THE TRUST COMPANY OF THE SOUTH

The Compass

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Are You Being Served?

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Inside this Issue:

The Trust Company of the South is an independent trust company and financial planning firm focused on serving the needs of affluent individuals, families, and non-profit institutions.

A plethora of trade journals, finance magazines, and educational publications come through our office. I was especially intrigued by a recent issue of *Bank Investment Marketing*, which featured their annual ranking of the top bank brokers from across the country. What caught my eye was the matrix used to measure the "top" brokers. Included were assets under management, total annual production (fees generated), number of clients, and percentage of growth in new clients. Everything I read only confirmed for me how misguided the bank/ brokerage financial service delivery is and reinforced my decision to leave such a conflict-of-interest driven environment. Noticeably absent in the ranking matrix were professional credentials, areas of expertise, or quality of client service.

Bank Investment Marketing trumpeted the fact that every one of the top 10 brokers had more than 1,200 clients and most had more than 3,000! The brokerage industry long ago determined "financial consultant" or "financial advisor" were less threatening titles to Joe Consumer than broker or registered rep. But just because someone's business card says "financial consultant" doesn't mean there's anything consultative or comprehensive about the financial advice they proffer. According to *Smart Money* magazine, over 650,000 investment professionals in the United States hold themselves out as "financial planners", but only 40,000 have the Certified Financial Planner™ designation.

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A Look Back, A Look Forward

Principals

- John H. Slayton, JD, LLM
- David D. Butler
- William H. Smith, CFP®
- Shannon F. Bradsher
- William H. Noble
- Michael H. Palmer, CFP®

Just how bad was 2002 for equity investors? Consider the following from Standard & Poor's:

The close of 2002 continued a three-year trend of negative returns for the S&P 500 which had a total capital loss of 40.12% over the period. The last three-year downturn was in 1939-1941 and resulted in a 34.22% loss. The last four consecutive years of losses were in 1929-1932. The S&P 500 lost $2.41 trillion in 2002 and $4.27 trillion since year-end 1999.

76 issues fell at least 50%, compared to 35 in 2001, 36 in 2000 and 17 in 1999. With 131 issues up and 368 down, 2002 had the worst annual breadth since 1980.

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Are You Being Served?, Continued

A little math illustrates the conflict of *quantity* versus *quality*. There are 52 weeks in a year, less two weeks of vacation and the equivalent of two weeks of holidays leaves 240 working days. If Joe Broker has 3,000 clients that means he has to meet 12.5 clients per day just to see each once a year, with each meeting lasting about 30 minutes! How can any professional deliver meaningful service under this scenario?

We believe the pervasiveness of the "broker system" has contributed significantly to the general public's naiveté of what "financial planning" involves, and increases the confusion many people have about "comprehensive" financial services and what they can expect from their advisor. As a former football coach of mine lamented as he looked around at his undersized, athletically challenged squad, "If we can't compete on talent, we'll have to resort to trickery." Alas, the new spirit of full disclosure suddenly pervading the brokerage industry hasn't made it's way to the marketing department.

Investment management is largely a commoditized business. Over long periods of time (10 years plus) only a handful of money managers deliver consistently superior results. What clearly isn't, and can't be, commoditized is true "financial planning" – the art and science of analyzing a client's financial situation and providing sound, objective recommendations to attain their goals. It is this comprehensive planning service that the vast majority of people need, but is all too often ignored by most financial service providers.

Are You Being Served?

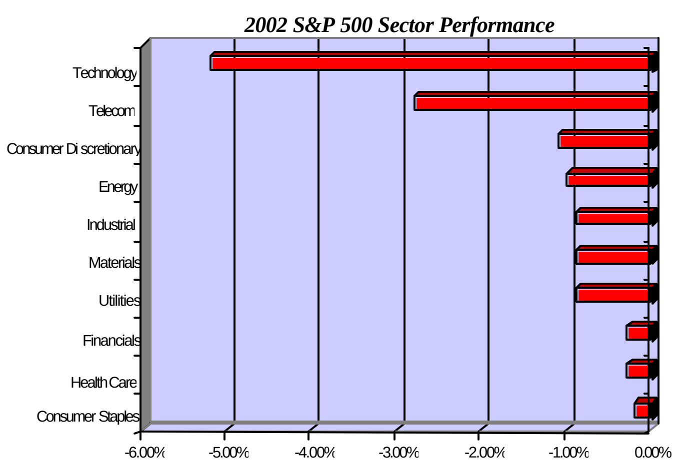
A Look Back, A Look Forward, Continued

During 2002 the S&P 500 experienced:

- Worst December (-6.03%) since 1931's loss of 14.53%
- Worst year (-23.37%) since 1974's loss of 29.72%
- Worst 3 year loss (-40.12%) since 1932's loss of -66.88%

Dividend paying issues continued to outperform non-payers. The price change for the 499 issues that existed all year averaged -18.39%, with the 350 dividend payers averaging -13.31% and the non-payers averaging -30.34%.

All ten S&P 500 sectors were down in 2002; this hasn't happened in over 20 years.



So with possible war in Iraq looming and North Korea squawking about reactivating their nuclear program what's ahead for 2003? Like Warren Buffett we are loathe to make predictions about the short-term direction of the market.

