

WEALTH MANAGEMENT JOURNAL

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MISSION STATEMENT

The mission of the *La Jolla Institute for Wealth Management* is much more than money management! Wealth Management deals with a PHILOSOPHY for investing-- developing a process rather than selling a product. Wealth management builds decision-making skills as a foundation for a financial business plan for you and your family. Our client relationship is built on a partnership for success that recognizes the need for a thorough understanding of your situation. Our primary focus is:

- OBJECTIVE & COMPETENT INVESTMENT COUNSEL
- Estate & Income Tax Planning
- Inter-Generational Succession Wealth Management Trust™
- Capital Preservation & Asset Protection
- Retirement Planning & Distribution Analysis

Our goal is to be the leading provider of wealth management services to families, professionals, small to medium businesses, retirement plans and trusts.

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Sum of All Fears: A Disaster-Proof Portfolio!

A Changed World

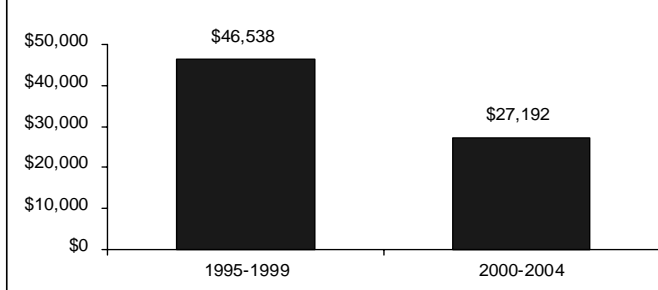
Since we began the 21st Century, we have experienced 9/11, the aftermath of which continues to overwhelm global politics and economic concerns. We've witnessed a stock market and real es-

The Bigger Fear

As the exhibits clearly illustrate, we face an even greater challenge in the decade ahead-- lower investment returns, a long life, and the biggest fear of all-- running out of money!

Down in a Decade

Five-year return of \$400 per month invested in S&P 500, 1995-1999
Assumes no fees and no taxes.



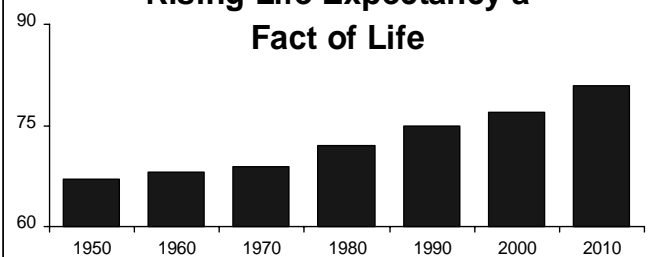
When the primary goal of investing shifts from saving and accumulating to the need for income, the critical tack is to diversify, diversify, diversify! Sound familiar?

Plan and Protect

tate bubble, seen the proliferation of global terrorist activity, and have watched a natural disaster of epic proportions wreak havoc at home in the US, its implications deepened by an appalling lack of governmental leadership and direction. With all these concerns, investors want to know where to invest and how to protect their hard-earned savings.

We can give your investment portfolio a "long-life" and meet the challenge of making assets last by incorporating a prudent investment process!

Rising Life Expectancy a Fact of Life



Source (both charts): Chase Life & Annuity Co.

We can't control geopolitical and economic conditions, nor can we rein in out-of-control spending by our present Congress and Administration. But we Americans are a tough lot--we bounce back in the face of adversity and so will our economy and capital markets, in spite of the worrisome trends we face now.

Test

Is there anyone among us who does not believe the cost of basic materials, commodities, energy, housing, and healthcare will increase at a substantial rate over the next decade? Good! Step one is to

(See *Sum of All Fears* Page 8)

WEALTH MANAGEMENT JOURNAL

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Tomorrow, Tomorrow!

Judith Johnson

We read and loved an article published in the September 19th issue of Fortune Magazine, Cait Murphy's "Fast-Forward to the Future". We have summarized the more amazing, hopeful, and positive thoughts and insights on the future offered by this author. Suspend your disbelief and enjoy!

