

# The Fragasso Group, Inc.

*The Retirement Planning and Wealth Preservation Specialists*

*A Registered Investment Advisor*

*...For the Serious Investor*

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## Markets Recovering

Economic activity follows the availability of money in the economy and its velocity. We all may remember that from Economics 101. Money is readily available in this economy with interest rates at their lowest levels in 40 years. Velocity refers to how fast money changes hands. Currently, we see money changing hands rapidly as we view the extent of government spending on military initiatives and anti-terrorist measures. Additionally, we are seeing the beginnings of a rebuilding of inventories in the private sector as a general feeling of the recession ending begins to pervade. This all has been deemed non-inflationary by the Federal Reserve System, which has a history as an inflation watchdog. That opinion is further buttressed by current economic data. While there are no guarantees of the future, we see no reason why eco-

nomics law should be reinterpreted. History does present us with giant repetitive feed back loops upon which to frame our decisions and actions. To build on Santayana who said those ignorant of history are doomed to repeat it; we feel those who are aware

of history are positioned to potentially profit from it. Historically and statistically, we should find ourselves coming out of this down period as the year of 2002 unfolds.

We have been gratified to see our accounts hold well during the last two years of downturn, due primarily to proper asset allo-

cation modeling. The accounts that are being brought to us now from other investment advisors, who did not practice asset allocation are down substantially. Attempts to guess the direction of future markets or to capitalize on only the hottest potential market sectors are not only under-performing

well allocated portfolios, they are incurring substantially more risk. That same asset allocation that cushioned portfolios during the downturn will form the basis of our participation in the inevitable recovery. We deem it inevitable because historically recoveries have followed downturns, even the most severe, although past performance is no guarantee of future results. If you wish to view that data, please go to our web site: [www.fragassogroup.com](http://www.fragassogroup.com) and click on the Newsletters Archive button and view our October 2001 newsletter.

Additionally, we would urge all of you who have not been to our University of Pittsburgh adult financial education classes in the last two years to come now. The type of data discussed above, meant to help you make more informed investment decisions, is a part of all of our courses. We continually update the class material. Our spring semester schedule is posted on our web site, and hard copy class schedules will be mailed shortly to those receiving this newsletter. We believe that you will feel your time was well spent. *As an added inducement, bring this newsletter to the first night of class to receive a \$5 discount on your class workbook.*

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# New Tax Law Information



by Michael Fertig

As you have likely read, or heard on the nightly news, congress passed a major tax bill, "The Economic Growth & Tax Relief Reconciliation Act of 2001." This act makes significant changes to rules affecting IRAs, estate taxation, education savings, and more that take effect during the current year 2002. Here is a summary of some of the more pertinent changes as they relate to your investing future.

## IRA and Pension Provisions:

- IRA contribution limits have increased beginning in 2002 and will continue to increase as follows...

YEAR	Contribution Limit (Maximum)
2002-2004	\$3,000
2005-2007	\$4,000
2008-beyond	\$5,000

- "Catch-up" Contributions: Individuals age 50 and older can make additional "catch up" IRA contributions of \$500.00 for 2002-2005 and \$1,000 for 2006 and beyond.
- The maximum annual elective deferral to 401(k), 403(b) and SEP plans increases from \$10,500, to \$11,000 in 2002 and then increases in \$1,000 annual increments until it reaches \$15,000 in 2006. Catch up provisions also apply for those age 50 and older allowing those folks to contribute an extra \$1,000 in 2002, \$2,000 in 2003, \$3,000 in 2004, \$4,000 in 2005 and \$5,000 in 2006 and beyond.
- The maximum contribution to a SIMPLE IRA increases from \$6,500 to \$7,000 in 2002 and then in \$1,000 increments until it reaches \$10,000 in 2005.

## Estate Tax Repeal:

- From 2002-2009 the estate and gift tax rates will be reduced, with the top tax rate gradually falling from the current 55% to 45%. In addition, the amount that is exempt from estate tax increased from last years \$675,000 to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006 and \$3.5 million in 2009. The estate tax is then repealed for the year 2010 ONLY. In 2011, the exempt amount drops back down to \$1 million. In 2010, when the estate tax is repealed, a new, possibly more cumbersome tax law takes effect. Known as the cost basis rule, assets received from a decedent will carry the original cost basis, rather than being Stepped-Up to Date-Of-Death value as under current law. Heirs will instead be required to determine the cost of each inherited asset in the estate at the time it was acquired by the person who died. Tax will then be due when those assets are sold at the going capital gains tax rates.

