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Are you experiencing a gap between endowment care earnings and expenses? The approaching year-end is the perfect time to review investment returns, consider alternatives and adjust your investment strategy to increase earnings.

A simple annual investment review

The close of the calendar year presents a natural time to take stock of your business and its financial well-being. The influx of year-end financial statements is intended to help you analyze your returns, but the volume of data can be daunting. It's tempting to stash them in bankers' boxes for your accountant and move on to the pressing, day-to-day tasks of operating your cemetery.

This article is focused on the advantages of taking the time to carefully review the statements summarizing your returns and assess whether your current strategy is effectively meeting both your short-term and long-term goals. Because running your business is demanding and your challenges complex, we suggest a simple, sensible series of steps to complete your annual investment review.

The guidelines we recommend have yielded practical benefits for cemetery professionals who have seen their earnings grow after taking a hard look at their portfolios and taking action to improve their portfolio performance. Improving business margins by generating more earnings is important to help keep pace with ever-increasing maintenance costs.

"The grass continues to grow, the leaves continue to fall and the cost of employee benefits continues to rise," commented Mark Musgrove, a former NFDA president whose family funeral and cemetery enterprise encompasses eight properties in addition to management of the local Catholic cemetery.

"During the challenging economic environment of the past year, it became even more evident that business survival and well-being requires taking an active role in monitoring and seeking investment opportunities to maximize our returns," Musgrove said.

Since endowment care funds often do not cover expenses, businesses tend to make up the difference by using proceeds from sales, Musgrove said. "It's the only strategy for survival, unless we can find a way to increase fund earnings. This is a reality everyone in the business deals with."

David Schroeder, CEO of Portland Management Inc., an Oregon network of mausoleum, funeral home and memorial park properties, agrees. "The appearance of our properties has always been very important to us and to the families who have chosen to purchase permanent memorials for their loved ones. We are very familiar with the constant financial challenges of keeping our properties in 'top notch' condition. Over the last several years, we have seen income from endowment care fail to keep pace as maintenance expenses increased."

We asked John Woolley, portfolio manager at Northwest Investment Counselors, an experienced endowment care fund advisor, to assist us with identifying easy-to-follow steps to structure a year-end earnings review. "For many, management of endowment care funds is pretty low on the priority list," Woolley said. "They tend to accept as fact that they will need to supplement endowment care earnings with their own cash to help support the ever-increasing maintenance needs of their cemeteries.

"Yet with just a few simple tweaks, there may well be the ability to significantly increase cash flows received from endowment care funds. We've seen that an annual check-up of just a few things can make a big difference."

Five tips for endowment care fund review

1. Know your investment guidelines. The return you get on your investments is directly tied to the types of assets you hold in your investment portfolio. States vary widely in the asset types permitted to be held in endowment care portfolios.

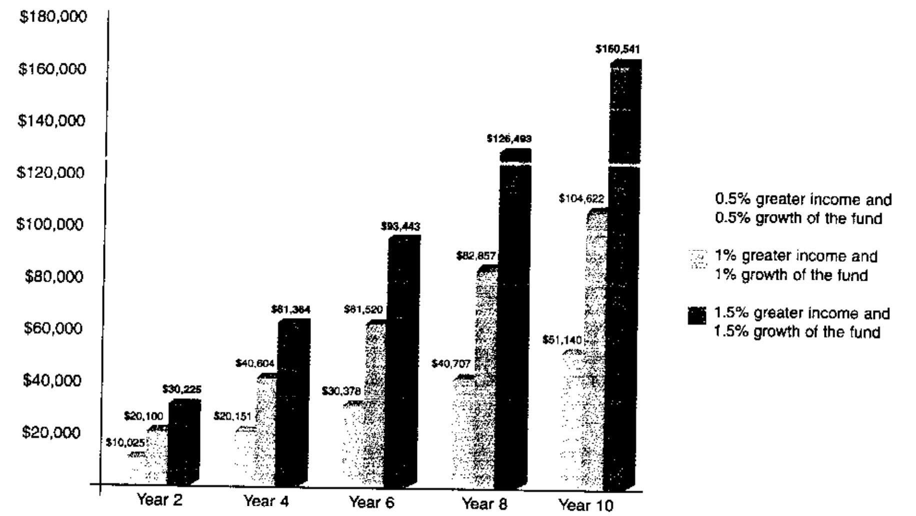
Because states also change guidelines from time to time, it's possible that you could now move the bank CDs that may have been the bulk of your investments into other income-producing holdings, such as preferred stock or first mortgages.

Review your state regulations to see what types of investments are currently allowable and available, and that might offer opportunities you may be missing.

2. Check in with your investment manager. Does your manager understand your state's investment guidelines? Endowment care regulations can specify very different ways of handling investment gains, losses and income. It would be advantageous to you, as a cemeterian, to make sure your investment advisor is familiar with your portfolio and is compliant with regulatory guidelines.

3. Use a professional. Is the person you have designated to manage your endowment care funds an investment professional with experience managing these funds, or are you managing things yourself in your spare time? In any case, you should consider whether you are happy with your fund management and if not, consider making a change. You not only

Effect of increasing yield and growth on a $1 million endowment fund



This graph shows the possible accumulation of greater cash flow and fund value from a hypothetical $1 million endowment care fund currently receiving a 2 percent yield after fees. As you can see, every 0.5 percent increase results in meaningful increases, particularly in the long run.

want to make sure your funds are managed properly but also that they are being invested with an eye to increasing earnings.

4. Don't forget growth. If you are focused entirely on current income, you may be overlooking ways your investments can help increase your endowment care funds. Many cemeterians believe the only way to grow their fund is by selling additional memorial or burial sites, which can place an unreasonable emphasis on immediate sales.

Discussing the future growth potential of your endowment care funds with your fund manager can identify ways to add to your fund before your cemetery reaches capacity. Preparing for sufficient cash flow when this time comes requires planning now to increase earnings and manage your fund for continuous growth over time.

5. Consider joining a master trust or other investment plan that applies the "big box retailer" principle to investment management. Grouping your investments with other cemeterians' endowment care funds essentially enables you to "buy in bulk" to leverage your earning power.

Your professional investment manager can show you how to become part of a larger investment pool and the ways your savings can enhance the growth of your endowment care fund.

6. Continuously communicate with your investment manager. Your review and evaluation need not be limited to the end of year, though this is the traditional time to "take stock." Make it a quarterly ritual and pay attention monthly. Keep the communication lines open, ask questions, provide feedback. Investment management fees are compensation for service to you. That service entitles you to actively participate in decision-making as you strive toward your earnings goals.

Continuous evaluation of his company's investment portfolio helped Portland Management's Schroeder put the spotlight on holdings that sat for years without generating the desired or expected returns. "We knew there had to be a better way to get positive results within a few months without sacrificing flexibility. We wanted to explore options to diversify," he said.

"Eventually we discussed a new strategy and our expectations with our investment managers. We can already see a positive material difference in income from our cemetery operations maintenance fund. We are now generating additional income, which has dramatically helped narrow the gap between revenue received and maintenance expenditures."

The key is to take the time to assess what you are getting from your fund investments, define what you want and then talk to your investment advisors about developing a strategy to better serve your needs. ❑