* * * * *

We are in the year 2080, 75 years in the future. The following information was gleaned from interviews with numerous scientists and notable thinkers:

2080: Our population will have peaked; our species will have done some terrible things. But above all, our human ingenuity, resilience and intelligence prevail. Life expectancy will be 100, and we will have godlike powers to enhance our bodies and minds.

Medical Advances

Brain: Drugs to restore and strengthen memory can be bought over the counter. Individualized cocktails of neurotransmitter-tweaking drugs enhance mental focus, persistence, self-confidence, libido, and sensory excitability.

Heart: Can determine genomically analyzed behavioral profiles such as musical talent and tendency to take risks.

Organs: Use patient's own stem cells (banked at birth) to rebuild damaged organs.

Blood Cells: Medicines customized to individual genetic configuration, making treatment more likely to succeed. Nanomachines (tiny computers and genetically engineered antidotes) in the bloodstream will seek out and destroy cancer cells without collateral damage and will generate healing compounds as needed.

Reproduction: Male contraceptive pills are readily available. Male cells can transform into egg cells, meaning two men can have a baby which develops outside the womb. Women are fertile forever. Gene therapy is routinely used to treat babies for problems like Down Syndrome and alcoholism, and is also used to implant intelligence and special skills.

Eyes, Ears, and Teeth: Glasses and contacts have been replaced with natural replacement lenses. Deafness is virtually eliminated. Cavities are eliminated due to a microbial mouthwash, and replacement teeth can be grown in a lab.

Behavior: Anti-vice vaccinations stop addiction to smoking, drugs and alcohol. Convicts can now choose between incarceration and vaccination. Drugs tweak metabolism so that you can gorge without gaining weight.

Limbs: We can regrow appendages just like salamanders; if an appendage cannot be regrown, manufactured replacements are superior. The Olympic Games new rule: original-limb athletes only.

Our Homes

Refrigerator: Networked device monitors food freshness, orders food, and provides nutritional information. After 2050 the fridge is obsolete because meat and dairy products no longer spoil. Beer and soda chill themselves.

"Clean": Kitchens are havens of healthful microbes that eat noxious germs, and have a lemony fresh smell.

Windows: Membranes that filter air and light and clean themselves.

(See *Tomorrow Next Page*)

Tomorrow

(From Page 2)

Mattresses: Filled with wireless sensors that identify sudden medical conditions-- a 4:00am heart attack or stroke immediately summons medical services.

Water: Water system collects, filters, and recycles waste to conserve a resource as precious as fine wine.

Books: Still endure. The paperless office never happens. The laptop is a quaint souvenir.

Carpet: Ingests dirt, spills, and stains.

TV: Is holographic and always on, streaming live feeds from homes of family and friends you hang out with remotely-- also used to participate in community events and also to vote.

Toilet: "The Seat of Modern Health"-measures body fat and temperature, analyzes urine and feces, and automatically confers with health providers to spot problems early.

House Exterior: Coated with substance that changes color on demand, i.e., dark in winter, light in summer, pink for your daughter's birthday party.

Yard: Harmonious ecosystem that regulates itself.

Family Car: Has been running on hydrogen for years, and is mostly biodegradable.

Technologies

Highway in the Sky: Boeing, NASA and several entrepreneurs are working on "Jetsons"-type personal air vehicles. In another 25 years, tiny aircraft will be parked in our driveways, with the capability to drive as well as fly. NASA is

working on a collision-detering device that will function as an onboard air-traffic controller.

Nanotechnology: This is mimicking the mechanics of nature by building devices from the atom up, as though they were Legos or building blocks, but incredibly small and flexible. A nanometer is one-billionth of a meter; a nanometer is to an inch what an inch is to 400 miles! These qualities will allow us to make things of unbelievable refinement with little use of energy, in small quantities, and without big centralized factories -- indeed, even at home. Nanotechnology will harness the sun's energy and split water into hydrogen and oxygen, creating a clean pool of hydrogen for fuel cells and other applications.

"2080: Our population will have peaked; our species will have done some terrible things. But above all, our human ingenuity, resilience and intelligence prevail."

