THE
FRAGASSO GROUP, INC.
A REGISTERED INVESTMENT ADVISOR SINCE 1972 | WE GUIDE…YOU DECIDE®

Koppers Building, Suite 300, 436 Seventh Avenue, Pittsburgh, PA 15219 • 412.227.3200 • 1.800.900.4492 • Fax: 412.227.3210

Email: fgi@fragassogroup.com • www.fragassogroup.com

Second Quarter 2004

What's in Store?
Musings on What the Future May Bring

What opportunities and concerns should we consider, and what should we do about them? Investment returns are related to our thoughts and instincts, the analysis mechanisms we employ and the steps we take in implementing those conclusions. It's important to disclaim that nothing is certain, and our actions can be misdirected. But, thoughtful action can make a difference in the returns we derive and the risk we assume as opposed to unresearched action and a "follow-the-herd" mentality. So, let's explore some of the trends we are observing and how we might utilize those observations in our investment strategy.

As we observe trends, let us be guided by the old-country wisdom espoused by Christina Fragasso more than 50 years ago. She counseled her son to avoid standing on the railroad tracks and complaining about the speed of the train. "Get out of the way. Better yet, find a way to get on the train." Pretty good advice, especially in light of the fairly momentous trends that seem to be developing currently. Let's explore some.

Globalization
For those of us who feel patriotic, it is hard to accept the internationalization of the products we use and the exportation of jobs overseas. Those trends likely won't abate. We must learn to utilize that momentum just as our former agrarian economy had to adjust to industrialization. And, maybe our national growth is dependent upon our ability to see and use this trend. Some experts have traced the growth of higher-level domestic economy jobs to the exportation of manufacturing and programming positions overseas. Whether true or not, remember the train analogy. We do know that protectionism of any sort has historically led to greater, previously unforeseen ills. For more detail attend our adult financial education courses through the Lifelong Learning Center at the University of Pittsburgh.

Corporate Governance
The misuse of public trust by corporate officers and insiders has had a horribly negative impact on the securities markets. The recovery that began a year after the September 11th terrorist attacks was delayed for more than another year by corporate misdeeds and accounting scandals. Perpetrators convicted via process of law should be punished, and we believe they will. We may find, however, that this sad chapter in our economic history may parallel the scandals, punishments and resulting reignited public confidence that followed the punished misdeeds of the late 1920s. We see the trend manifesting itself in a myriad of ways. One example is the embryonic movement toward including the investor in on the benefits associated with company officer stock option exercising. Several companies have started this and you should watch for other companies to adopt similar arrangements.

Rewards for Entrepreneurship
After the heady days of the late 1990s, we may have a more mature, but no less rewarding, view of business entrepreneurship. This is reflected in the minds and voices of the young people we encounter in daily business.

It even came through clearly in the printed interview of a 30-year old businessman in Momamar Gadaffi's Tripoli. He said that his contemporaries are business people who care less for politics than for the chance to build a business of their own. He hoped to extend his business connection to the United States! What does that mean to the future of United States capitalism?

Continued on Page 2

What's in Store? *(continued)*

We believe that raising the consciousness and standard of living of the rest of the world is paramount to continuing our own financial success and security. The coagulation of the European Economic Community and the massing economic power of the Far East require that we think and act globally. The ability to sell globally is ours only if we learn to compete globally. That means mastering pricing and costs and global marketing concepts. It's ours to capture if only we don't self-sabotage with provincial thinking and methods.

Technology
As we published previously, the technology genie isn't going back into the bottle. Some of the most fantastic and innovative discoveries are before us. Genetic engineering relative to disease and even for pollution control are within our grasp. Technology is allowing us to be more productive than ever before in history. We can solve many of today's problems with vision and perseverance. Don't pine for the open opportunities of yesteryear. They pale by comparison to what's here now for us.

Social Order
The world is moving toward a reliance on self-determination. As examples of the most successful experiment of democracy, we can only applaud the global movement away from totalitarianism and toward individual and collective accomplishment. Communist China is a major capitalist competitor! How can this be bad? The world is full of people and countries that can raise the quality of life though individual effort. The speed and scope of communication only enables this trend. Communism has given way to individualism.

Business Structure
Businesses will take forms that were unheard of even a decade ago. Strategic partnerships and quickly evolving structures will be the order of the day. Some of the successful businesses with which we interact have no office. The principals and associates work from different geographic locations and exist in a virtual company. They meet in each other's locations, in airports and at their customer's location when physical connections are necessary. Think about how you communicate with relatives across the country and overseas now. Why should business communication be different? Businesses will change to meet opportunities in a quickly changing world. Those that fail to be alert and nimble will fall behind those with vision and the ability to adapt. Tom Peters, the internationally known business pundit, has published exactly that in his latest book.

