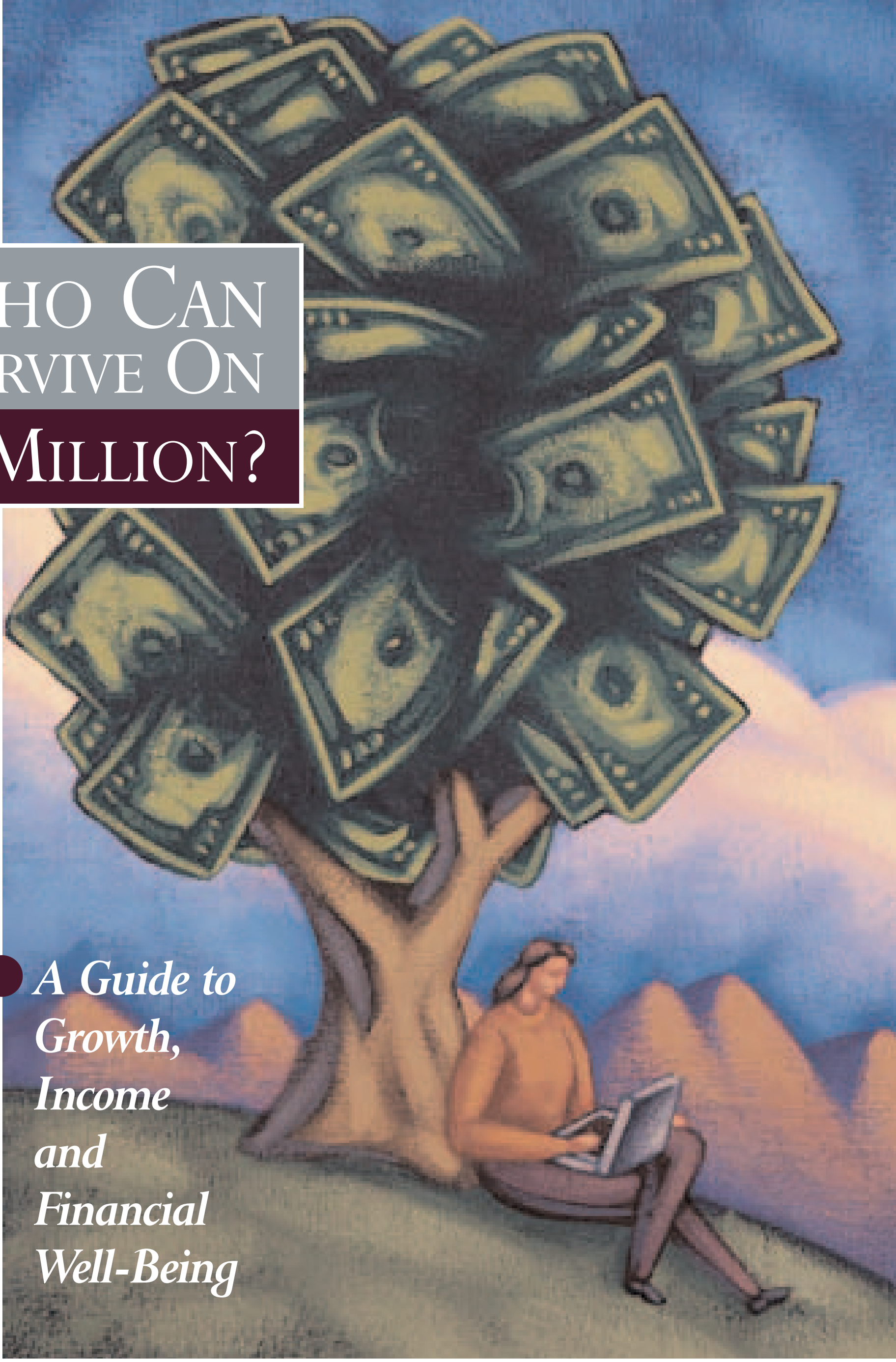
Who Can Survive On $1 Million?



A Guide to Growth, Income and Financial Well-Being

CUTLER Capital Management

Who Wants To Be A Millionaire?

A million dollars. As a kid, Jack thought he'd never see that much money. A millionaire was the ultimate title of wealth then. There were no billionaires.

Now Jack was practically a millionaire. And he was worried that a million dollars wouldn't be enough to live on.

