you make regular investments of a set amount according to a predetermined schedule.

When prices are low, your regular investment will purchase more shares. Of course when prices rise, your investment will purchase fewer shares. But over time, the average amount you paid for each share (average cost per share) will usually be less than the average price per share.

Dollar cost averaging enables you to begin a savings program with a series of small contributions. The strategy is best suited to long-term investors with the fortitude to keep investing when the market falls, and to resist selling when the market rises. Keep in mind that dollar cost averaging does not ensure a profit, nor does it protect from loss during declining markets. Investors should consider their ability to purchase shares continuously during periods of falling share prices.

How Dollar Cost Averaging Works in a Declining Market

Let's say you decide to make a monthly investment of $400 for a period of six months. During that time, share prices are falling: $20, $18, $18, $15, $14, $14. At the end of six months, you have invested $2,400 and you own 148.24 shares. While the average price per share is $16.50, your average cost per share is only $16.19.

Now that may not seem like such good news considering the current

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Investing $400 Each Month in a Declining Market

Month Bought	Investment	Price Per Share	Shares
1	$400	$20	20.00
2	$400	$18	22.22
3	$400	$18	22.22
4	$400	$15	26.66
5	$400	$14	28.57
6	$400	$14	28.57
Totals:	**$2400**	**$16.50** (avg.)	**148.24**

Average cost per share: $16.19
(Total investment divided by number of shares bought)
Average price per share: $16.50
(Sum of share price divided by the number of contributions)

Investing $400 Each Month in a Rising Market

Month Bought	Investment	Price Per Share	Shares
1	$400	$15	26.66
2	$400	$17	23.53
3	$400	$20	20.00
4	$400	$20	20.00
5	$400	$23	17.39
6	$400	$25	16.00
Totals:	**$2400**	**$20.00** (avg.)	**123.58**

Average cost per share: $19.42
(Total investment divided by number of shares bought)
Average price per share: $20.00
(Sum of share price divided by the number of contributions)

Dollar Cost Averaging

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price per share is $14. But if you had invested the entire $2,400 in the first month of your investing program, you would have fared worse. You would have purchased only 120 shares, and the value of your account at the end of the six month period would be only $1680, $395.36 less than the current value in this scenario. By dollar cost averaging, you own more shares—shares that can grow in value when the market recovers—and the average cost of each share will usually be less than the average price per share.

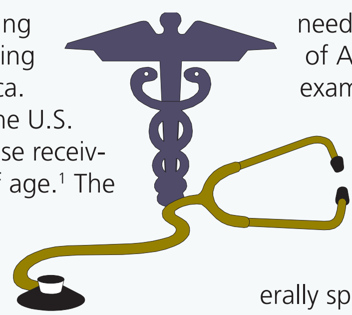
How Dollar Cost Averaging Works in a Rising Market

Once again, we'll assume a monthly investment of $400 for six months. This time, share prices are rising, and you buy shares at: $15, $17, $20, $20, $23, and $25. At the end of the six month period, you own 123.58 shares and your average cost per share is $19.42—58 cents less than the average price per share ($20).

With the benefit of hindsight, it would have been better to invest the entire $2,400 during the beginning of the six month period when prices were at the lowest level. But could you have predicted precisely when to invest? And would you have known with absolute certainty that the investment would experience a steady rise during the next six months? Probably not. By dollar cost averaging, you can spread the risk of investing in a volatile market without worrying about the timing of your purchases. ◀

What You Need to Know About Long-term Care Insurance

Four in 10 Americans will need formal nursing home care at some point in their lives, according to the Health Insurance Association of America. And it's not just the elderly who are at risk. The U.S. Government estimates that 40 percent of those receiving long-term care services are 18-64 years of age.[1] The following Q&A explains how long-term care insurance can help, who is most likely to benefit from it and what to look for in a policy.



Q. What is long-term care insurance?

A. Long-term care insurance is an insurance policy that protects you and your relatives from the financial impact of long-term care. Coverage may include anything from temporary help with daily chores at home to permanent nursing home care. Details vary widely from policy to policy on such things as the benefit period (length of coverage) and the elimination period (how long you must wait before coverage begins).

Q. What are the advantages and drawbacks of buying long-term care insurance?

A. You may never need it. But many people don't want to risk not having this insurance coverage should they need it. The average annual cost of a private room in a nursing home currently exceeds $70,000.[2] Home care can also be expensive. On the other hand, annual premiums for long-term care insurance can be significant.

Q. Who is most likely to benefit from it?

A. Most people could benefit from long-term care insurance coverage. Many people buy long-term care coverage to protect their children's inheritance and to have peace of mind. You also may be more likely to need this protection if you have a family history of Alzheimer's disease or Parkinson's disease, for example.

Q. Is there a best time of life to buy long-term care insurance?

A. Premiums are based on the age at issue, your current health conditions, the benefit amounts and benefit periods selected. Generally speaking, the older you are the more expensive long-term care insurance will be. Once you purchase long-term care coverage, your policy premiums will most likely be stable throughout your life. Although you might think only elderly people need long-term care, many younger people require it as well, due to an accident or chronic illness. If you buy long-term care insurance before age 60, you may be more likely to keep premiums at an affordable level.

Q. What are the key factors to consider in a long-term care policy?

A. Because nursing home care, home care, home health care, adult day care and assisted living facility care are all very common, make sure your insurance policy covers many types of care. Review the policy's daily benefit, how it defines the benefit period, the elimination period and whether it waives the premium while you receive benefits. Does the policy contain a pre-existing condition clause or an inflation rider? You'll pay more for an inflation rider, but it may be worth it in the long run. ◀

1 *Guide to Long-Term Care Insurance*, Health Insurance Association of America, May 2003.

