

# 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.

### In This Issue

Mission Statement.....	1
Just Finished Goldilocks.....	1
The Power of 50.....	2
The Duke Update.....	4
2007 Tax Update.....	5
Attorney's Advice on Identity Fraud....	7

## Just Finished Goldilocks; Should've Read Humpty Dumpty!!

### Great Expectations

Remember the good ole days? The roaring nineties; double your money by next Thursday, and then 2000 had a great fall with prices dropping dramatically. The S&P drops -5.83% on April 14, 2000, clearly a sober frame of reference for the -3.47% decline on February 27, 2007. A lesson learned: volatility is in the market all the time. We only see it when headlines scream panic, recession, and the proverbial flight to quality.

However, you've seen and heard it from this pundit, that the huge stock market gains over the past four plus years were due for a correction. Whether this recent decline is a near-

term correction or an indication of a long-term global market decline, remains to be seen.

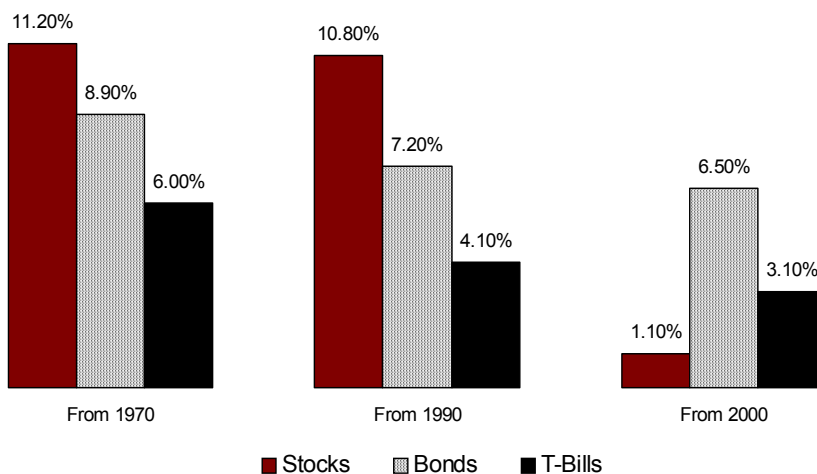
### Discovering China

The Wall of Humpty's fall – and what a drop it was! The Shanghai stock index fell 9% as investors took profits from a spectacular run-up in that market. This, according to the “talking heads” triggered a global sell-off in stocks and a rush to U.S. Treasuries. No wonder China's market decline was dramatic – in 2006, the Shanghai Stock Index was up 131%. Over the past ten years, the index produced an 11.4% annualized rate of return! Some emerging market!

(See *Expectations* Page 3)

### What's Reasonable to Expect?

Average Annual Total Returns (%) (As of 12/31/06)



Source: Oppenheimer Funds

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*This newsletter provides general information for educational purposes only. It is not intended as personal investment or legal advice.*

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## Questions?

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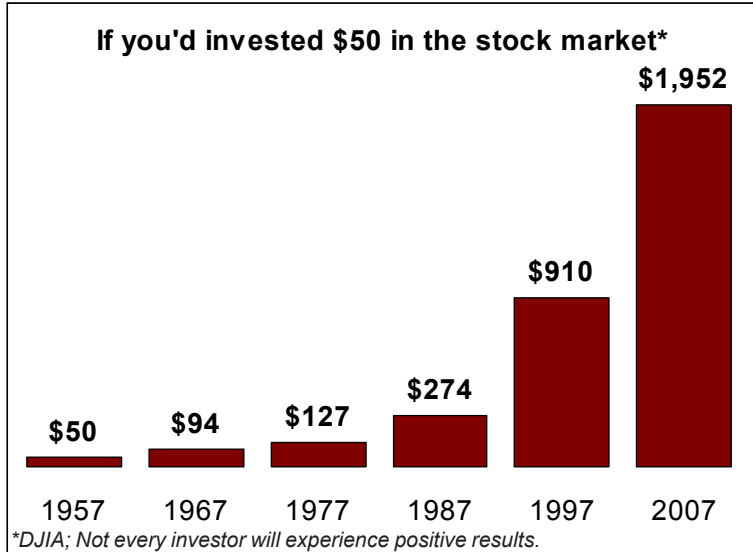
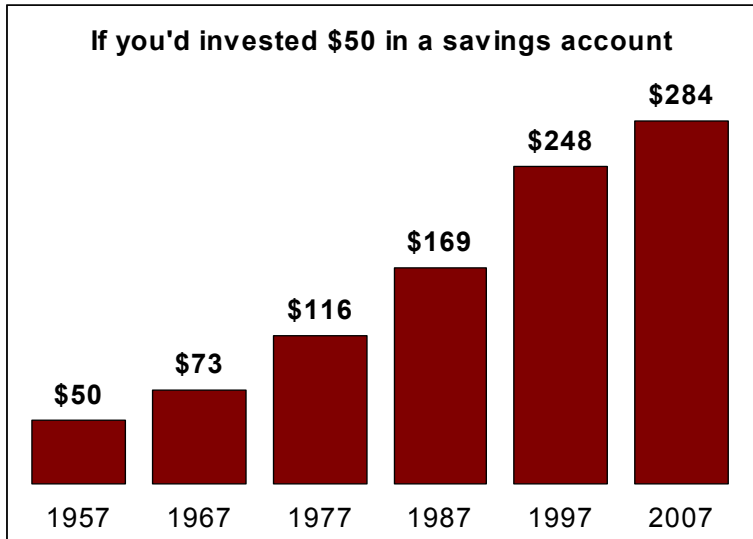
# The Power of 50