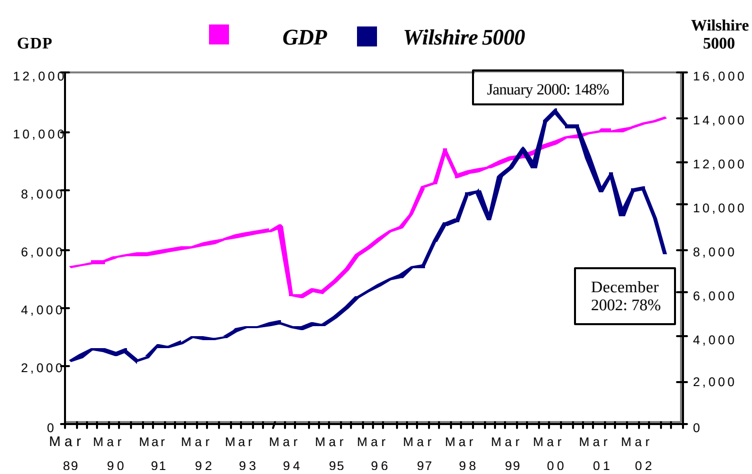
However, we are cautiously optimistic about equities for several reasons.

From a top-down perspective equity valuations (see chart below) have reached levels where the margin of safety seems reasonable. As Mr. Buffett has noted, going back some 80 years, if the percentage relationship between total stock market value and GDP falls into the 70%-80% range (as it does now) buying stocks is likely to work out well. When the percentage exceeds 125% it is almost always a sign the market is overvalued. Interestingly, this chart called the top of the market in January 2000.

Interest rates remain at historically low rates, which bodes well for stocks as they compete with bonds for available capital. A risk-free 10 year Treasury bond currently yields 4%, while a diversified basket of dividend paying stocks can replicate the yield with the added benefit of potential capital appreciation.

Finally, we expect the Bush economic stimulus package to include some type of income tax preference for dividends, which should be a short-term positive for the broad market.

Total Stock Market Value as a Percentage of GDP - Is the Stock Market Undervalued?



Annual Performance by Asset Class

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
32.95	8.06	38.13	35.26	36.52	42.16	28.25	26.36	13.93	10.25
19.65	3.17	36.99	23.96	29.98	20.33	27.30	11.63	8.42	5.20
18.91	3.13	28.44	21.99	22.36	14.67	21.26	6.09	2.49	-15.66
18.60	-0.64	18.48	16.49	20.29	8.67	12.72	-3.02	-11.71	-20.48
9.75	-1.82	15.27	6.36	9.68	-2.55	-0.83	-13.96	-12.73	-20.85
1.68	-2.92	11.55	3.61	2.06	-17.51	-4.62	-22.08	-21.21	-23.59

Small Cap (Russell 2000)
Large Cap Growth (S&P500 Barra Grth.)
Large Cap Value (S&P500 Barra Value)
International (MSCI EAFE)
Bonds (LBAgg Bond Index)
Real Estate (NAREIT)

Thinking About Early Retirement? Don't Overlook Health Insurance

We recently began working with a new client who retired two years ago at age 57. Tom worked for a small private company for over 30 years. Like many private companies, his company's retirement benefits were austere and did not include continuing health insurance coverage for retired workers. In Tom's case, he is able to continue his health insurance for a few years through a consulting agreement with his former employer, but when the consulting agreement terminates, Tom faces a health insurance dilemma until Medicare commences at age 65.

As part of our comprehensive financial planning review we uncovered this potential health insurance problem and devised a solution of self-insurance, COBRA, and a catastrophic health insurance plan to maintain insurability for both husband and wife until Medicare coverage commences. As Tom said, "You guys do much more than just manage my money."

Did You Know?

According to the Investment Company Institute, $27 billion flowed out of stock funds last year, while $140 billion moved into bond funds. Not since World War II have bonds outperformed stocks 3 years in a row (see chart above). It may be axiomatic, but the herd is usually wrong!

Does your car have over 100,000 miles? If so, your county property tax office will reduce your tax valuation for high mileage. The valuation reductions vary from 10% - 30% depending on the year and mileage of the vehicle.

Make sure to read the fine print on your long-term care insurance policy. Last year an 87 year-old woman in Massachusetts submitted a claim on a policy she had paid $36,000 in premiums since 1993. The insurer, GE Financial Assurance, refused to pay, arguing that the expense didn't qualify because the facility was not licensed by the Department of Public Health. It apparently did not matter that in Massachusetts assisted living facilities are certified by the Executive Office of Elder Affairs, not the health department.

People purchasing long-term care for "*in home*" care should be especially attentive to the insurers requirements. We also recommend making sure family members or your attorney-in-fact have a copy of the contract should they need to advocate on your behalf.

Quote of the Quarter

"There are no foreseeable limits on how much we can grow."

Former Tyco International CEO Dennis Kozlowski
November 2000

For additional information or questions regarding any of the material in this issue of The Compass, please give us a call.

Burlington Office	Raleigh Office	Rocky Mount Office
John H. Slayton	Michael H. Palmer	William H. Noble
336.538.1000	919.781.8287	252.451.8728
jslayton@tcts.com	mpalmer@tcts.com	bnoble@tcts.com

www.tcts.com

The Trust Company of the South
3041 South Church Street
Burlington, NC 27215

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