2 "Annual Long-term Care Costs Move Above $70,000 in 2006," www.seniorjournal.com.

MARKET OUTLOOK

with Shashi Mehrotra, CFA, Chief Investment Officer, Legend Advisory Corporation

What are some of the factors that are currently driving the investment markets?

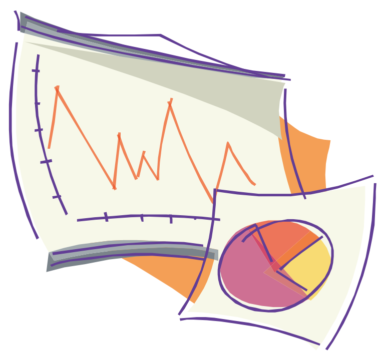
I believe earnings are the primary factor driving the investment markets right now. For 12 consecutive quarters, corporate earnings have continued to grow. Typically, stock prices rise or fall in line with earnings. So if earnings increase consistently over time, stock prices will generally rise as well.

Interest rates and liquidity are also driving factors, and they tend to go hand in hand. If you look at the 10-year bond yields, we're close to the historical lows. Companies have become smarter during this cycle of low interest rates and as a result, corporate balance sheets seem to be in a lot better shape than they were three or four years ago.

It appears that in anticipation of falling long-term interest rates, corporations started issuing debt, which has reduced their cost structures. This is a huge advantage because when companies are paying a low interest rate, say 5.5%, on their debt, they can leverage their profit margins and invest more readily for the future.

As a matter of fact, all of these factors (earnings, interest rates and liquidity) are interlinked, because low interest rates and cheaper liquidity are also catalysts for earnings growth.

Furthermore, the economy is growing nicely. In the first quarter of 2006, the U.S. economy grew at 5.6% percent. Since then, the growth rate has diminished, but I don't believe that we will experience a recession. I feel a slowdown will actually be beneficial going forward, because a growth rate of 5.6% is unsustainable without inflation starting to rear its ugly head. So the fact that we're down to a 1.6% growth rate right now is a better scenario for the overall economy because inflation should be subdued, and I believe this lower rate is more sustainable. Some people are speculating that this rate of 1.6% is going fall into negative territory resulting in a recession. I just don't see that happening. I feel the stage is ideally set for stocks to continue to do well over the near future.



I believe we're easing into a cycle that historically has proven to be very profitable for stock markets. If you look at seasonality factors, November has generally been a time when the market starts to do very well. And on the political front, as he nears the end of his second term, I believe President Bush is likely to do everything he can to leave a positive legacy, especially after what transpired during the recent elections. Right or wrong, people seem to gauge a politician's performance on how the economy is doing. So I believe Bush is going to do everything in his power to make things better for the economy. Even if the economic growth rate continues to fall, I don't think its going to slow to the point where we have negative growth for two consecutive quarters, which is the definition of a recession.

Do you feel that the Fed will move to increase interest rates next year?

No, I don't believe so. Of course, many people believe that the Fed will raise rates because inflation is continuing to rise. But it's important to remember that the Fed is usually trying to look 12- to 36-months into the future. I believe inflation is currently high because the economy has yet to absorb all the past interest rate increases. From what I've seen, there is usually a 12- to 24-month lag. With that in mind, it stands to reason that out of the 17 interest rate hikes, the economy has probably felt eight to ten of those. That would leave seven interest rate hikes—almost 200 basis points—that the economy hasn't felt yet. That's why I think the slowdown is going to continue. And with a tamer economy, I think inflation is going to start to calm down. If that happens, the Fed will have no reason to continue to raise rates. In fact, I believe that within the next 12 months, their next move is going to be a cut rather than a raise.

What is your outlook for the markets in 2007?

In 2007, I believe there could be cyclical challenges for the equity markets both here and abroad in the short term. However, international markets should continue to offer

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Boomer BLURBS

Social Security Facts & Figures

- More than **9** in **10** retirees currently receive benefits.
- Social Security replaces about **40%** of the average worker's pre-retirement earnings, however, most financial advisors say you will need **70%** or more of your pre-retirement earnings to live comfortably.
- **34%** of older Americans receive **90%** or more of their income from Social Security and **65%** of older Americans receive **50%** or more of their income from Social Security.
- **78 million** baby boomers will begin retiring in **2008**.
- In **30** years, there will be **twice** as many older Americans.
- Life expectancy for 65-year-olds was **12½** years **(77½)** in **1935** when the Social Security system was created.
- **Today** the life expectancy for 65-year-olds is **17½** years **(82½)** and rising.
- The number of paying workers per beneficiary will drop from **3.3** today to about **2.1** in **2031**.
- In **2018**, benefits owed will be more than taxes collected; Social Security will need to tap the trust funds to pay benefits.

[1]*The Future of Social Security,* Social Security Administration, 1/2006

MARKET OUTLOOK

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better opportunities for investors. The current bull market is rather old. It's the third longest bull market within a secular bear. That said, I believe there will certainly be a correction, but I think it's going to be short-lived, and I think it will be healthy for the markets.

What should investors be doing in light of the current and anticipated market and economic environments?

Prudent investors maintain a long-term perspective, so they shouldn't be concerned about what the markets are going to do over the next 12 months. They should continue with their long-term investment plans and stay on the investment train. In my opinion, that's the only way to realize a high probability of success over the long term. ◀

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