The Retirement Paradox

Even those who have planned for retirement face a paradox. For many years, they've been saving with the idea that by the time they retire, they will have enough money to live comfortably for the rest of their lives.

Now they realize that may not happen. Those who were insufficiently diversified when the stock market crashed in 2000 are still recovering.

Even those who were fortunate enough to survive the crash with their portfolios intact have another issue to face. We're living longer and even longer life has a downside.

When people retired at 65 with the expectation of living just a few more years, they didn't have to worry about outliving their retirement savings. People who are recently retired or approaching retirement today may live another 20 or 30 years after retiring. They will need to save much more than their parents did.

Should You "Preserve" Or "Accumulate?"

Financial advisors talk about "accumulating wealth" during your working years and "preserving wealth" during your retirement years. But that's where the paradox lies.

- You can't preserve wealth if you don't already have it.
- To create wealth for retirement, you'll need to take some risks.
- If you don't take enough risk, your investments may not grow enough.
- If you take too much risk, you may lose value in your portfolio – and it may take years to recover.

It doesn't get any easier once you retire. In fact, it becomes more complex. You'll still need to balance growth and risk – but you'll also need to produce enough income to enjoy your retirement.

"What's so bad about 50?"

Jackie Gleason once asked. "It's middle age, if you plan to live to 100."

Even by Jackie Gleason's standards, Jack had reached middle age and he didn't like it one bit. At middle age, you think of the glass as being half empty, not half full.

He kept fit, never had any health problems, and didn't look his age, so why did he spend so much time thinking about his health now?

He felt great … but what if his health failed? What if that pain in his back was something serious? What if that mole on his chest really was growing? What if Gloria, his wife of 23 years, inherited her father's bad heart? What if something happened to their children

Growth For Good Times. Income For Tough Times.

How can you address the retirement paradox? You have several options:

- You can keep working.
- You can spend less
- You can get lucky and inherit wealth or win the lottery.
- **You can invest for both growth and income.**

Most of us think of "growth" when we think of investing. The more we take advantage of a rising stock market, the sooner we'll achieve our retirement goals.

Unfortunately, investing for growth also means taking risks. The greater the potential for growth, the more money you are likely to lose when the market falls.

Think of safety and income, and you probably think of bonds – fixed income investments, which, alone, are unlikely to meet your retirement needs.

Financial advisors typically try to compromise, balancing growth-producing stocks with income-producing bonds.

But investors don't have to compromise.

Living Too Long

It used to be simple.

People retired at 65, lived a few years on Social Security and their company pension, and that was it.

It wasn't simple for Jack. He had to worry not only about life being too short, but about life being too long.

What if he outlived his retirement savings? How much did he really need?

Something Extra

So what's the best way to address the retirement paradox? For most people, the answer is to invest for both growth and income.

But what's the best strategy for achieving growth and income? Investments that provide both include:

- Convertible securities
- Real Estate Investment Trusts (REITs)
- Dividend-paying stocks

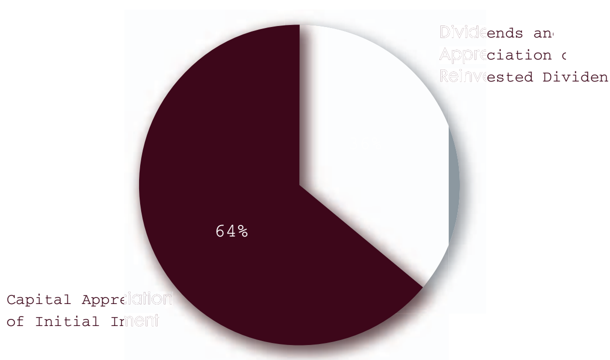
These options, especially convertible securities, give investors something extra. They provide dividend or interest income, along with the potential for growth. A blended portfolio of these three security types can reduce risk by providing diversification.

Dividend or interest income can give your returns an extra boost, but it also reduces downside risk. What if, for example, you receive annual interest income or a dividend worth 5% of your investment? If the investment gained 10%, you would have gained the equivalent of 15%. But if your investment dropped 10%, you would lose only 5%.*

Long term, this extra income can contribute significantly to the total return of your portfolio.

