



REITs at our firm

By Jeff Hahn

H. Joseph Sgroi and Associates is, as you know, an independent financial planning firm. As such, we are not obligated to offer any particular company's investment products to you.

It also means that we spend significant amounts of time researching the markets, looking for quality investments that fit your circumstances.

The current bear market has, amongst other things, highlighted the need for diversification as well as regular communication and portfolio reviews.

Real estate investment trusts can help create diversification. Patterned after mutual funds, REITs provide professional selection and management of a diversified portfolio of investment properties. In addition they provide an opportunity to invest in properties that are typically too large or expensive for the normal investor.

The REIT we are most comfortable with is the Wells Real Estate Investment Trust. It is a non traded REIT, which means it is purchased directly from the company, not traded on an exchange. The current share price is \$10 per share which is the price it has been since its release in 1998. The current dividend is 7% based on the actual declared dividend for the fourth quarter of this year. The Wells REIT invests primarily in Class A suburban office buildings, with current leases running anywhere from seven to twenty years. The intent of this trust is to purchase the properties for cash so as not to incur interest expense. This coincides with their intent to provide a steady stream of income and stability of principal to the investor. (Please bear in mind that REITs are investment securities, they are not guaranteed or insured accounts. The share price and dividend can fluctuate. They are offered by prospectus only. Past performance does not guarantee future results.)

There are two basic strategies in investing: one is to invest for growth, often through the stock market. The other is to invest for capital preservation and income, typically through bonds, annuities, money markets and other income producing investments, such as the Wells REIT.

It is estimated that over half the world's assets are invested in real estate. It is possible that an investment in a REIT may be suitable for you.

Picture of Joe & Co. Receiving Reflection Award

Trocaire College 31st Annual Trustees' Scholarship Reception Award recipients Franklin G. Downing, Sr., Thomas R. Beecher, Jr., Mary Catherine Paladino (Chair of the Board of Trustees and 1995 recipient) & H. Joseph Sgroi.

Real Estate Investment Trust (REIT) **Information Center**

REITs are an efficient way for many investors to invest in commercial and residential real estate businesses. As an investment, REITs combine features of real estate and stocks. They give an investor a practical and effective means to include professionally managed real estate in a diversified investment portfolio.

The REIT industry began its fifth decade in 2000. Because of the industry's overall maturity and performance over the last four decades, REITs can be viewed as "all-weather" investments. Here are answers to fundamental questions about REITs:

What is a REIT? A REIT is a company that owns and, in most cases, operates income-producing real estate such as apartments, shopping centers, offices, hotels and warehouses. A number of REITs also engage in financing real estate. The shares of listed REITs are freely traded, usually on a major stock exchange. Unlisted REITs are privately held, not liquid and may have no secondary market.

A company that qualifies as a REIT is permitted to deduct dividends paid to its shareholders from its corporate tax bill. As a result, most REITs remit 100 percent of their taxable income to their shareholders and therefore owe no corporate tax. Taxes are paid by shareholders on the dividends received and any capital gains. Most states honor this federal treatment and do not require REITs to pay state income tax. To qualify as a REIT, a company must distribute at least 90 percent (*continued on page 3*)

A personal letter from Joe

Dear Friend,

Almost every day we're bombarded with financial information from newspapers, magazines, the nightly news and financial small talk at the water cooler. If you've found yourself wanting to make investment decisions in reaction to an economic event or an investment opinion that has received attention in the press, it may be time to schedule an appointment so that we can revisit your investment strategy.

Each fund or investment you own is part of your portfolio. A solid investment portfolio is driven by a plan that takes into consideration your investment goals, time horizons and the amount of risk you're willing to take. These considerations all factor in to the types of investments that are right for you. Get into the habit of viewing your investments as a whole to get a good look at your overall financial picture. You might view your retirement investments together and track their performance as a group, rather than as individual investments. Discipline is the key to any investment strategy and we can help guide you to the choices that are right for you. Together we can review your long-term investment objectives and make rational decisions based on facts rather than emotions.



The words long-term investing can be misleading to some. The median age of Americans has been steadily rising since 1970. The Census Bureau projects that the over-65 population will more than double between 2000 and 2050. In 1900, one American in 25 was 65 or over; in 1984, one in nine. The Census Bureau predicts that, by 2050, one in five Americans will be 65 or over, with the proportion of "oldest-old," those 85 and over, growing even more rapidly--tripling in size by 2020.

Factor in that the average age of retirement for investors with H. Joseph Sgroi and Associates is in the mid to late 50's, the realization is that you have many more years to invest. For example, if one of our female investors retires at 55, according to the life expectancy table, she has 27 more years to live and invest. A long-term investment strategy is anything above 5 years. Too many people think that when they retire, they are no longer an investor. This could not be further from the truth

For those school teachers of ours, I hope that your summer was enjoyable. Each year you build the foundation of our community. Good luck for the up-coming year.