If you need a reminder about the importance of saving, consider what time does to money not put someplace where it can grow: inflation erodes its buying power.

- \$50 in 1957 is worth \$6.58 today after inflation.

Prices in 1957 . . .		and today
■ Gas, a gallon	\$.23	\$2.24
■ Coffee, a pound	.69	3.14
■ Milk, a gallon	.97	3.20
■ Eggs, a dozen	.45	1.26
■ Sugar, a pound	.11	.51
■ Harvard tuition	800	31,665
■ New home	14,200	241,400*
■ Median income	4,966	46,326

\*National Association of Realtors median projection for 2007



Source: AARP Bulletin

## Expectations

(From Page 1)

The country's growth is impressive – construction is a 24/7 binge. China is a deep hole for the world's raw materials that support their boom. The 2008 Olympic venue is a driving force; as is learning English, capitalism, golf, and an infrastructure emphasizing trains, planes, and fuel efficient automobiles. No SUVs please!

On balance, my guess is investors will benefit as American and European companies may be the real beneficiaries of China's growth. I see a generation of extraordinary growth in China's infrastructure and transportation industry. The key to good returns for you and me is investing at the right price and staying the course.

Remember, the Chinese want to be like us. They come to the U.S. University of Capitalism, get straight A's, and go back home to compete and win!

So, get the next generation to read The Prince and learn Chinese.

### Half-Full or Half-Empty?

Well, back on the home front. What "IS" reasonable to expect at this point of caution and concern? Many investors are still hoping for another sustained period of double-digit returns. Others are convinced we are overdue for a recession and a true 10% or greater correction in this second longest rally since the Depression.

The bears cited the inverted yield curve (short-term rates higher than long-term

interest rates) as an almost certain precursor to a recession; corporate earnings are slowing, and the housing industry is forecasting a possible collapse along with serious problems in the mortgage financing markets. The half-empty corner points to the insiders – corporate insider selling is at the highest level in twenty years. Mutual funds are closing to new investors as cash levels are very low, so the "Siren Song" from the bears – Defense, Defense – go to cash and short the market!

Our "half-full" proponents counter with the overall healthy global economy, reasonably priced stocks, low interest rates, tame inflation levels, merger and buy-out strength and a slowing economy returning to slightly below long-term patterns. All these factors are bolstered by the perception of an accommodating Federal Reserve; some expecting the Fed to micro-manage the perfect soft landing.

### What To Do Now

First, do not panic and take the investor stress test. Ask yourself if you can deal with continued market volatility. We do expect a more rocky road in 2007, coupled with more modest returns over the next five to ten years. Our crystal ball forecasts 5-7% average returns for both stocks and bonds over this time frame. Our less stress blueprint for the next three to five years:

*"We do expect a more rocky road in 2007, coupled with more modest returns over the next five to ten years."*

1. Raise cash if you are near or in early retirement. We usually keep two years of cash and bonds for distributions from income/retirement accounts.
2. Maintain international stock and bond positions. Long-term, the dollar will continue to fall along with our global prominence.
3. Buy value and high dividend securities. Good buys are possible in large value stocks, healthcare and real estate securities.
4. Use low-cost index funds, exchange-traded funds and exceptional active managed funds to access the sectors cited above.
5. Diversify – Be patient – Add money on dips and SAVE.

### Bottom Line

Cutting through all the ya da, you must reasonably expect stocks to stay flat or seriously correct soon. This market has gone too long without a 10% correction. Few bull markets have lasted more than five years, so we are on thin ice here! But remember, time is our best resource, and historically, the U.S. stock market has risen more than it has fallen.

Remember though, 80% of your return is staying invested AND manage your expectations.

*"Bureaucrats:  
they are dead at 30 and  
buried at 60."*

~Frank Lloyd Wright

# the DUKE & DATE

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

## Believe It or Not

I had the pleasure to speak to an employee group of a very successful local company. This company invited leading professionals to speak to their employees about financial, legal, insurance, and leadership planning. It was an informal, Friday buffet lunch, with an open and candid exchange. This company is voted one of the best to work for in San Diego – it works!