How to Benefit?
Information acts as the enabler. Some investment initiatives will prove to be productive, and others will fail. Good, quality information allows us to identify opportunities, and proper asset allocation and portfolio diversification will help to keep the investment risk within reasonable parameters. But, we should not diminish our potential reward by hanging on to antiquated ideas of how the world's economy works. We at The Fragasso Group pledge to be alert to the opportunities of this brave new world as we manage your portfolios. We cannot guarantee success. No one can. But, we can promise to be as alert and nimble as possible to help guide you through this panoramic kaleidoscope that is the 21st century. The journey promises to be fun and, potentially, very rewarding.

For any questions you may have concerning the information in these articles, please call your Financial Consultant at The Fragasso Group or visit us at www.fragassogroup.com.

Lump Sum vs. Pension Payment: The Pros and Cons of Each

In today's complicated workplace environment, more and more workers are confronted with making a choice regarding their employer's defined benefit plans. The choice often involves choosing between monthly pension payments and a lump sum distribution. This could be one of the biggest decisions you make in your lifetime; so it's important to be aware of the consequences of each.

Palmer Masciola
Managing Director, Product Development and Quality Control

Traditionally, electing to receive monthly pension payments over your lifetime will provide you with a fixed, monthly payment, which can never be changed. Alternatively, a lump sum distribution is equal to the present value of the total pension payments the participant would have received. This amount is calculated using assumed earnings rates (which are based on current interest rates) and life expectancy assumptions. The calculated amount would then be transferred to an IRA Rollover account, which the participant would own and manage. Once either option is chosen, it cannot be reversed or altered.

If you choose to receive monthly payments, they MUST be made to the participant (and perhaps a spouse) over the participant's natural life expectancy. This method of receiving your pension represents security to many because the pension fund "guarantees" that the participant will receive these payments. However, the guaranteed nature of this arrangement, intended to provide security for participants, is in itself a source of risk and should be cause for concern. Consider the fact that once your monthly pension has been set, it can never be changed. While you may take comfort in the fact that your pension can never be reduced (and will last for your entire life), your payment can also never be increased.

Such an arrangement allows for ZERO inflation in your retirement years. Even assuming only modest inflation, the increasing cost of living may eventually erode your purchasing power. In fact, data suggests that retired consumers face even greater inflationary pressures. Consider the ever-increasing costs associated with health care, prescriptions and other basic living expenses. What may seem like a generous monthly income at retirement, after adjusting for the effects of inflation, may in time prove to be constraining to your desired lifestyle. Indeed, many retirees find that they learn to adjust their lifestyle in accordance with their monthly pension payments.

Notwithstanding the above financial pros and cons, emotional concerns can also be a factor in making a decision. When trying to decide between pension payments or a lump sum, the question most people forget to ask themselves is: "Do I want to indemnify my heirs?" This is a real concern because with a typical monthly pension, the remainder of the family beyond the spouse is disinherited. Monthly payments will usually cease upon the death of the participant or the surviving spouse. There is no residual left for your heirs, no matter how long (or short) a time you collected payments. In other words, when the participant dies, payments stop regardless of the remainder of payments owed. On the other hand, taking the lump sum payment offers the possibility of a residual amount at your death that would go to your heirs.

Choosing a lump sum can also offer increased flexibility throughout your living years. With traditional pension payments, your lifestyle may be constricted by how far you can stretch that payment each month. Conversely, electing to receive a lump sum distribution puts you in control of your own destiny. YOU will decide how much you need to draw from your IRA on a periodic basis of YOUR choosing. You also have the flexibility of changing that amount as your situation merits – increasing or decreasing your draws based on YOUR needs. Because both pension payments *and* IRA withdrawals are subject to federal tax, managing your own rollover account also gives you control over the amount of taxable income you take each year.

Certainly, this is a very complicated issue. There are many other factors to consider and everyone's situation is different. In general, however, electing the lump sum option of your defined benefit plan will allow you flexibility in retirement while also possibly providing a residual sum to your heirs at your death. With proper planning and a sound, long-term asset allocation policy, the principal balance of your rollover can continue to grow even as you are withdrawing a monthly stipend. The investment professionals here at The Fragasso Group can assist you in making this important decision. We can do a complete analysis of your particular situation so that you can be certain that you are making the correct decisions.

