

THE COMPASS CHRONICLE

Highlighting important financial planning and investment issues

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A client-focused financial advisory firm dedicated to providing objective advice to individuals, families, and retirement plans.

Our financial advisory services include:

- ◆ Investment Management and Consulting
- ◆ Retirement Planning
- ◆ Education Funding
- ◆ Family Cash Flow Analysis

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Who Has Your Identity Now?

My purse was stolen in December 1990. In February 1991, I started getting notices of bounced checks. About a year later, I received information that someone using my identity had defaulted on a number of lease agreements and bought a car. In 1997, I learned that someone had been working under my Social Security number for a number of years. A man had been arrested and used my SSN on his arrest sheet. . . . I can't get credit because of this situation. I was denied a mortgage loan, employment, credit cards, and medical care for my children. I've even had auto insurance denied, medical insurance and tuition assistance denied.

– From an actual consumer complaint to the Federal Trade Commission (FTC), January 2, 2001

How Big Is the Problem?

In 2003, nearly 215,000 people reported that they had been victims of identity theft, accounting for 42% and an increasing proportion of all FTC complaints. Victims of identity theft may be defrauded thousands of dollars and be denied credit card accounts, mortgages, and personal and student loans. And it may take months to rectify the misdeeds of an identity thief.

Exactly What Is Identity Theft?

Identity theft occurs when someone uses your personal information, without your permission, to commit fraud or other crimes. An identity thief obtains some bit of personal information, such as your name, Social Security number, credit card number, or other identifying information and uses it to open accounts in your name or otherwise defraud you. The FTC reports that the most often reported frauds as a result of ID theft are the following:

LEADING IDENTITY THEFT FRAUDS

- | | |
|----------------------|-----------------------------------|
| 1. Credit Card | 4. Employment-Related |
| 2. Phone and Utility | 5. Government Document or Benefit |
| 3. Bank | 6. Loan |

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Who Has Your Identity Now?

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An identity thief obtains your personal information through a variety of means, including:

- Stealing your purse, wallet, and mail;
- Searching through your trash or obtaining information in your home;
- Accessing information you share on the Internet or scamming you by posing as a legitimate company or government agency, often via e-mail;
- Fraudulently obtaining your credit report; and
- Obtaining information from your workplace.

An identity thief who steals your personal information may take one or more of the following actions in your name: (1) change your credit card account's mailing address and begin making purchases; (2) open a new bank or credit card account; (3) obtain telephone or wireless service; (4) purchase a car with an auto loan; and (5) during an arrest, provide your name to the police.

Did You Know . . .

Many of today's workers have woefully undersaved for their retirement, but nearly one-half do not appear to be concerned. According to a recent survey by the Employee Benefit Research Institute:

- 32% of today's workers have not begun to save for retirement and 42% are not saving currently. 45% have less than \$25,000 in total savings.
- 38% of workers think they will need 70% or less of their preretirement income in order to live comfortably in retirement; however, many financial advisors suggest that you should expect to spend at least 75-80% of your annual preretirement income as a retiree.
- When current retirees were surveyed, 39% said their retirement income needs are about the same as their preretirement earnings, indicating that many current workers are probably underestimating their needs.
- 47% of workers who haven't saved at all are at least somewhat confident they'll have enough money on which to retire. Some commented they are expecting a pension from their employer, while others expect that Social Security will meet their needs or that they will save later.

Source: Employee Benefit Research Institute, "14th Annual Retirement Confidence Survey," April 2004.

How To Prevent ID Theft From Happening To You

While it is difficult to completely avoid the risk of identity theft, you can take steps to minimize your risk. For example:

- Don't provide personal information unless you initiate the contact and are familiar with the other party, and be wary of promotions that seek your personal information.
- Carry minimal identification and credit or debit cards when you leave home. Your Social Security card and other important personal information should be left in a secure location at home. While at work, keep your purse or wallet in a secure place.
- Guard your mail—deposit outgoing financial-related mail or checks in mailboxes or at the post office and promptly remove incoming mail from your own mailbox.
- Guard your trash—shred credit offers you receive, your credit statements and receipts, expired credit cards, checks and bank statements, etc.
- Ask that your driver's license, employee ID, and health insurance account numbers be changed if your Social Security number is being used.
- When using passwords on your various accounts, avoid using easily available information such as your birth date, Social Security or phone number, or your mother's maiden name. Use a password on applications that request your mother's maiden name.
- Every year get a copy of your credit report from each of the three major credit bureaus and review it for accuracy.