In my presentation, I stressed our standard low-fee, no-load, low tax investing principals. A few days later I received an email from the CFO, who attached an article from the New York Times that cited results from an experiment with Harvard and Wharton School MBAs. They failed to select the lowest-cost, S&P 500 Index fund for their portfolios, even when they were provided detailed descriptions of the fund's loads and expenses.

Professors asked thirty undergrads at Harvard and Wharton and eighty-three MBA students at Wharton to allocate

a hypothetical \$10,000 among four S&P 500 Index funds to be held for one year. The only significant difference in the fund's returns would be from sales charges and management fees. Each student received fund prospectuses with complete details of loads and expenses.

Unbelievably, fewer than 20% of the students picked the fund with the lowest fees. You'd think it would be obvious to pick the fund with the lowest cost. But evidently, not at Harvard and Wharton! I've applied for an adjunct professor's position. (See [www.som.yale.edu/faculty/jjc83/fees.pdf](http://www.som.yale.edu/faculty/jjc83/fees.pdf))

### Online Brain Test

Here it is folks – a web-based test that offers a standardized method to quickly detect brain impairment and dementia.

A study published in the February 2007 edition of the Journal of the American Geriatric Society reports the Automatic Clock Drawing Test™, is the first automated widely used cognitive

assessment test. This test has great potential for fitness-to-drive evaluations to reduce auto accidents among elder drivers. Please note – my thanks for this email alert to the Senior Lawyers Division of the American Bar. I

believe this universal test can help alleviate the subjective, discriminatory system of license revocation, and help in the practice of law in litigation and competency areas.

Now if I can remember the web address! Be well and do good work.



*"The biggest barrier to becoming rich is living like you're rich before you are."*

~Kiplinger's,  
October 2006

~ Check in with Duke ~

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# Staying Ahead: 2007 Tax Planning Table

## 2007 Allowable Tax Benefits

### STANDARD DEDUCTION

Under Age 65	
Married Filing Joint	\$10,700
Single	\$ 5,350
Married Filing Separate	\$ 5,350
Head of Household	\$ 7,850
Additional--Age 65 or Older	
Married	\$ 1,050
Single	\$ 1,300
Additional--Blind	
Married	\$ 1,050
Single	\$ 1,300

### PERSONAL EXEMPTION

\$ 3,400

### MAXIMUM CHILD TAX CREDIT

\$ 1,000 per child under 17 years

### DEDUCTIBLE IRA CONTRIBUTION

If taxpayer and spouse NOT covered by employer-sponsored plan:

If younger than 50	\$ 4,000
50 or older	\$ 5,000

### MAXIMUM EMPLOYEE 401(k) CONTRIBUTION

If younger than 50	\$15,500
50 or older	\$20,500

### SELF-EMPLOYED MEDICAL INSURANCE PREMIUM DEDUCTION

100%

### ANNUAL GIFT TAX EXCLUSION

Individual	\$12,000
Couple	\$24,000

### ESTATE TAX EXEMPTION

\$ 2 million

### STANDARD MILEAGE DEDUCTIONS

Business Miles	48.5 cents
Medical Miles	20.0 cents
Moving Miles	20.0 cents
Charitable Miles	14.0 cents

## 2007 Tax Benefit Phase-Out Levels

### PERSONAL EXEMPTION

#### AGI PHASE-OUT\*

Married Filing Joint	\$234,600
Single	\$156,400
Married Filing Separate	\$117,300
Head of Household	\$195,500

\*In 2007, there is a 33.3% repeal of the personal exemption phase-out.

### ITEMIZED DEDUCTION

#### AGI PHASE-OUT\*

Married Filing Joint	\$156,400
Single	\$156,400
Married Filing Separate	\$ 78,200
Head of Household	\$156,400

\*In 2007, there is a 33.3% repeal of the itemized deduction phase-out.

### IRA DEDUCTIBILITY

For those covered by employer pension plan [\$4,000 maximum contribution per taxpayer; if 50 or older, maximum is \$5,000]

#### AGI PHASE-OUT LEVELS

Married Filing Joint	\$ 83k to \$ 103k
Single	\$ 52k to \$ 62k
Married Filing Separate	\$ 0 to \$ 10k
Head of Household	\$ 52k to \$ 62k
Married Filing Joint, not covered by pension, but spouse is	\$156k to \$166k

### ROTH IRA ELIGIBILITY

Maximum non-deductible \$4,000 contribution; if 50 or older, maximum is \$5,000

#### AGI PHASE-OUT LEVELS

Married Filing Joint	\$156,000
Single	\$ 99,000
Married Filing Separate	\$ 0
Head of Household	\$ 99,000