Ways to Help Make Fewer Investment Mistakes

When we talk about long-term investing, we mean just that. Creating a diversified, balanced portfolio, and thinking in terms of years—not weeks or months—is the path toward realizing your investment goals and still being able to sleep at night. No matter how hard people try, when they attempt to forecast where the markets are heading over any short period of time, three months, six months, one year, they are invariably wrong most of the time. That being the case, there is still no shortage of people who will try (and get lots of airtime for doing it) to make short-term predictions about the markets as a whole. Think about what was said by the "market analysts" during the bull markets of 1999 and early 2000, and compare that with what had been predicted during the bear markets of late 2000, 2001 and 2002. There would seem to be a tendency to predict up during a market upturn, and down during a market downturn. How insightful. It would appear that no one has mastered the ability to predict the market's short-term movements with any degree of accuracy.

Gregg Daily
Financial Consultant

In light of all of this, many people still wonder how they should change their investments because of the situation in Iraq and the broader Middle East, the ongoing threat of terrorism, continued up and down employment data, divergent political pressures, and a myriad of other issues. The simple answer is that we'll never know exactly what the best investment will be at exactly the right time. It is very, very difficult for anyone to predict beforehand, as you must do to time the markets, where the best category to invest might be at any given time. The best way to avoid trying to time markets, and constantly changing your investment strategy because of current events, is to asset allocate and diversify your portfolio among multiple asset classes and categories. Investing this way takes the guesswork out of the investment process. Imagine the stock and bond categories as the red and black numbered sections of a roulette wheel. When you try to time the market, you're essentially betting on one color (stocks or bonds) and one number (one category, or a particular stock or bond). Everything is riding on that single bet. What are the odds of winning consistently, or even winning at all? When you asset allocate and diversify, you're spreading your bets on both colors (stocks and bonds) and many different numbers (multiple categories, or types, of stocks and bonds). Rather than looking for a windfall from any single bet, or market timing strategy, you're increasing your chances to potentially win more consistently by spreading your bets, or asset allocating and diversifying. This is obviously a simplification of the process, but it illustrates the strategy in its most basic form. Making sure your bets aren't too concentrated in one area is what we do as part of our review process. *Note: there is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.*

Another factor that cannot be overlooked is emotion. Current economic or political conditions can stir people to make investment decisions based on feelings as opposed to rational judgement. Sometimes people just want to invest in things that seem to be doing well at the time, thereby allowing those assets to become a larger and larger piece of the portfolio. Inevitably, the largest assets will be the biggest losers when those particular categories have their predictable downturns. The do-it-yourselfer's tech-heavy portfolios of the late 1990s are a great example of this. People can also be bi-polar about their portfolios, constantly shifting dramatically between investments, moving wholeheartedly into stocks when they think the market is good, and into fixed-income when they think the market is bad, never staying in one investment vehicle long enough to realize the benefits.

Our methodology is to use a system of re-balancing portfolios based on economic conditions both in the United States and abroad, continually screening the investments we use and making changes based on clear rationale.

As always, we're more than happy to assist you by explaining our investment strategy, and what we feel are the best methods for portfolio management.

Asset Allocation, Rebalancing and Optimum Market Portfolios

Unfortunately when our markets were doing so well in the late 1990s, people tended to move away from the tried and true principals of asset allocation. Instead, they over weighted themselves in the asset classes that were giving investors unbelievable returns, such as technology and small-growth companies.

Christine Robinette
Financial Consultant

During that period in the late 1990s, asset allocation was thought to have lost its effect. But the ensuing bear market gave evidence that its principles are, indeed, very much alive. Unfortunately, many investors thought they were properly diversified, only to discover too late that they were not.

If your portfolio is to reap the true value of asset allocation, you must be able to relate its power to your individual situation. No one would consider building a house without a well-designed blue print. Think of asset allocation as the toolbox with which to implement that blueprint. The plan is laid out, but which tools should be used? Certainly asset allocation must play a part in a well-rounded portfolio because as studies have shown, asset allocation is responsible for over 90% of the variability in a portfolio's returns. Why is this true?

The Theory Behind Asset Allocation

The Nobel Prize winning economist, Dr. Harry Markowitz, developed the theory behind asset allocation strategy in 1952. Markowitz discovered that combining various asset classes whose returns are not perfectly correlated could help reduce overall portfolio risk. What is revolutionary about Markowitz's discovery is that an investor can reduce the volatility of a portfolio and increase its return potential at the same time. This concept came to be known as Modern Portfolio Theory.