Finally, I would like to thank everyone for being so patient while I was out of town. The understanding, patience and loyalty that you have shown me and my staff has been remarkable. We appreciate the faith you have in our company, especially during the most unprecedented down market cycle in most of our memories. You truly are the best clients in the entire world!!!!

A handwritten signature in black ink, appearing to read "Joe". The signature is stylized with a large, looping initial "J" and a smaller "oe" following.

of its taxable income to its shareholders annually. However, like other businesses but unlike partnerships, a REIT cannot pass its tax losses to its investors.

Why Were REITs Created? Congress created REITs in 1960 to make investments in large-scale, income-producing real estate accessible to smaller investors. Congress decided that the only way for average investors to invest in large-scale commercial properties was the same way they invest in other industries, through the purchase of publicly traded stock. In the same way as shareholders benefit by owning stocks of other corporations, the stockholders of a REIT earn a pro rata share of the economic benefits that are derived from the production of income through commercial real estate ownership. REITs offer distinct advantages for investors; greater diversification through investing in a portfolio of properties rather than a single building and expert management by experienced real estate professionals.

How Many REITs Are There? There are about 300 REITs operating in the United States today. Their assets total over \$300 billion. About two-thirds of these trade on the national stock exchanges:

- New York Stock Exchange - 149 REITs
- American Stock Exchange - 27 REITs
- NASDAQ National Market System - 12 REITs

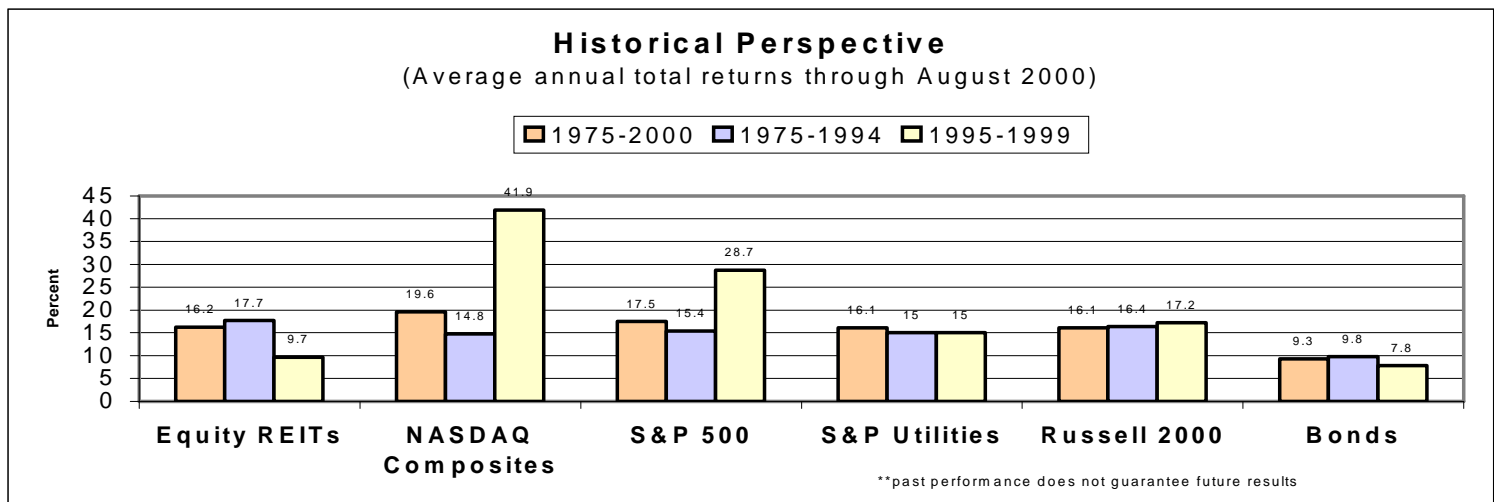
In addition, there are dozens of REITs that are not traded on a stock exchange.

What Types of REITs are there? The REIT industry has a diverse profile, which offers many attractive opportunities to investors. REIT industry analysts often classify REITs in one of **three** investment approaches:

- **Equity REITs** own and operate income-producing real estate. Equity REITs increasingly have become primarily real estate operating companies that engage in a wide range of real estate activities, including leasing, development of property and tenant services. One major distinction between REITs and other real estate companies is that a REIT must acquire and develop its properties primarily to operate them as part of its own portfolio rather than to resell them once they are developed.
- **Mortgage REITs** lend money directly to real estate owners and operators or extend credit indirectly through the acquisition of loans or mortgage-backed securities. Today's mortgage REITs generally extend mortgage credit only on existing properties. Many modern mortgage REITs also effectively manage their interest rate risk using secured mortgage investments and dynamic hedging techniques.
- **Hybrid REITs** both own properties and make loans to real estate owners and operators.