Information Ubiquity: Any kind of information is available anytime you want it. Simply speak, or even think it, if you have trained your personal receiver that way. You are always connected wirelessly to "the network." Point your always-on camera (in your hair pin or hat) at someone on the street and get as much information as you want. You can locate anyone at any time or learn the outcome of a worldwide event instantly. Restricting data is hopeless as individuals can keep archives as big as the government's. You record your entire life on video, freely searchable by others. Google queries are quaint. Efforts to protect privacy have long been abandoned.

The World, 2080

In 2040 oil consumption begins to fall in absolute terms; by 2060, oil is a boutique fuel. Oil-dependent Middle East economies (which never diversified) take a brutal hit, sparking violence, but then a promising generation of reformers emerges to replace their blundering predecessors. Pushed by the 2030-40's oil shock, the alchemy of turning crops into energy is finally mastered. Biofuels become big business and entrepreneurs flock to the heartland Corn Belt.

Singapore is the first country to ban non-hydrogen cars. By 2050 hybrid hydrogen-electric vehicles are king of the road everywhere. Micro-turbines fueled by a variety of sources provide on-the-spot power which turns Africa away from political corruption and brings a new spirit to the continent. Water has become the world's most valuable commodity, and we still cannot control the weather.

Bangladesh farms water and pipes it to China and India. Global warming brings worse weather disasters. The low, flat islands of Micronesia are swamped; Venice, lower Manhattan, and the Nile delta struggle to cope. In 2059, with falling birth rates and increased intermarriage and immigration, Italy becomes the first European country to have a nonwhite majority. By 2075, the US, Canada, Europe, and Oceania have followed suit. First in Japan, and then over the rich world, old age is transformed-- Alzheimer's disease has disappeared; fragile elderly get around in exoskeletons; intelligent machines and robots take on the cognitive burdens; retirement age is 82. In 2068 India beats China in becoming the world's largest economy. A flat, simple, tax is adopted throughout the world, except France. The entrepreneur in the garage remains one of the world's most important people!

the DUKE & DATE

By Duke Johnson, JD, MBA (TAX), CLU

The Great Debate

The "Merrill Lynch Rule"

The Securities and Exchange Commission (SEC) ruled in April of this year that stock brokers do not have to register as investment advisers as long as their advice to clients is "solely incidental" to the sale. Big deal!

Well, it is a big deal to many investors and to me! Our firm is registered with the SEC as an investment adviser. We accept fiduciary responsibility, brokers don't! Merrill Lynch has 14,000 stock brokers who call themselves financial advisers, yet are not held to a fiduciary standard, i.e., a special relationship of trust.

Brokers sell investments that are "suitable" to your objectives, while I have a fiduciary duty to put your interests ahead of mine. Our policy is to get your prior consent before buying or selling in your account, while brokers notify customers of trades after the fact.

It's All About Money

Discount brokers and fee advisers cut into the commission profits at brokerage houses. In 1999, the SEC opened Pandora's Box by allowing brokers to offer advice for a fee without adhering to adviser standards, if the advice given

is incidental. Merrill and the other high-priced brokers then packaged products with advice and are exploiting this flaw in regulation.

Caveat

"Separate advice from compensation," I always say, and if you use a

"Brokers sell investments that are 'suitable' to your objectives, while I have a fiduciary duty to put your interests ahead of mine."

broker, insist on a written investment policy, prior notification on all transactions, and understand this: the broker has no duty to put your interests ahead of his interests or his firm's interests.

Free Lunch

In the last issue of Wealth Management Journal, we offered to "audit" your portfolio for risk, cash flow,

taxes, etc. We had satisfied takers!

So this is the second in a series: we will review your life insurance policies purchased more than two years ago. This contract analysis has improved coverage and reduced costs for many clients, and we think it's worth the effort to dig the policies out for another opinion and audit.

In past audits we've uncovered flaws in ownership and beneficiary designation (brother instead of wife); we've changed policy structures to substantially reduce premiums, and in some cases, ceased premium payments altogether. Term insurance is "if I die insurance," and if term insurance coverage was purchased two to three years ago, we may find new coverage is more affordable. So come on down-- bring those tired and downtrodden policies for a second look!