An Update–Federal Estate Tax 2004

Although you may not have realized it, in one day, between December 31, 2003 and January 1, 2004 you gained 50% —on your federal estate tax exemption.

On January 1, 2004 the amount of assets excluded from the federal estate tax levy increased from $1.0 million to $1.5 million, a 50% increase from the previous year. In addition, the top estate tax rate fell from 49% to 48% on all estates in excess of $1.5 million. That's good news for those individuals looking for ways to decrease their taxable estate and pay less in federal estate tax. With no gifting required or additional trust work needed, the government gave you a boost, and will continue to do so through 2010.

Deborah Sales
CFP®, Managing Director, Operations

Below is a recap of the federal estate tax changes to take place over the next seven years.

These ongoing changes in the federal estate tax are a result of the Economic Growth and Tax Relief and Reconciliation Act of 2001 (EGTRRA). According to the provisions of that act, the federal government is giving us a break on federal estate taxes over the next six years. But, watch out for the sunset provisions, which cause the more favorable exclusions and tax rates to return to their pre-EGTRRA levels after 2010.

It is also worth noting that although the estate tax exclusion amount increased by 50% this year, the federal credit for state inheritance taxes paid decreased by 50% this year.

From 1924 through 2001, the federal estate tax allowed for a dollar-for-dollar credit for state death taxes paid (up to a maximum limit). EGTRRA repealed that federal credit, according to a phase-out schedule that started in 2002. This year, only 25% of the state death taxes paid can be used as a credit against the federal estate tax calculation. In 2005 that credit will be gone completely. (note: this is also subject to the sunset provisions).

Do you know how those changes will affect you?

If you are unsure of the impact on your estate, we recommend that you call your financial consultant at The Fragasso Group to discuss your situation. A review of your investments, insurance and estate plan may be in order. There's no better time than the present.

Year	Estate tax exclusion	Top estate tax rate
2004	$1.5 million	48%
2005	$1.5 million	47%
2006	$2.0 million	46%
2007	$2.0 million	45%
2008	$2.0 million	45%
2009	$3.5 million	45%
2010	No tax	0%
2011	$1.0 million	55%*

* plus 5% surtax on certain estates over $10 million

Source: Ernst & Young

Transfer on Death Accounts

We want you to be aware of a feature that you can add to your non-retirement accounts at Linsco Private Ledger (LPL). It is called Transfer on Death (TOD), which permits an account owner to designate a beneficiary to become the account owner in the event of his/her death. This registration allows securities to pass directly to the TOD beneficiary without probate. It does not, however, avoid estate tax, if applicable. The account owners would not be giving up any control of the account and will be the only party to sign any paperwork.

Diana Schroeder
Administrative Manager, Corporate Secretary

To our non-Pennsylvania residents, note that there are four states that do not honor this agreement. They are New York, Louisiana, North Carolina and Texas.

Take control of your financial journey. *Choose your course. Let us navigate.*

Consider educating yourself by attending one of our courses offered at the University of Pittsburgh.

You Will Learn:

- How to save and invest
- How to potentially lower your taxes
- How to reduce insurance costs
- How to create a plan to achieve your financial goals
- How to preserve your assets for your spouse, children and grandchildren
- How to use proper asset allocation to match your life goals
- How to plan for retirement
- How to fund college costs

Lauren LaManna
Manager, Marketing and Seminars

You may have already taken advantage of a seminar we have taught and benefited from what you have learned. If so, help a friend, colleague or family member with their resolutions to work toward financial security by telling them about our seminars.

Courses allow attorneys, CPAs, human resource and insurance professionals to earn continuing education credits while they learn information pertinent to their life's goals.

To register, call the University of Pittsburgh at (412) 624-6600 or register online at **www.solutions.pitt.edu**.

