

ADVANTAGE FINANCIAL PLANNING, INC.

409 East Cook Road Suite 300 Fort Wayne, IN 46825 (260) 637-1019

www.advantageplanning.com



DAVID R. KERN

ASSET MANAGEMENT
Dynamic Asset Allocation Strategies

Third Quarter Newsletter

October 20, 2003

After hitting a 15-month high in mid September, the stock market surrendered some of its year-to-date gains, and the broad market indexes ended the month slightly down. So far this has been a good year with the broad-based Wilshire 5000 Index¹ up about 15.7% year to date. International funds and small company stock funds have also done very well over the last quarter, and in our actively managed programs, we have had positions in these areas at various times throughout the quarter.

For those of us providing active management for our client portfolios, this has been a very interesting year. Peter Bernstein is best known by the general public for his 1996 book, *Against the Gods: The Remarkable Story of Risk*. He is widely respected among institutional managers for his theory about portfolio strategies and risk management. This summer, at an industry investment conference, he claimed it is time to question the cornerstone of conventional investment wisdom, the buy-and-hold philosophy. "If investors are to meet their financial goals, they need to be more flexible and opportunistic."² Mr. Bernstein advocated market timing when he posed the question, "What if moving around more frequently is now a necessity rather than a matter of choice?" This has touched off a debate among pension fund managers and other institutional managers over how strictly their portfolios should adhere to the buy-and-hold policies so ardently promoted by the mutual fund and broader investment community. Bernstein's new approach has been the philosophy guiding our active management programs for years.

Then in September, Eliot Spitzer, the New York attorney general, announced that his office had uncovered widespread illegal trading between hedge fund and mutual fund companies. His office brought regulatory action against a hedge fund for their agreement with four mutual fund families to trade shares after the market closes, and for preferential treatment regarding short-term trades. After-hours trading allowed the hedge funds to capitalize on breaking news after the close of the market, and to trade funds with an advantage not available to other investors, which is clearly illegal. The preferential treatment concerned agreements in which short-term trades (market timing) would not be allowed to ordinary investors, but would be permitted for the hedge fund. This allowed the hedge fund to profit where other investors could not.

The Securities and Exchange Commission (SEC) is conducting investigations into any illegal activities conducted at a number of mutual fund companies. A number of traders and executives have been fired from those funds found to have engaged in illegal activities.

Securities offered through **Questar Capital Corporation**

Member NASD, SIPC, and a Registered Investment Advisor.

Advantage Financial Planning, Inc., a Registered Investment Advisor, is independent of Questar Capital.

David R. Kern, Registered Principal

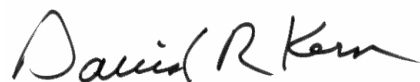
We feel that it is important to state that we have never engaged in after-hours trading, and that when we do make portfolio changes, we ensure that it is explicitly allowed by the mutual fund companies (to all investors). Liquidity is an important tool in our risk management, and the cornerstone of a free market system is the ability to sell securities whenever an investor so desires. Some mutual funds limit the flow into or out of their funds by imposing redemption fees, sales loads, or strict frequency limits (number of trades per year) to discourage market timing, especially in funds where securities are illiquid by nature. The fund companies we work with are dedicated to active management, and the current legal actions do not impact our ability to continue managing portfolios as before, because the fund companies we use allow all investors the same trading opportunities.

On a separate note, the e-mail viruses designed to frustrate communication over the Internet have made regular communication via e-mail less reliable. E-mail communication is not yet regulated, as evidenced by the quantity of the "spam" we receive every day. We encourage you to communicate with us by phone, old-fashioned postal service mail, or by fax, as opposed to sending e-mail messages. The risk of losing an important e-mail document to an imperfect spam filter or to virus protection software is not worth the convenience of regular e-mail communication. We will always try to respond very promptly to phone and fax inquiries as part of our ongoing commitment to excellent client service.

We remain optimistic that the apparent economic recovery will gain steam, and that the financial markets will continue to show strong recovery. There is evidence that the recovery is worldwide, and the Asian markets, in Japan and the countries outside of Japan, have all shown impressive gains so far this year.

Enclosed with this letter please find the annual notice of our customer privacy policy for your review.

Sincerely,

A handwritten signature in black ink that reads "David R. Kern". The signature is written in a cursive, flowing style.

David R. Kern, CFS, CLU, ChFC
President

¹ Wilshire 5000 Index – A total stock market index including most equities listed on the New York Stock Exchange, the American Stock Exchange, and the NASDAQ system.

² Wall Street Journal, August 27, 2003 article "Bernstein's Shocking Words: Market Timing".