The evolution of the electronic age creates its own sources of security threats. To guard against viruses, be sure to maintain the latest updates of virus protection software on your computer and don't download files or click on hyperlinks sent by someone you don't know. In addition, take the following precautions:

- Use a firewall program to prevent others from accessing your system remotely.
- Use a secure browser that scrambles information you send over the Internet to protect the security of your on-line transactions. The latest versions of browsers, such as Microsoft Internet Explorer and Netscape, employ 128-bit security technology. When providing information on-line, be sure a "lock" icon is displayed on the browser's status bar. *Note: When your on-line transaction is finished, close the window completely; otherwise, your personal information will be kept in the browser's memory.*

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Answers To Recently Asked Questions

Recently, many of our clients have been asking similar questions regarding the current market environment. Here we answer a couple of the more commonly asked questions: (1) How will an increase in interest rates impact our portfolio? and (2) What effect does the elevated price of oil have on the U.S. economy and our portfolio?

How Will An Increase In Interest Rates Impact Our Portfolio?

On June 30, the Federal Reserve's Open Market Committee raised the federal funds rate, the first increase in four years from a 45-year low. However, based upon economic strength and comments made by the Federal Reserve (the Fed), an increase had been expected for months. Year-to-date, the stock market has been meandering sideways, though the S&P 500 did suffer as much as a 7.5% drop from its high in early March to its low in early May over higher interest rate concerns, Iraq, and terrorism. The bond market has had its own difficulties due to interest rate fears, as bonds depreciated on expectations of higher interest rates.

So, what should you expect looking forward? The most obvious answer is that, depending on the frequency and

magnitude of interest rate hikes by the Fed, bonds may have a tough hill to climb over the next 18-24 months, as interest rates move to equilibrium levels based on economic data. Consequently, we have focused the fixed income portion of our client portfolios on shorter duration bonds that are less sensitive to the deleterious effects of rising interest rates.

Rising interest rates will also impact stocks, but not all stocks will be affected equally. According to Standard & Poor's, since 1970 there have been six periods of successive Fed rate hikes. In the six months subsequent to an initial rate hike, the S&P 500 has fallen 5% on average. Because the Fed telegraphed its move so clear-

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Who Has Your Identity Now?

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- Use a "disposable" e-mail address for public news groups and chat rooms (e.g., name@yahoo.com or name@hotmail.com) and a private e-mail address for personal communication to limit the amount of spam e-mail that you are subject to.
- Review privacy policies on Web sites where you provide personal information.
- If you dispose of your computer, use a utility program to overwrite the hard drive to make files unrecoverable.
- Close the accounts that were impacted or opened fraudulently. If checks were stolen, contact your bank. You may need to close your account and open another, but it will help protect you from forgery. If necessary, remember to reestablish any automatic monthly charges to your credit card or checking accounts.
- File a police report and obtain a copy to submit to the credit bureaus, your creditors, and others who may require proof of the crime.
- Notify the FTC by contacting them at 1-877-IDTHEFT or www.consumer.gov/idtheft and file a complaint.

What To Do If The Best Laid Defense Falls Short

Despite your best efforts to protect personal information, your identity may still be stolen. If so, take these steps immediately:

- Place a fraud alert on your credit file by contacting the fraud department of any one of the three major credit bureaus. The fraud alert requests that you be contacted before any new accounts are opened in your name. The other two credit bureaus are automatically notified and will place a fraud alert on their reports. Each will also send you your current credit report; review it carefully.

Thankfully, law limits your liability if your credit, debit, or ATM cards are used fraudulently to \$50 per card, in most cases. However, it will take many hours of telephone calls and correspondence to straighten out the misdeeds of a clever identity thief, so be sure to closely guard your personal information.

[Much of this article was adapted from the FTC brochure "ID Theft: When Bad Things Happen To Your Good Name," November 2003. This brochure is accessible at www.consumer.gov/idtheft.]