Who Determines a REIT's Investments? A REIT's investments are determined by its board of directors or trustees. Like other public companies, a REIT's Directors are elected by, and responsible to, the shareholders. In turn, the directors appoint the management personnel. As with other public corporations, REIT directors are typically well-known and respected members of the real estate, business and professional communities.

How are REITs Managed? Like other public companies, the corporate officers and professionals that manage REITs are accountable both to their boards of directors as well as their shareholders and creditors. Most REITs became public companies within the past 10 years; often transforming to public ownership what had previously been private enterprises. In many cases, the majority owners of these private enterprises became the senior officers of the REIT and rolled their ownership positions into shares of the new public companies. Thus, the senior management teams of many REITs today own a significant portion of the company's stock, which helps to align the economic interests of management with shareholders.





Employer Contributions to Tax Sheltered Annuities (TSA/403(b))

By John Clouden

Over the last five to six months Public School Employers have become very interested in contributing Employee

Incentive Pay or Accumulated Time into a TSA, rather than disburse it directly to the employee. While it may not appear to be the best option for your incentive or accumulated time pay, I believe it to be a win/win situation for everyone involved.

The benefits to the employer are huge. The contributions made directly to TSA plans save the employer payroll taxes. One local school district saved over \$58,000 on the FICA tax savings alone (that makes those tough school boards very happy). In some cases, school districts have spread large amounts out over a five year period. This will not only save the district payroll taxes, but also the budget strain of coming up with a large sum of money each and every year.

The employee wins by saving the taxes on their side also. Current salary reduction contributions to TSAs are not taxed by the Federal Government or State Government when they are withheld from the employee's pay, but, most likely, will be taxable at some level for Federal and State taxes when the money is withdrawn from the account. The biggest difference between employee payroll contributions and employer contributions is that employer contributions are not subject to FICA taxes by the employee. Not even when the money is taken out. This will save employees a substantial amount of tax dollars.

This program is not for everyone, but we think it is a great plan for most. If you have any questions, please give me a call. I would be glad to discuss it further with you.

Capital Gain Contest Winners

Thank you for your participation in last newsletter contest. Here is a profile of the two randomly selected winners:

Thomas & Janet Kowalow

Years with HJS & A : 2 years

Client of : Joe Sgroi

Joe : "Tom and Janet came to the firm through our radio show. They are both school teachers and great clients. Congratulations on winning!!!!!"

Charles & Helen Markus

Years with HJS & A : 15 years

Client of : Joe Sgroi

Joe : "Charles & Helen have been great clients for a long time, BOTH are retired from Frontier Schools & are really enjoying retirement. They spend much time at their place in Clearwater, Florida."

Well Done... On Thursday, September 19th, 2002 at the Rich Renaissance Niagara, Joe Sgroi was presented Trocaire College's "Reflections Award" at the 31st Annual Trustees' Scholarship Reception. Congratulations Joe, your dedication to excellence in the Western New York community puts you in a distinguished class.

Huge Success... On Thursday, September 26, 2002 at the Western New York Center for Golf and Recreation on 3052 Old Transit Road, the Ribbon Cutting/Fund Raiser was held. A few hundred showed up to support the cause. We would like to thank everyone who helped make the event a success.

******Newsletter Trivia Contest******

Below are four trivia questions. For each question that is answered correctly, your name will be put into the drawing (possibility of having your name entered 4 times). Two winners will be drawn on October 31st. Each will receive a \$25 gift certificate to Tony Rome's Restaurant at 1537 Union Road in West Seneca. If possible, we encourage you to use our company email (info@sgroifinancial.com) or the "Contact Us" page of our website (www.sgroifinancial.com). Good Luck!!!!

Movies

- The Christmas holiday would not be complete without the movie, "It's a Wonderful Life". What fictional town does it take place in?

Finance

- Real Estate Investment Trusts (REITs) are a great investment tool. Who created them and in what year?

Politics

- In President Bush's administration the Secretary of Defense is Donald H. Rumsfeld. Who was Clinton's?

Sports

- Every year there are consistently 2 days that the four major sports (Football, Baseball, Hockey and Basketball) do not play on. What are they?

Client Referral Program is a Smashing Success

Congratulations to Mary Barrie on winning our inaugural client referral drawing. She referred Carole Joseph to the firm in July. Mary recently retired from the Cheektowaga Sloan School District. The drawing was for a \$100 gift certificate from Salvatore's Italian Gardens, on Transit near Genesee. Thanks for your support Mary!

We would like to remind you that this is a monthly drawing. All you have to do is refer a friend, family member, neighbor or a co-worker and make sure that your name is mentioned.