

FINANCIAL WISDOM

MARCH 1998

Getting the most from the First National Bank of Stillwater

Your financial future—that's what it is all about—how to have a financially secure future for you and your family. The issues you face are:

- maximizing your opportunities,
- avoiding pitfalls,
- managing risk and
- handling your finances conveniently.

We see our role as being the financial advisor you rely on for all your financial services needs. Today, you can obtain financial products services from many companies. We believe you should choose us because we can do it better.

- *Choice*—Our range of products, for saving, borrowing and investing is complete. Tailoring the right

combination of those products for your individual needs is essential.

- *Performance*—We offer competitive rates on all our products. The annoyance of most fees can be avoided through your relationship with us.
- *Guidance*—Our bankers are trained, and anxious, to help you create and implement a financial strategy that helps you reach your goals.
- *Personalized service*—We recognize the importance of your finances. Your personal banker, supported by a team of experts, will work with you to manage your financial future.
- *Convenience*—In a branch, over the Internet, through our 24-hour phone service, at ATMs or face to face with your personal banker, we are serving your needs.

We want to help you take control of your financial future.

Financial Services Industry Consolidation

What does it mean?

Over the past few years there has been a growing trend for consolidation in the financial services industry. Banks are buying other banks. Banks are buying brokerage and mutual fund companies. Banks and investment banks are merging.

Economies of scale, expanded offerings and more complete financial service to customers are all cited as reasons. For the consumer, the issue will ultimately boil down to how well they are served by these organizations.

We believe that how well we help you to deal with your important financial concerns is still the key to our relationship with you. Your retirement, your children's college education, your home and your investments are the financial issues that matter most to you and to us.

We expect the consolidation trend to continue and we will strive to continually earn our relationships with our customers.



Our bank in Lake Forest, Illinois.

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This Quarter’s Mistake to Avoid

Making financial mistakes can be expensive. Learning from others’ mistakes is a better idea.

Mistake to Avoid.
Using the wrong investment strategy for a child’s college education funds.

Along with delaying starting to save for a college education, the other big mistake is to not properly invest the funds. Good returns make accumulating the needed funds easier. Over time, the best place to earn high returns has been the stock market. But, along with the high returns come higher risks. The ideal situation would be to earn the high returns of the stock market, while making sure the money will be there when needed for tuition bills.

Here’s an example of the impact of different returns on accumulating

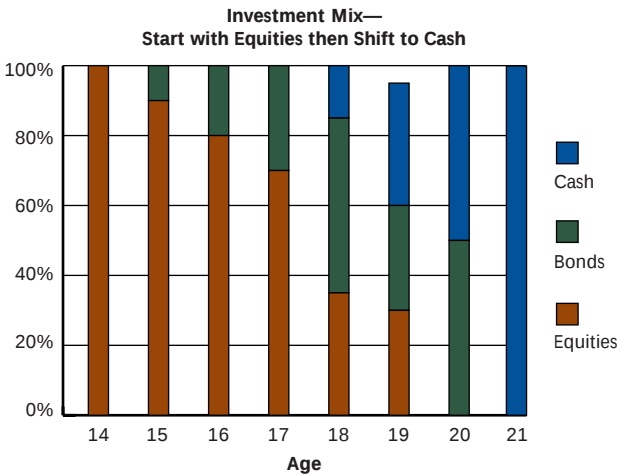
	Rates of Return		
	4%	6%	8%
Annual savings needed	\$6300	\$5400	\$4600

\$120,000 for today’s five year old to attend an out of state college.

Having the funds in the child’s name with a “uniform transfer to minors” account can make qualifying for financial aid more difficult, but, can provide some income tax relief once the child reaches age 14. The issue of control becomes important since the child will control the account at age 18 or 21 (depending on state laws).