## Education Reform:

A wide variety of changes have been implemented to help individuals save for the ever-increasing cost of a college education including...

- Education IRA contribution limits increase from \$500.00 per year to \$2,000 per year in 2002 and beyond.
- Student loan interest deduction: Starting this year, the phase-out ranges for eligibility for the deduction are increased, and the 60-month limit on interest deductibility is repealed. As long as you are paying back a loan with interest, and you meet the eligibility requirements, you can use the deduction.
- More deductions: Taxpayers (even those who don't itemize) within certain income ranges can deduct college tuition expenses, up to \$3,000 in 2002 & 2003 and up to \$4,000 in 2004 & 2005.
- 529 savings plan: This new plan allows an individual to invest significant assets (up to \$55,000 per year) on a tax-deferred basis. When the money from the plan is used to pay for the beneficiary's college costs, the distribution is federal tax-free.

All of this information should give you a sense of comfort as it allows you to gain even more control over your financial future. The new tax law was created with you in mind, and we should all strive to take advantage of it to whatever degree we are able. If you have any questions, or would like to discuss how you can begin to take advantage of these tax law changes, please call your financial advisor at The Fragasso Group, Inc. We always look forward to hearing from you. All tax information should be discussed with your tax professional as well as with your financial advisor here to insure proper integration into your particular situation.

## Federal Estate and Gift Taxes:

The federal estate tax was enacted in 1916 in an effort to redistribute wealth. By design, the federal estate tax imposed a transfer tax on all property passing from a decedent at death. Deductions are allowed for property passing to one's spouse and to public charities that can reduce the tax liability to zero even on very large estates. In addition, assuming that a decedent made no lifetime taxable gifts, taxable transfers up to \$1 million are insulated from estate tax by a unified credit.

The unified credit is a dollar for dollar offset against taxes payable under the federal unified transfer tax system. This credit is available for all U.S. residents. In 2002 the unified (tax) credit is \$345,800 on the first \$1,000,000 of assets either gifted during life or bequeathed at death. A federal estate tax is then imposed on assets above \$1,000,000. That tax starts at 41% and increases rapidly to 55%.

(continued on page 4)

## IN MEMORY OF A WONDERFUL FRIEND AND CO-WORKER



On December, 31, 2001, **Ron Rivera**, our Director of Seminars and Marketing, died of natural causes. Ron was getting ready to go to a New Year's Eve party at the home of two of our married coworkers and the party was populated by many other of our associates. That's the way our group operates; like a family. That's why the loss of Ron is so devastating to all of us. Please allow us to share our grief with you and to honor his memory. Ron joined us as a college intern at the age of 19, and progressed to department manager. He was with us for seven years, and was loved by all. Many of you knew him professionally and personally. We know that from the outpouring of sympathy that his family and we received from so many of you. Ron was also a dedicated volunteer for Animal Friends here in Pittsburgh, and many of you sent contributions there in his memory. That is much appreciated by his family and by us.

We were honored to deliver the eulogy at his funeral service, and we've reprinted it here, as it so typifies the Ron we all loved.

### E U L O G Y

How are we supposed to think about this loss? Ron's passing has left a void that seems too large to handle. He should have lived another 60 years. I think it's OK to be angry about this. It's all right to demand to know why this happened? We *can* rage against the unfairness. Yet, after the anger, and the questions, and the rage, the void remains and the questions are unanswered. None of that helps. The void will never be filled, and we never will know the reasons why this unfairness happened to a young man who did not deserve it. Then what do we do? What are we left with? What we are left with are the memories of a wonderful human being who lived a life of love, kindness, loyalty and goodness. And, that's what we must hold on to.

We all have our special memories of Ron. My memories began seven years ago when he interviewed for a job with our company. He was 19, and a business school student. Ron interviewed with Stephanie Herring and Mike Fertig. Both are here today. Ron was so nervous. He was afraid they wouldn't like him and he wouldn't get the job. Once the interview was over, Stephanie and Mike looked at each other and said they didn't need to interview anyone else. Ron was perfect for the job. And, in the years following, Ron validated their judgement over and over. Not only was he perfect for the job, he kept growing and growing into more and more responsibilities.