**This example is for illustration purposes only.*

Contribution To Total Return



Figures extrapolated from data from Ibbotson Associates

Chart 1*. As the chart above demonstrates, when the stock price increases, the convertible participates in some of the upside. The downside protection can be seen where the conversion value is below the theoretical bond floor. When the stock falls to this level, the bond typically declines no further than to the theoretical bond price. Past performance is not a guarantee of future results. Performance is presented without deducting investment management fees and should not be interpreted as an indication of the historical performance of Cutler Capital Management, LLC investments.*

years Dividends and appreciation of reinvested dividends have accounted for nearly two thirds of total return for S&P 500 stocks over the past 30 years.. Past performance is no guarantee of future returns.

Life On a Bungee Cord

Gloria was worried about Jack. *He didn't understand investing as well as she did.*

His idea of avoiding risk was getting a vasectomy. When it came to investing, Jack was a bungee jumping, sky diving, alligator wrestling cowboy. He looked at their finances as an extreme sport.

"Selling short"… "buying on margin"… "emerging-growth stocks"… "hedge funds"… Jack would throw terms around as though he knew what he was talking about. Gloria thought he just liked the way he sounded when he said them.

She could have dealt with volatility when she was younger, but the last bear market scared her. With retirement getting closer, Gloria thought it was time to invest for safety.

Fortunately, they had been able to save $1 million, in spite of Jack's risk taking. Wasn't that enough?
What if he lost their retirement funds?

Life In the Slow Lane

Jack was worried about Gloria. *She didn't understand investing as well as he did.*

Her idea of taking a risk was driving with less than half a tank of gas.
If she had her way, she'd still be locking up their money in certificates of deposit or maybe savings bonds!

They needed to save more to achieve their retirement goals. With retirement getting closer, Jack thought they needed to invest more aggressively.

Fortunately, they had been able to save $1 million, in spite of Gloria's aversion to risk. But that wasn't enough. How would they end up with the money they needed to meet their retirement goals?

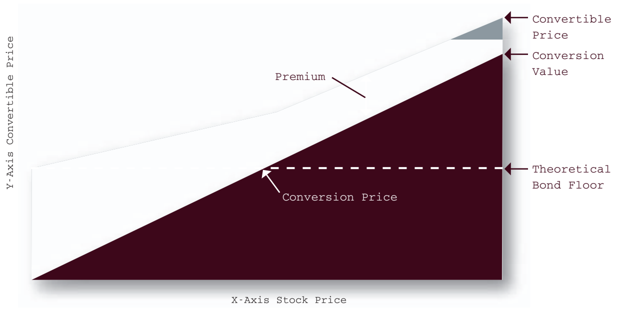
Convertibles: Bonds and Preferred Equities That Can Turn Into Stocks

Convertible securities are corporate bonds or preferred stocks that can be converted to common stock. Companies issue them to make their securities more attractive to investors.

Convertibles combine the income features of bonds with the growth features of stock. Other advantages include:

- High current income. Convertibles typically provide high current income, regardless of whether the price of the underlying common stock rises or falls.
- Equity participation. If the value of the common stock rises, the value of the convertible often does.
- Downside protection. In a down market, convertibles typically decline, at most, to the level of their value as a fixed-income investment.
- Diversification. Convertibles provide investment in a broad mix of industry sectors with a wide range of credit quality.
- Total return. Like stocks, convertibles can achieve growth, but they also produce income, which adds to the total return.

Why Should You Invest in Convertibles?



As the stock price increases, the convertible will take part in some of the upside. The downside protection can be seen where the conversion value is below the theoretical bond floor. When the stock falls to this level, the bond typically declines no further than to the theoretical bond price.

For simplicity, this chart assumes a constant theoretical bond floor, which is not correlated to the stock price. This chart also assumes a simple convertible without call and put features.

REITs: Building Financial Stability

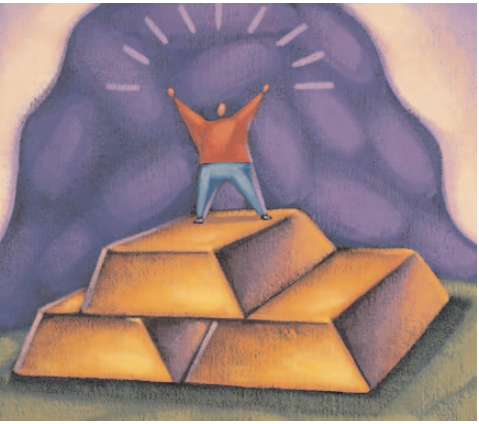
Real Estate Investment Trusts (REITs) enable investors to pool their capital to invest in commercial real estate. REIT managers manage REITs just as professional money managers manage mutual funds.

