

# Meet a D.A. Davidson & Co. Professional



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Vice President, Fixed Income  
D.A. Davidson & Co.

- University of Notre Dame, bachelor of arts degree in economics, 1978
- Joined Piper Jaffray in Seattle, in taxable fixed income trading, 1987. Previously was an associate with Old National Bank, Foster & Marshall, and People's Bank
- Joined D.A. Davidson & Co. in Seattle as Vice President, Fixed Income Trading, 1998
- Writes bond market commentary published weekdays at the top of the D.A. Davidson & Co. Web site, found at [www.dadavidson.com](http://www.dadavidson.com)

*Mary Ann, you have become one of D.A. Davidson & Co.'s most quoted individuals. Your bond market commentaries are widely followed nationwide. Why so?*

The daily bond market commentary is written in an interesting and sometimes humorous manner (David Letterman I am not) in order to make clear why events are important and what they mean. If the investor understands the impact events have, it makes a better investor in both the fixed income and equity markets. I like to think I am quoted frequently in the national media because my hand is on the pulse of the bond market and I am good at picking out what things are important to the market and, more importantly, why.

*Bonds were ignored by many individual investors the last*

*several years. Why do we ignore bonds at our peril?*

Simply put, bonds are not "sexy" like stocks. When we get beyond that point, it has been learned over the last year that diversification is very important. Bonds represent part of that diversification. Bonds have been the best performing asset class over the last year. One of the easiest ways for investors to invest in bonds is to create a bond ladder (a series of securities with different maturities).

*Seattle turned into the rock and roll capitol last month (sorry, Cleveland). Are earthquakes more frightening than the "Fed"?*

I am from Cleveland, and I did more shaking, rattling and rolling

in one minute than they do in the opening credits of the *Drew Carey Show*. Earthquakes are violent and totally unexpected; the Fed is not. In previous years, the Fed acted under a veil of secrecy. In recent years, the Fed has become much more open in its policy movements. If you read carefully what Fed members are saying, particularly Fed Chairman Alan Greenspan, they give you a very clear idea of what they see as important, why, and where they are headed.

*What gives you the most pleasure in your job?*

The people of D. A. Davidson & Co. and the clients we serve. Also, the markets are always changing. What is important today might not be what is important tomorrow. This keeps it interesting and exciting.

# Financial INSIGHT

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The sound bites of today contain virtually nothing in the way of good news concerning the U.S. economy. Every talking head in the media is crying of lost wealth and economic woe, more than a little different than a year ago.

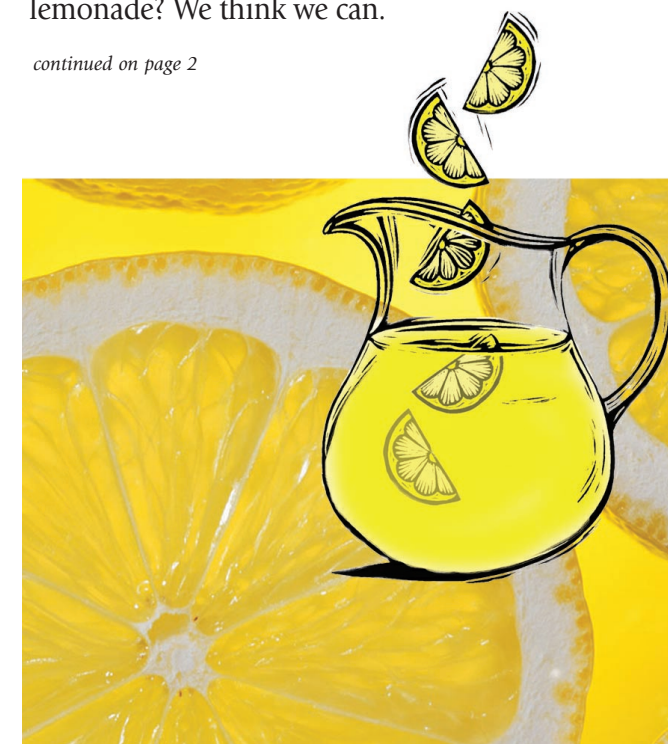
Things have changed in this past year. In this period, the NASDAQ index (heavily weighted toward technology issues) has plunged about two-thirds in value. It does not hurt less if we recognize that the values were ridiculous in their extremes. If it was your money invested in these companies, it still hurts. A broader measure of the domestic stock market, the S&P 500 index, declined by one-fourth. This index was largely influenced again by the large "growth" companies whose valuations were, retrospectively, excessive. Still, declines don't feel very pleasant. Even the venerable Dow Jones Industrial Average has had a decline of unpleasant proportions. From a period of the equities markets being "priced to perfection," valuations have shrunk at a disconcerting rate in the past twelve months.