A sensible investment strategy is to use different types of investments as the child ages. The money will be needed when the child is ready to start college each year. So your time horizon is from now until then. When the child is younger, you can take more risk in an attempt to earn higher returns with

stocks or stock mutual funds.
As the child gets closer to college, say at age 14, start slowly converting the equity investments into lower risk investments such as Certificates of Deposit. Consider C.D.’s that mature annually as college begins.
An investment strategy that positions you to earn the high returns of stocks, and yet provides a means to move the funds to lower risk investments as the need for the funds approaches, can provide confidence your children will be able to afford the college of choice.



Roth IRA Conversion?

For almost 20 years IRAs have been available for annual contributions and to receive lump sum distributions from company retirement plans. The Taxpayer Relief Act of 1997 created the new Roth IRA that provides tax-free growth and flexible tax-free distributions.

Converting your traditional IRA to a Roth IRA.

To get tax-free distributions on existing IRA monies, you may be eligible to convert your existing IRA into a Roth IRA. There are special rules covering this conversion. Your adjusted gross income must be less than \$100,000 and you must pay tax on the current value of your IRA (except non-deductible contributions). Taxes on 1998 conversions can be paid over four years.

- The future benefits of flexible tax-free distributions must be carefully weighed against the current tax cost. Conversion will usually be beneficial if:
- you expect to leave the funds in the IRA for at least five to ten years,
 - you expect your future income tax rates to be similar to or higher than existing rates, and
 - you pay the tax with non-IRA funds.
- The attraction of tax-free growth, tax-free distributions, no required minimum distributions at age 70-1/2 and the ability to pass the “tax free” nature of the funds to your heirs can make conversion very attractive. Consult your tax or financial advisor to make sure your IRA is right for you.

Measuring the performance of your investment portfolio

Investing should be thought of as a process, not an event. Measuring the performance of your portfolio and then evaluating that performance is an important part of that process. That way, you can learn what's working and what's not.

There are two parts of that measurement process. Doing the actual calculation and then comparing it to an appropriate benchmark. The calculation

described below measures the "total return" of your portfolio and takes



into account not only changes in value, but, also the timing of additions and withdrawals. Total return includes the reinvestment of dividends, capital gains and interest (everything that stays in your portfolio).

The worksheet will provide a good approximation of total return. To get a precise measurement, a computerized "time weighted internal rate of return" program will more accurately reflect the timing of additions and withdrawals.

The information needed includes beginning value, ending value and additions/withdrawals and their timing. To illustrate follow this example:

Beginning value	\$75,000
Withdrawal (4/1)	8,000
Addition (7/1)	15,000
Withdrawal (10/1)	2,000
Ending value	\$100,000

Total Return Calculation

Line	Description	Example	Worksheet
1	Beginning value	\$ 75,000	\$ _____
2	Net additions/withdrawals	\$ 5,000	\$ _____
3	Line 2 times "timing factor"*	\$ 2,500	\$ _____
4	Ending value	\$ 100,000	\$ _____
5	Line 4 minus line 2 plus line 3	\$ 97,500	\$ _____
6	Line 1 plus line 3	\$ 77,500	\$ _____
7	Line 5 divided by line 6	1.258	_____
8	(Line 7 minus 1) times 100	25.8%	_____ %

* a decimal that most closely approximates when the greatest net dollar amount of activity occurred. 0.7 for earlier in the year, 0.5 for middle of the year and 0.3 for later in the year. Our example uses 0.5.

The final step is to evaluate your results with an appropriate benchmark. Often used benchmarks are the S&P 500 for equities, long term government bonds for fixed income and T-bills for cash. To evaluate mixed portfolios, you can create an "asset weighted" benchmark.

Let's assume our example portfolio was 75% equities, 10% fixed income and 15% cash and build an "asset weighted" benchmark.

Benchmark Calculation (example)

Asset class	Actual 97 Return	Portfolio weighting	Net
Equities	33.4%	x 75% =	25.1%
Fixed Income	15.9%	x 10% =	1.6%
Cash	5.3%	x 15% =	.8%
Net Total Return		100%	27.5%

Benchmark Calculation Worksheet

Asset class	Actual Return	Portfolio weighting	Net
Equities	_____ %	x _____ % =	_____ %
Fixed Income	_____ %	x _____ % =	_____ %
Cash	_____ %	x _____ % =	_____ %
Net Total Return		100% =	_____ %

Our example portfolio return of 25.8% compared well with a weighted benchmark return of 27.5%.