Be well and do good work.



Starting Early With Nickels and Dimes

Candace Jackman

To Be Early is to Be On Time!

A few months back, we were visited by a young man fresh out of high school, just months away from his college debut. Having landed a job as a lifeguard, this eighteen-year-old felt it was the right time to discuss strategies for building his financial future. Our client's request was to help formulate a business plan for "building his empire" -- saving, investing, and planning for the future. While it was a typical request in our office, we were pleased that it came from such an atypical client.

We've included excerpts from the four page business plan we developed for our young client and encourage you to share these tips with any enterprising youngsters in your life.

Introduction

Establishing a financial and investment plan early in the game is the first step to financial success. As a young adult, you have at least 30-50 working years ahead of you to accumulate wealth, so the temptation is to "put off" saving until your prime earning years. In your consciousness of the importance of starting early, you have set yourself well ahead of the curve!

Budgeting & Saving

This sounds like remedial advice, but it is worth emphasizing. Make a budget each month and stick to it. Most importantly, budget in room for savings! By factoring in your commitment to saving

each month, you ensure both the feasibility and success of your plan.

On payday, pay yourself first! Automate transfers to savings and investment accounts so that these funds leave your account long before you have the chance to miss them. We suggest establishing a

savings account for short-term accumulation of cash for near-term expenses (a car, tuition, a trip, etc.), and an investment account for long-term goals, such as retirement or a home purchase. Choose a target amount to put away in each account every time you are paid, and stick with it. Use your savings when you need to, but don't dig into your retirement account--not only are there penalties involved, but a small withdrawal now will have a much greater impact on your retirement assets in terms of investment earnings lost!

Buy a "Free Annuity"

If you are familiar with annuities, you know that most essentially involve exchanging a lump sum now (or a stream of payments now) for an income stream in the future. Our favorite savings strategy involves "Free Annuities", which sound impossible, but actually exist.

Let's say you buy Starbucks every weekday morning, usually a mocha for \$3.15. And suppose you decided it would be a

better idea to make coffee at home and invest the cash you would have spent at Starbucks. Your mocha bill, plus the occasional tip was running you about \$70 per month. You decide that you'll spend \$25 per month on coffee from now on: one mocha per week, and Starbucks coffee beans for homemade coffee. To solidify your plan, you buy a Starbucks card for \$25 on the first of each month and once it's gone, it's gone!

"As a young adult, you have at least 30-50 working years ahead... so the temptation is to 'put off' saving until your prime earning years."

Reducing a monthly "bill" by \$45 does not sound significant, but if you were able to add this amount to your Roth IRA each month, and earned 10.7% per year (the historical average compound annual growth rate for large cap stocks), your "free annuity" will have paid out nearly \$1,900 after three years. After 10 years on the coffee budget, you'd have \$9,300 sitting in the bank. Not a bad deal!

Set up a Roth IRA

One of the most effective investment tools for the young investor is the Roth IRA. This account enables you to invest after-tax dollars in an account, which, upon qualified withdrawal, are tax free. Paying taxes now, when you are in a 15-20% bracket, is a terrific deal given that in the future your tax burden will probably be 25-35%. These accounts are also flexible; after 5 years you may withdraw assets tax free (and penalty free) for the purchase of a home.

The advantage to using a Roth IRA as opposed to a traditional taxable account cannot be understated: by paying taxes before you invest your money, you are able to shield investment earnings from

"My problem lies in reconciling my gross habits with my net income."

-Erroll Flynn

(See *Nickels* Page 6)

Nickels

(From Page 5)

taxes in the future. In a taxable brokerage account, you must pay taxes annually on your investment income, and must pay taxes whenever you sell an appreciated asset (even if you reinvest the money!). We believe the best deal for a young investor with an eye toward long-term goals is the Roth IRA. We can help you set up a low-cost Roth IRA through Schwab, and can also assist in setting up automatic transfers from your checking account to your Roth IRA.