Personal Financial Planning Workshop (3 Sessions)
A Workshop for Those in Their Asset Accumulation Years

You Benefit by Learning:

- Basic financial principles
- Up-to-date info about financial tools you may be able to use to your advantage
- Hands on approach to education funding, career changes and retirement security

Topics Covered:

- Investment opportunities
- Methods for evaluating, selecting and monitoring investments
- Education expense planning
- Determine level of need for various types of insurance
- Financial planning in divorce
- Personal and corporate retirement plans
- Social Security benefit issues
- Inheritance tax issues

Fee: $55 single; $99 couple (a $20 materials fee is payable to the instructor at the first class; one workbook per couple)

University of Pittsburgh Oakland Campus
3 Thursdays
June 24, July 1, July 8
6:00 – 8:30 PM #C43MF4611

Sewickley Public Library
3 Mondays
June 14, June 21, June 28
6:00 – 8:30 PM #C43MF4610

Bethel Park High School, Room 1100
3 Tuesdays
May 18, May 25, June 1
6:30 – 9:00 PM #C43MF4612

Can You Afford to Retire? (3 sessions)
A Workshop for Pre-Retirees

You Benefit by Learning:

- Basic financial principles
- How to anticipate and plan strategically for your comprehensive retirement needs
- Proper planning methods to address and meet those needs for the full length of retirement

Topics Covered:

- Overcoming the effects of inflation
- Protecting investments from taxation
- Preventing erosion of assets due to long-term care expenses
- Insurance and estate planning

Fee: $55 single; $99 couple (a $20 materials fee is payable to the instructor at the first class; one workbook per couple)

University of Pittsburgh, Oakland Campus
3 Tuesdays
June 1, June 8, June 15
6:00 – 8:30 PM #C43MF4690

Sewickley Public Library
3 Wednesdays
May 26, June 2, June 9
6:00 – 8:30 PM #C43MF4693

Bethel Park High School, Room 1104
3 Wednesdays
June 16, June 23, June 30
6:30 – 9:00 PM #C43MF4692

Financial Security During Retirement (3 sessions)
A Workshop for Retirees

You Benefit by Learning:

- Basic financial principles
- How to meet your retirement goals and maintain financial security throughout your lifetime
- Application of specific financial management strategies that can assure you a financially comfortable retirement

Topics Covered:

- Financial strategies that are critical throughout retirement
- Combating inflation, minimizing taxation and maximizing the strength of one's portfolio
- The non-financial aspects of retirement, such as self-image, use of time and housing choices
- Social Security and long-term care
- The new IRA distribution rules
- Estate planning

Fee: $55 single; $99 couple (a $20 materials fee is payable to the instructor at the first class; one workbook per couple)

University of Pittsburgh, Oakland Campus
3 Wednesdays
June 9, June 16, June 23
9:30 AM – 12:00 PM #C43MF4681

Sewickley Public Library
3 Thursdays
May 20, May 27, June 3
9:30 AM – 12:00 PM #C43MF4683

Bethel Park High School, Room 1104
3 Tuesdays
June 22, June 29, July 6
5:30 – 8:00 PM #C43MF4682

THE FRAGASSO GROUP, INC.
WE GUIDE...YOU DECIDE®

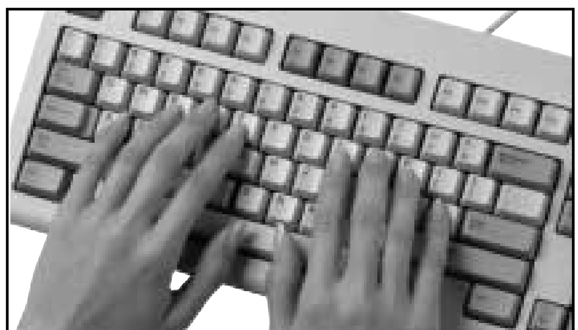
Koppers Building, Suite 300
436 Seventh Ave.
Pittsburgh, PA 15219

"The smallest act of kindness is worth more than the grandest intention."

–Kahlil Gibran

On March 8, 2004, The Fragasso Group helped sponsor the Homeless Children's Education Fund's Fifth Annual "Champions for Children" Benefit at the Rivers Club. Financial consultants Deborah Sales, Brian Robinette, Gregg Daily and Kevin Daeschner were among the 300 individuals and corporate representatives in attendance to honor this year's Champions, all well known for their work with children and families in Allegheny County. The HCEF honored Marc Cherna, Stacy de las Alas, Myra Powell, Jennifer Williams and Sister Linda Yankoski for their strong commitment to community service and their dedication to the education of children. The event was a great success as it raised $72,000 in net revenues that will support the HCEF and its work.

The Homeless Children's Education Fund is a local non-profit that works to serve as a voice for the homeless children of Allegheny County and to ensure that they are afforded equal access to the same educational opportunities and experiences as their peers. For more information or to make a donation, call 412-562-0154 or visit their Web site at www.homelessfund.org.



EMAIL UPDATE

If you are not currently receiving our monthly eNewsletter or other e-mail updates, please send us your e-mail information at:

fgi@fragassogroup.com