So, my memories are of a young man who worked hard to get through business school and then through college, all the while working almost a full time schedule with us and doing a terrific job of it! We had no doubts about recruiting him full time after college.

Ron was the kind of person who would immediately take to instruction, and do it right the first time. But, then he would think about it, add his own ideas, and improve on the instructor's instructions.

On a personal level, my memories of Ron include his cooking skills that would make a culinary school graduate envious. I remember people fighting over the last

piece of his cheesecake. My memories of Ron are of a complete person with artistic ability and patience. He trimmed a Christmas tree better than a Kaufmann's Department Store window decorator. But, most of all, my memories of Ron center on a kind and loving man who, as Diana Schroeder described him, just kept giving and giving. He painted Kathy and Mike Fertig's house. He taught Chris and Brian Robinette how to wallpaper. He house sat for Leslie and Chuck Coulson one Thanksgiving. And, he decorated their Christmas tree just to surprise and please them. Without being asked, he did the same thing with our company Christmas tree.

His heart went out to an abused and neglected cat. He adopted her, and she became his baby. He felt so strongly about the plight of abused and abandoned animals that he devoted many hours to helping Animal Friends, a no-kill animal shelter, with their work.

You saw the Animal Friends people here yesterday saying their thanks to Ron.

Ron never went to someone's house empty handed, and usually it was with something he had made himself. Shelli Roach had not even closed on her new home and Ron and his mom, Elaine, had put together her house warming gift. I know what it is, Shelli, and you're going to like it.

Ron's easy smile, comfortable conversation and love for all people made him everyone's brother and son. Ron was part of everyone's family. Each of us here has our own memories of Ron. And, we all loved him. And, we will all miss him terribly.

The only way to get through this then is to put aside our anger, our unanswerable questions and our justifiable rage over the unfairness of his early death. Instead, we have to cling with all of our strength to the wonderful memories that Ron has given us by being part of our lives. We can never fill the void his death has left. But, we will never forget the joy he has given us by being our friend.

## More New Tax Act Information



by Deborah Sales

Since 1982 each taxpayer has been able to exclude \$10,000 worth of present interest gifts per donee per year. Prior to 1982 only \$3,000 worth of gifts could be made per donee per year without tax consequence. In 2002 the annual gift exclusion increased to \$11,000.

Present interest gifts in excess of \$11,000 may be subject to federal gift tax. The Federal gift tax was instituted in 1932 on lifetime wealth transfers as a backup tax to make federal estate tax effective. Prior to its imposition, estate tax was avoided by transferring wealth during life rather than at death.

The tax system is progressive in that the tax rate table has 17 brackets with rates starting at 18% and increasing to 55%. Considering the use of a Unified Credit, estate tax rates begin at 37% and cap at 55%.

Considering the rate of estate taxation, utilizing the annual gift tax exclusion can make sense for people wishing to lessen their estate's potential tax bill. Helping children and grandchildren while one is alive can pay double returns: tax savings and the joy of seeing the gift's results while one is alive. As we have often stated, a dollar in tax saved is a dollar that can be enjoyed or reinvested by the entire family.

See your financial consultant with the Fragasso Group who can help assess your situation and get together with your tax and estate advisors for coordinated planning based on your desires and needs.

## New Tax Law Information *(continued from page 2)*

Federal estate taxes are due nine months after the date of death and are based on the value of the decedent's estate on the date of death. An alternate valuation date can be used but it must be applied uniformly for all property included in the decedent's gross estate.

The alternate valuation date must be within six months of the date of death.

Because the federal estate tax is due within months of a decedent's death, it is very important that the proper estate planning is done to ensure sufficient liquidity within the estate to pay these death taxes. When illiquid assets such as real estate, closely held businesses, and personal property comprise a significant portion of a decedent's estate, complications could arise with regard to raising cash to pay these taxes.

If your estate includes a large proportion of illiquid assets you should discuss with your financial consultant what estate planning strategies would be appropriate for you. Working with you and your estate attorney, we can develop the proper estate plan to help you avoid any liquidity problems at death. Such strategies might include buy-sell agreements for closely held businesses or irrevocable trusts funded with insurance held outside of your estate.

Call your financial consultant at The Fragasso Group today to discuss what estate planning strategies are right for you.