The "perfection" to which securities were priced has come and gone. Concerns about inflation have been reintroduced, political uncertainty exists with a new group in Washington, California is succeeding in

exporting its energy crises, Japan is exporting its economic difficulties, and our domestic rate of economic growth has slowed as if we all slammed on the brakes at once. Let's hear a brief cheer for anti-lock brakes. Many people feel less wealthy, correctly, and have changed consumption patterns accordingly. Market declines hurt fiscally and psychologically and thus influence behavior. Psychologically, it has been shown that an investment loss hurts three times more than the pleasure received from an investment gain of the same amount.

That was then; this is now. Lemons are bitter and we find ourselves knee-deep in lemons. Can we make lemonade? We think we can.

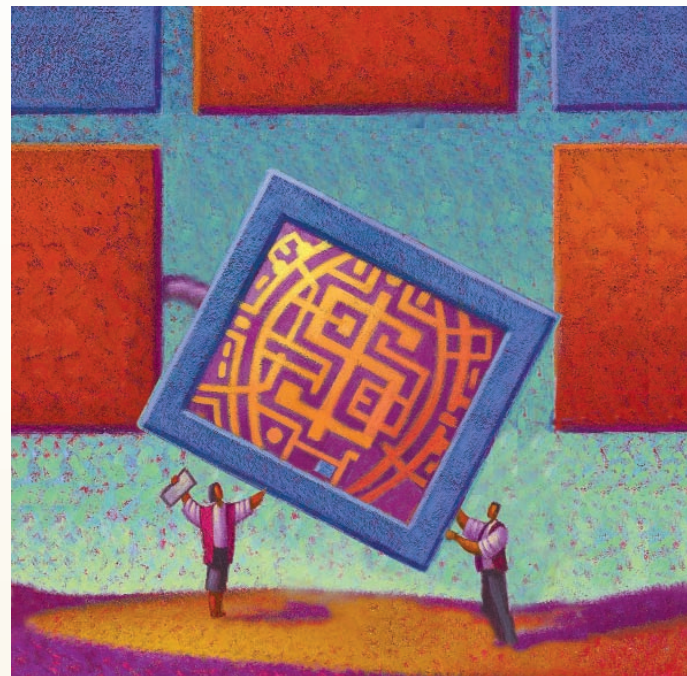
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# WHAT NOW?

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Market corrections are certainly painful, but they remain a reality, even if we forgot this over the last decade. However, corrections create opportunity for the prudent investor. We all know that we stock up on sundries when they are on sale. The time to buy a house is when values have dropped. It is better to buy farmland at \$500 an acre than \$1,000 an acre. A car priced at \$30,000 may be no bargain, but when on sale at \$25,000 may be an excellent value. So, too, with America's great companies. We have nothing to fear but fear itself. Action is needed, prudent action.



If you have investable funds, commit some now. Buy great companies while they are on sale. Don't put yourself in a position to look back and bemoan not buying stocks when they were cheap in 2001.