Dollar Cost Averaging

Dollar Cost Averaging is the periodic investment of a set dollar amount in a mutual fund, which helps investors to buy more shares of a fund when the price is low, and fewer shares when the price is high. This is intuitive, but powerful.

For example, say you were able to contribute \$100 per month to your Roth IRA, and wanted to invest in Oakmark Equity Income Fund. Your DCA strategy would be to set up automatic investments on a set day of the month (let's say the 15th of each month). By automating your regular purchases of a mutual fund, dollar cost averaging ensures that you buy more shares when the price is low, and fewer shares when the price is high. It reduces the effects "market timing" by eliminating the routine of waiting to manually invest until you see a drop in the share price. Such "market timing" schemes often result in paying a higher price per share! We can help you set this up through Schwab.

Investment Philosophy

We believe that long-term goals require a long-term investment strategy. Short-term strategies, such as day trading, are not conducive to a long-term wealth accumulation plan such as yours. We advocate a "buy-and-hold" strategy coupled with a broadly diversified portfolio. In addition, we feel that costs, fees, and taxes associated with investing can greatly reduce portfolio returns. We therefore invest primarily in low-cost mutual funds, index funds, and Exchange Traded Funds (ETFs), toward the goal of reducing the costs which, over time, eat away at portfolio growth.

Someone with your goals, given your age, should invest in a portfolio containing both stocks and bonds. Stocks have

the greatest potential for tremendous long-term growth, while bonds pay lower returns with greater reliability. The idea of diversification is a product of Modern Portfolio Theory, which states that combining asset types that perform well at different times helps to mitigate or reduce the risk in a portfolio. The hope is that in a year which is rough on stocks, bonds will perform well, and vice versa. Furthermore, small stocks, large stocks, and international stocks perform better or worse at different times, increasing our options for diversification. An 80/20 split between stocks and bonds is quite appropriate for a young adult, though 70/30 or 60/40 may be appropriate as well.

Suggested Investments

If you are starting from scratch, the best move for keeping costs down and getting "instant diversification" is to buy a mutual fund. We would not recommend funds with transaction fees or any ETFs for dollar cost averaging, because commissions are too high compared to the amount of money you will likely be investing.

Plan of Action

1. Create a budget and set savings and Roth IRA contribution targets each month; do this for a few months to get an idea of realistic goals for saving in both accounts;
2. Open a Roth IRA;
3. Set up automatic contributions to Roth IRA;
4. Initiate Dollar Cost Averaging;
5. Periodically review investment choices;
6. Periodically review budget, along with savings and Roth IRA contributions;
7. Increase the amount saved over time!

"When someone reaches middle age, people he knows begin to get put in charge of things, and knowing what he knows about the people that get put in charge of things scares the hell out of him."

-Malcolm S. Forbes

THE BACK PAGE

The La Jolla Institute for Wealth Management

The La Jolla Institute for Wealth Management is an independent advisory firm that secures investment, legal and insurance services from leading third-party providers. We offer objective advice to clients on a fee-based retainer. The Institute provides the following wealth management services:

Life Insurance

The Institute reviews and analyzes insurance needs, including existing and proposed life and disability contracts. Clients receive substantial savings plus objectivity in placing the proper amount and type of insurance.

Estate Planning

The Institute performs tax and distribution analyses, develops and assists in implementing wills, trusts, intra-family and elder care planning, and family business succession.

Severance Benefit Planning

The Institute develops and installs severance benefit plans for corporate sponsors. We also represent severed employees in negotiations with employers to assure an equitable settlement. Our team of legal, actuarial and tax professionals provide knowledge and experience.

Investment Management

The Institute develops and implements your written investment plan, using no-load funds, institutional-priced stocks, bonds and money managers. The Institute closely monitors the investment portfolio and provides you with scheduled status reports.

Retirement Planning

The Institute performs plan design, investment funding and distribution analysis of individual and corporate plans.

401(k) Investment Advisory Services

The Institute selects investment options, tracks and reports investment performance, and presents employee education workshops on the basics of investments and retirement planning. We assist in audits of 401(k) plans and offer both bundled and unbundled plans.