## April 15th Is Approaching



## Tax Savings Opportunities

This is the season to focus on tax saving opportunities. Beyond some last minute retirement vehicle contributions, we can't do much about year 2001. While you should talk right away with your Fragasso Group financial consultant about those last minute plan contributions, we would like to devote our April electronic newsletter to the steps you can take to potentially make year 2002 less "taxing."

We will focus on retirement planning opportunities. We are prepared to help you analyze and determine the proper plans to adopt given the particulars of your situation. We can then help you get back to your CPA, tax attorney or plan administrator to implement the improved plan configuration. We'll also talk about college savings opportunities for your children and grandchildren that can lower or eliminate taxation on the growth of your investments. And, lots more!

But, you'll need to give us your email address to receive our e-newsletter each month, including the April tax savings issue.

### The Fragasso Group Named to the Pittsburgh Business Times Top 100 List

The Pittsburgh Business Times has named our firm to the list of the fastest growing local closely held corporations. The honor belongs to our clients and referral partners who have made us eligible for this recognition. We thank them for their confidence. We also thank Pittsburgh Business Times Editor, Betsy Benson, and Publisher, Alan Robertson, for this prestigious award.

## 6 & 30 – A Pair of Anniversaries

The Fragasso Group celebrated six years of complete independence in February, and Bob Fragasso celebrated 30 years in the investment business in March. Once again, we thank our clients and referral partners for the trust they have placed in us that has made this longevity possible.

It was this longevity and experience in our business, we believe, that has made the last two years of market downturn bearable for our clients. By adopting time-tested methodologies well in advance of the downturn, we were able to help cushion it for our clients. Those who did not practice asset allocation and who took overly aggressive positions based on the preceding bull market suffered far worse in 2000-2001. We believe that is why we have enjoyed more than a 99% client retention rate.



*Members of The Fragasso Group gather together for a small celebration of our 6th Year Anniversary.*

## NEW FACES & PROMOTIONS



**Gregg Daily** has joined our Group as a Financial Consultant. Gregg has several years of experience in the investment industry with two national financial services firms. We are very pleased to welcome Gregg to our corporate family. He will serve his clients here as a part of a team including Palmer

Masciola and Karen Launikonis.



**Lauren LaManna** joins us as a Seminar Assistant Administrator. Lauren is a recent graduate with a B.A. degree from the University of Pittsburgh. We are pleased to welcome Lauren to the Group as she brings intelligence and energy to her new position.



**Palmer Masciola** has been promoted to Vice President and Branch Manager of our new North Hills office. Palmer is well known to our clients as he had managed our financial planning department prior to becoming a financial consultant. He has served our clients well in both

positions, and it's with great pride in his accomplishments with us that we announce his promotion. Palmer has been with our firm for seven years and has 16 years of industry experience.



**Matt Watt** has been promoted to Financial Planning Department Manager. Matt has worked in that department as a financial planning analyst and well deserves this promotion. Congratulations Matt on a job well done!

## North Hills Office Opens in Wexford

We have opened an office in Wexford, PA for the convenience of our North Hills clients. Client portfolio review meetings can be held there or at our downtown branch office located at 436 Seventh Avenue in Pittsburgh. Given the closing of the Ft. Pitt Bridge over the next two years, this is a special time saving and convenience bonus for our clients in the north. The financial consultants staffing that office will maintain their existing offices downtown, but will rotate a day at a time each in the North Hills to meet with clients. Please note that meetings held there are by appointment only. Please continue to contact, fax and send correspondence to the downtown office. The office is located at 10925 Perry Highway in Wexford, at street level and easy to find. Free parking is at the door. We were very pleased to contract for this convenient and attractive space in the building owned and operated by our long time and valued client, The Farmers Mutual Insurance Company.

## Never a Better Time for Financial Education

Someone said to us recently, "I'm a good business person, but I'm just not interested in financial numbers." This sums up the feeling of many of our clients. However, those clients who have attended our adult financial education courses through the University of Pittsburgh know the knowledge gained there is not about "numbers." It's learning about the attainment of one's *Life Goals*. One does not typically desire to learn how to become a financial analyst.