Don't commit all your capital. In the last decade, market declines were followed by sudden rapid advances. It is not always thus. One of the most painful, in fact the worst market period since World War II, occurred in the early 70s. The pain dragged on through two years. This correction was deep and it was long. (It was also frightening, accompanied by an energy crisis, political chaos, high inflation and a national loss of confidence).

The scenario is not bleak today, but even though stocks are cheap, they might get cheaper. Invest partially today and regularly invest over the upcoming 12 or 24 months. We certainly cannot predict at what point the low will occur (however, it wasn't March of 2000). Don't be paralyzed by fear at this juncture. This is an opportunity.

If you are fully invested today in a rational portfolio, look toward rebalancing your assets. A conservative portfolio of 50% bonds and 50% stocks from a year ago is most likely 55% or 60% bonds today. Rebalance back to 50% by moving money from bonds to stocks. Be proactive and take advantage of this opportunity. Revisit your basic allocation between stocks and bonds. As stocks decline in price, creating greater value, consider increasing your stock allocation in a prudent manner.

The most difficult situation of all is if you are currently fully invested in a 100% equity portfolio. You have experienced the brunt of the markets' declines, but you have no fresh troops to deploy. Don't capitulate and flee the field. This is the time to analyze your holdings. Strong companies will rebound first. Get rid of second tier players in favor of the companies who lead their industry. Check for over concentration in particular sectors and move, with professional guidance, to a more rationally diversified portfolio.

Our common tendency in the face of market adversity is to follow the 1950s nuclear war training, "duck and cover." Please don't. The opportunities are at hand amid the chaos. Seize them.



# IRA DISTRIBUTION RULES CHANGING

The Internal Revenue Service has proposed rules changes that represent good news for the holders of IRAs and retirement plans who are nearing the age when they start withdrawing money from those plans. Not only have the rules been simplified but, for most individuals, they reduce the required minimum distribution (RMD), or amount of money that plan participants are forced to take from their IRA or retirement plan at age 70½.

*The new proposed rules provide the following:*

- A simple uniform table that everyone uses to determine the required minimum distribution (RMD) during their lifetime.
- Ability to change beneficiaries after reaching 70½ and not affect the RMD calculation.
- Clarification of the treatment of trusts as account beneficiaries.
- Simplification of after-death payments of account balances to beneficiaries.



For instance, RMDs paid to beneficiaries can be based on the beneficiary's age at the end of the year following the participant's death, instead of on the pattern of the original distributions.

The new rules are effective as of January 2001. This is true even if the IRA document says otherwise. Retirement plans need to be amended in order to use the new rules. However, an individual receiving an RMD from a retirement plan based on the old rules can roll over the difference between the old and the new rules.

To calculate your RMD in most cases, you need your current age, the new RMD table and the balance of your account as of Dec. 31 the previous year. You just need to divide the Dec. 31 account balance by the factor based on your age from the RMD table. This results in the minimum amount that must be distributed to you. An example would be if your account at the end of 2001 was \$200,000 and you turn 73 in 2002, your RMD would be \$8,510.63 for 2002 (\$200,000/23.5).

If you are already receiving RMDs, you may want to revisit your calculation. In most cases you are probably taking out more than the law now requires. Also, if you will be turning 70½, you will want to plan properly for when the RMDs must begin.

Your D.A. Davidson & Co. financial consultant can provide information on these new rules. You should also consult with your tax advisor to make sure you are taking advantage of the opportunities provided by these new rules.

Age of Client	Distribution Period (Yrs)	Age of Client	Distribution Period (Yrs)
70	26.2	88	11.8
71	25.3	89	11.1
72	24.4	90	10.5
73	23.5	91	9.9
74	22.7	92	9.4
75	21.8	93	8.8
76	20.9	94	8.3
77	20.1	95	7.8
78	19.2	96	7.3
79	18.4	97	6.9
80	17.6	98	6.5
81	16.8	99	6.1
82	16.0	100	5.7
83	15.3	101	5.3
84	14.5	102	5.0
85	13.8	103	4.7
86	13.1	104	4.4
87	12.4	105	4.1