Earning good returns can make your saving easier and increase your confidence of achieving your financial objectives.

If your results are good, keep doing what you're doing. But, if your results don't measure up to your expectations, take actions to improve them. These actions can include changing your stock selection process, urging your broker to help you make better decisions or even giving the investment decision making responsibility to a mutual fund. Or perhaps, it's a different mutual fund or an index fund that you need.

Watching your progress and grading yourself should be part of your ongoing process of learning to make better financial decisions.

This educational newsletter is not meant as financial advice. Consult your financial advisor to determine how the information applies to your situation.

Choosing the right type of account for your cash

Earning competitive returns on your “cash investments” should be part of your financial strategy. We offer a complete range of accounts to help. The primary issues to consider are the liquidity you need with a particular account and the amount you expect to keep in the account. The fewer transactions you expect with an account and the higher the balances, the higher the rate you can earn on that account.

Depending on your average balance, with our interest checking accounts you can write an unlimited number of checks with no monthly fees. If you expect to keep at least \$10,000 in the account, you should consider our “Premier Checking” account.

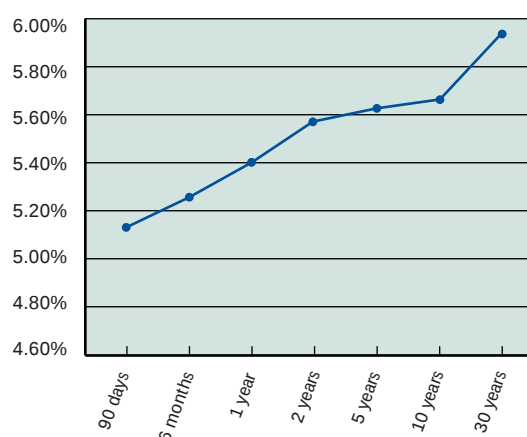
For other cash balances you can consider our money market deposit account or the “Premier Cash Reserve” account. With the “Premier Cash Reserve” account you will receive very attractive returns and still have access to your funds. The “Premier Cash Reserve” account has a minimum balance requirement of \$25,000 and allows for up to six withdrawals per month. For longer-term options consider the flexibility of Certificates of Deposit.

The chart below is a “Yield Curve.” As you can see the longer the term of U.S. Treasury instruments, the greater the yield. We use the same type of analysis to determine rates on our various deposit and savings accounts.

Choosing the right type of account for your cash balances is an important part of effectively managing the “cash” portion of your assets. We have the range of accounts that will make your cash productive.

Quote to live by
The highest use of capital is not to make money, but to make money do more for the betterment of life.
— Henry Ford

U.S. Treasury Yield Curve



Visit us on the Internet

Our website at . . .
www.fnbstillwater.com is constantly updated with rate information and other information you may find useful. The site also contains several calculations to help you make better financial decisions.



State of the Markets

	12/31/97	9/30/97	6/30/97	3/31/97
Dow Jones Industrial Average	7908	7945	7673	6583
Interest Rate on 30 Year U.S. Bond	5.95%	6.40%	6.78%	7.10%
Interest Rate on 10 Year U.S. Bond	5.75%	6.40%	6.48%	6.90%
Prime Interest Rate	8.50%	8.50%	8.50%	8.50%

First National Bank of Stillwater

Interest Rate on Interest Checking	1.70%	1.75%	1.80%	1.82%
Interest Rate on 12 month C.D.	5.25%	5.30%	5.45%	5.75%
Interest Rate on jumbo 12 month C.D.	5.45%	5.50%	5.60%	6.06%
Mortgage Rate on 30 Year Fixed – \$100,000	7.00%	7.15%	7.75%	8.50%
Mortgage Rate on 15 Year Fixed – \$100,000	6.85%	7.10%	7.40%	8.10%
Mortgage Rate on 3 Year ARM – \$100,000	6.60%	7.00%	7.95%	8.50%