But, each of us fervently cares about our financial security in retirement and the education of our children and grandchildren. While you won't become an analyst by attending our courses, you will become an informed consumer of financial investments and services, and you will become a more confident "case manager" for your own finances. You will be guided to the creation of a plan for the

attainment of your life's goals. The material is painless to absorb, it's couched in everyday terms, and it's based on sound textbook principles. As we say in class, "There's a reason why the principles are in the textbook. They're there because they work!" Come to class and bring your family, friends and coworkers. *Bring this newsletter and save \$5 from the cost of your class workbook.* Log on to our web site, [www.fragassogroup.com](http://www.fragassogroup.com) to read more about the courses. Click on the University of Pittsburgh banner shown on the home page and it will take you right to the financial education information.

### Reminder, Attorneys!

Earn 9 CLE credits through our Pitt financial planning seminars

**\$55.00 plus material fee**

Check our web site for our current schedule

[www.fragassogroup.com/pdf/frapit4.pdf](http://www.fragassogroup.com/pdf/frapit4.pdf)



## Retired and Senior Volunteer Program Award Sponsorship

We were pleased to have sponsored once again this year the Red Cross' Retired and Senior Volunteer Program (RSVP) award. Pictured here is Bob Fragasso presenting her award to Alice Angst, 77, of Carrick. Alice received the Outstanding Volunteer in Community Service Award in recognition of her ongoing visits to shut-ins through St. Mary of Mercy's Red Door Program. Her award read, "The sick, lonely and shut-in look forward to this sweet, kind woman's visits. She is cheerful, delightful and kind. She is a wonderful example because she is never in the limelight. This outstanding volunteer just quietly does good works without many people knowing about it." Well, that's changed. Lots of people now know of Alice's good works, and we were happy to help recognize her.





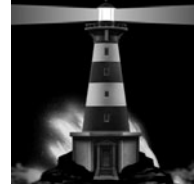
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Janet Carr . . . . . (412) 227-3207  
Gregg Daily . . . . . (412) 227-3213  
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Jennifer Hill . . . . . (412) 227-3234  
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### Extensions for Group members are:

Leslie Coulson . . . . . Ext. 104  
Kevin Daeschner . . . . . Ext. 106  
James Danko . . . . . Ext. 105  
Barbara Dressler . . . . . Ext. 102  
Michael Fertig . . . . . Ext. 103  
Liliann Moser . . . . . Ext. 101

**E-mail addresses for all Group members  
are available at  
[www.fragassogroup.com/director.htm](http://www.fragassogroup.com/director.htm)**

### **We Need Your Email Address To Give You The Information You Need**

To be sure that you are receiving our monthly email newsletter, please send us your email address right now. Simply email it to Lauren LaManna at **[fgi@fragassogroup.com](mailto:fgi@fragassogroup.com)**.

Lauren will make sure that you receive your e-newsletter full of timely and helpful financial advice.

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## Children's Extravaganza

**M**ark your calendars for the annual Kidapalooza Family Festival coming to the new David L. Lawrence Convention Center Saturday, April 13th! Don't miss the excitement that includes surprise Hanna Barbera characters on the main stage, sportz zones, inflatable games, petting zoo, toddler town, kids karaoke – there's something for everyone! Best of all, kids 12 and under are free! Kidapalooza is sponsored by B94, Y108, Star 100.7 and KDKA 1020 radio stations. Log on to Kidapalooza.com for more details. The Fragasso Group will have a booth there staffed by your favorite financial consultants. While they're not exactly as famous as the radio disk jockeys, they're lots of fun to be around anyhow.

## View Your Investment Accounts 7/24/365

**H**ow would you like to see your investments anytime that you wish? That means 24 hours a day, seven days a week, and 365 days a year. You can with our *Account View* feature! You can see the same data that occurs on your monthly statement for any day of the week and month that you might choose. The pricing is always updated and the rest of the information you may need for a quick answer to your questions is readily available. While we do not recommend daily investment activity, in fact we recommend against it, knowing where you stand with your investments at any time can be both comforting and informative.



To set up your accounts with us on *Account View*, simply go to our web site at [www.fragassogroup.com](http://www.fragassogroup.com) and click on the *Account View* button on our home page. You will be guided through the few steps necessary to set up your accounts for daily viewing. You can also print off your statements for yourself at any time. This can be especially helpful for retirement plans needing interim valuations or for legal reasons.

If you have any questions concerning *Account View*, please do not hesitate to call your financial consultant with the Fragasso Group. If you are not now a client and wish to get more information, please call us and a financial consultant will be pleased to spend some time with you explaining the many benefits of becoming a client.



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