REITs can offer both capital gains and income. Capital gains are created from an increase in rental income, an increase in market value for the real estate or an increase in popularity for REITs among investors. REITs earn income from rent and from interest on loans. REITs typically pass on at least 90% of their income as dividends to shareholders; when they do, they avoid taxes on the income.

Other advantages include:

- Liquidity. REIT shares are traded daily on a national exchange, so, unlike actual real estate, they can be bought and sold at any time.
- Diversification. REITs add diversification to portfolios with stocks and bonds, which can improve returns and decrease risk.
- Deferral of income taxes. No tax is payable on REITs until they are sold. At that point, profits are taxed as capital gains, not as ordinary income. Some REITs distribute more than 100% of their net income. The amount over 100% is reported as a return of capital, which is not taxable to the investor.
- Inflation hedge. As an investment in tangible hard assets, REITs can provide an inflation hedge.

Dividend-Paying Stocks: Building Financial Stability



During the past 30 years, dividends have accounted for nearly a third of the total return of the S&P 500, according to Standard & Poor's. In addition, dividends reduce downside risk.

Dividends can produce regular income, or, if they are reinvested, they can significantly increase total returns. If $10,000 were invested in the S&P 500 in 1972, today it would be worth $208,972 if all dividends were reinvested and only $74,547 if dividends were not reinvested.*

Also, because of recent changes in the Federal tax code, instead of paying taxes on dividends at their income tax rate, most investors can now pay at a rate of only 15%. As a result, stocks with dividends are more attractive, and more companies are offering dividends.

**Past performance is no guarantee of future return.*

Growth For Good Times. Income For Tough Times.

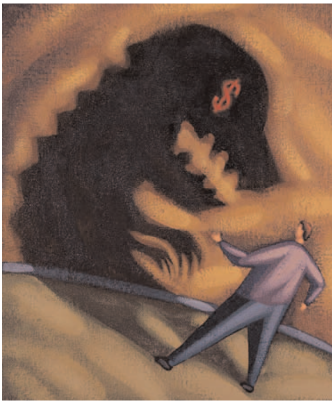
Last year, *Jack and Gloria spent weeks planning their trip to Belize. They worked out the lowest airfare, researched the best restaurants and hotels, and even planned a day-by-day itinerary.*

It was Gloria who mentioned that they had spent more time planning a single vacation than they had spent during their entire marriage planning their financial future.

They decided to meet with an investment manager, who explained a strategy for using income and dividends to reduce their downside risk. Gloria like the security features. Jack liked the growth features.

"Convertible securities," Jack said to himself. "REITs. I like the way they sound."

Addressing the Retirement Paradox



There are no guarantees in investing. Risk cannot be avoided without sacrificing return. The key is to find an acceptable level of risk that, long-term, also provides a level of return that is high enough so that you can achieve your financial goals.

A carefully chosen portfolio of convertible securities, REITs and dividend-paying stocks can provide the balance of risk and reward that most investors are seeking. They can provide growth during good times … and income during tough times.

Long term, they can help you address the retirement paradox and achieve financial well-being.

Achieving Financial Well Being

The sun was hot in Belize.

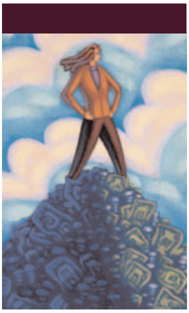
Jack applied his #30 suntan lotion before he even left the room. As Gloria always said, "Why take unnecessary risks?" He had taken her advice with their investments and look where it had gotten them!

Gloria was taking her first dive today. And why not? As Jack always said, "If you want to grow, you need to take some risk." She had taken his advice with their investments and look where it had gotten them!

Cutler Capital Management

of Worcester, Mass. is an investment management firm specializing in investing in convertible securities, real estate investment trusts (REITs) and dividend-paying bank stocks to provide growth and income to high-net-worth investors, and charitable foundations and other non-profit organizations.

Founder Melvin S. Cutler has researched and invested in securities since 1975 and currently manages more than $100 million in assets.



CUTLER Capital Management

Cutler Capital Management, LLC

306 Main Street, Suite 200

Worcester, Massachusetts 01608-1518

Telephone: 508-757-4455

Fax: 508-757-4466

Web: www.cutlercapital.com

Email: dgrenier@cutlercapital.com