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College Corner

(From Page 8)

Some financial planners, reports Christopher Gearon in this month's AARP Bulletin, find the best strategy is to suggest not saving for college at all! The reason is that current tax and financial aid policies can "punish" some savers in such a way that they are worse off than if they had no savings.

In particular, the AARP article noted that savings in a child's name have the most detrimental impact on financial aid. Susan Dynarski, a Harvard researcher found that every dollar saved in an UTMA (Uniform Transfer to Minors Act) can cost the student up to \$1.24 in financial aid,

making the UTMA the worst vehicle for college savings. In contrast, Dynarski found that money saved in an ESA or 529 plan only reduced a student's financial aid by up to 15 cents per dollar drawn from these accounts.

Financial aid "experts" estimate that students are expected to contribute 35% of their assets toward education bills, while parents are expected to pay about 5% of savings. This is but one part of a complex formula based on financial need, family income, certain other assets, and college costs. And this formula, naturally, varies by state and by university.

More bad news: the cost of education is rising faster than core inflation! The good news is that more families are qualifying for financial aid, including those with net incomes between \$70,000 and \$100,000.

If you are navigating the complexities of planning, saving, or paying for college, or even applying for financial aid, please feel free to use us as a resource.

"Most voters would rather have their purse or wallet stolen than be audited by the IRS."

-Frank Luntz

College Corner

As September approached, we fielded an increasing number of calls from parents asking about college. The topics included urgent wire requests for past due tuition bills, requests for 529 plan applications for newborns, and questions about which lenders to use for student loans.

The many concerns raised by our clients reinforced our suspicion that as college has become vastly more expensive over the years, planning for it has become increasingly complicated.

Take, for example, the age-old, fail-safe strategy of "saving for college." Sounds simple enough! But which type of account do you open? How will these savings impact the amount of financial aid received, or your chances of qualifying for financial aid at all?

(See **College Corner** Page 7)

Sum of All Fears

(From Page 1)

concentrate 5-10% of our portfolios in these winning sectors for the long term.

Real Assets

Yep, the demographics are overwhelming! We build, deplete, and consume like there's no tomorrow. Exchange-traded funds and mutual funds can cover these sectors with broad diversification at a very low cost.

TIPS

We select old-fashioned inflation-protected bonds not for yield, but as a hedge against inflation. Invest in a low-cost TIPS fund in your retirement account.

Emerging Markets

Choose an emerging market fund for its low correlation to both US and other developed international markets. We like to throw in foreign bonds too, for added total return and increased diversification.

At the Foundation

If you are fortunate to have a lifetime, inflation-indexed pension plan, good for you! But fewer of these plans are in existence, so we are counseling clients to consider immediate annuities, or insurance against "long, healthy living." We target 20-25% of your investment portfolio in an annuity that pays you lifetime income. No matter how long you live, and no matter what happens to the balance of your portfolio, you know you'll get a check every month!

Spending down your investment portfolio is risky business, because although we know life expectancy is increasing, we don't know how long you will live or what investment return you will earn. In order to guarantee a long-life income, we believe an immediate annuity may be a good option for certain clients. I am looking at a unique immediate annuity developed by Vanguard and AIG insurance. This product pays income which increases each year with inflation. I also own a Vanguard Deferred Variable Annuity which I

intend to consider converting to a variable immediate annuity in my golden years!

You can find examples of immediate annuities at www.vanguard.com or www.immediateannuity.com. This may not fit your situation, but I'd still find out how such an annuity would compare to the income stream your portfolios will produce. Here's to a long life...and never running out of money!

Compare & Choose the Right Plan for College Saving

Plan	529 Plan	Coverdell ESA	Custodial Account
Federal Income Tax	No non-deductible contributions; withdrawn earnings excluded from income when used for qualified higher education expenses	Same as 529 plan, except earnings withdrawn for qualified K-12 expenses also excluded from income	Earnings and gains taxed at parent's rate until minor reaches age 14; first \$750 of unearned income is tax exempt
Maximum Investment	\$250,000 per beneficiary	\$2,000 per year	No limit
Investments	Wide variety of age- and risk-based portfolios	Most securities and certain other investments	Almost any investment

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