### COVERDELL EDUCATION ACCOUNT

Maximum non-deductible \$2,000 contribution per beneficiary; withdrawals are tax-free for qualified education expenses

#### AGI PHASE-OUT LEVELS

Married Filing Joint	\$190k to \$220k
Single	\$ 95k to \$110k
Married Filing Separate	\$ 95k to \$110k

# 2007 Income Tax Rates

## FOR SINGLE TAXPAYERS

Taxable Income		The Tax Is	
Over (\$)	But Not Over (\$)		Of the Amount Over
0	7,825	10%	\$0
7,825	31,850	\$782.50 + 15%	\$7,825
31,850	77,100	\$4,386.25 + 25%	\$31,850
77,100	160,850	\$15,698.75 + 28%	\$77,100
160,850	349,700	\$39,148.75 + 33%	\$160,850
349,700	---	\$101,469.25 + 35%	\$349,700

## FOR MARRIED TAXPAYERS FILING JOINTLY

Taxable Income		The Tax Is	
Over (\$)	But Not Over (\$)		Of the Amount Over
0	15,650	10%	\$0
15,650	63,700	\$1,565.00 + 15%	\$15,650
63,700	128,500	\$8,772.50 + 25%	\$63,700
128,500	195,850	\$24,972.50 + 28%	\$128,500
195,850	349,700	\$43,830.50 + 33%	\$195,850
349,700	---	\$94,601.00 + 35%	\$349,700

## FOR MARRIED TAXPAYERS FILING SEPARATELY

Taxable Income		The Tax Is	
Over (\$)	But Not Over (\$)		Of the Amount Over
0	7,825	10%	\$0
7,825	31,850	\$782.50 + 15%	\$7,825
31,850	64,250	\$4,386.25 + 25%	\$31,850
64,250	97,925	\$12,486.25 + 28%	\$64,250
97,925	174,850	\$21,915.25 + 33%	\$97,925
174,850	---	\$47,300.50 + 35%	\$174,850

## INDIVIDUALS FILING AS HEAD OF HOUSEHOLD

Taxable Income		The Tax Is	
Over (\$)	But Not Over (\$)		Of the Amount Over
0	11,200	10%	\$0
11,200	42,650	\$1,120.00 + 15%	\$11,200
42,650	110,100	\$5,837.50 + 25%	\$42,650
110,100	178,350	\$22,700.00 + 28%	\$110,100
178,350	349,700	\$48,810.00 + 33%	\$178,350
349,700	---	\$98,355.50 + 35%	\$349,700

## CAPITAL GAINS AND DIVIDENDS

	Taxpayers in 15% Bracket or Below (%)	Taxpayers Above the 15% Bracket (%)
Short-Term Capital Gains	taxed as income	taxed as income
Long-Term Capital Gains*	5	15
Qualified Dividends	5	15
Collectibles**	28 maximum	28 maximum
Real Estate Depreciation Recapture (Section 1250 Property)	25 maximum	25 maximum

\* For investments held longer than one year.

\*\* Includes art, rugs, jewelry, precious metals or gemstones, stamps or coins, fine wines and antiques.

## 2007 ITEMIZABLE DEDUCTIONS

Among other items they include:

- Interest and taxes on your home
- Uninsured medical expenses above 7.5% of AGI
- Miscellaneous itemized deductions above 2.0% of AGI
- Uninsured casualties or theft losses above 10.0% of AGI
- Contributions to qualified charities (note that new rules apply for certain donations.)
- You can itemize only state and local income taxes; sales taxes are not itemizable. However, Congress is considering legislation that may renew this option.

## 2007 SOCIAL SECURITY TAX RATES

	Employers & Employees	Self-Employed	Wage Limits
Social Security	6.20%	12.40%	\$97,500
Medicare	<u>1.45%</u>	<u>2.90%</u>	no limit
Total	7.65%	15.30%	

## 2007 SAFE HARBOR FOR UNDERPAYMENT PENALTY

Avoid underpayment penalties by paying (through withholding or estimated tax payments):

AGI \$150,000 or less (\$75,000 married filing separate)

- 100% of prior tax liability or
- 90% of current year tax liability

AGI \$150,000 or greater (\$75,000 married filing separate)

- 90% of current year tax liability
- 110% of prior year tax

# 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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## Attorney's Advice

*A corporate attorney sent the following email to the employees in his company*

- Do not sign the back of your credit cards. Instead, put "Photo ID Required."
- When you are writing checks to pay on your credit card accounts, DO NOT put the complete account number on the "for" line. Instead, just put the last four numbers. The credit card company knows the rest of the number, and anyone who might be handling your check as it passes through all the check processing channels won't have access to it.
- Put your work phone number on your checks instead of your home phone. If you have a P.O. Box, use that instead of your home address. If you do not have a P.O. Box, use your work address. Never have your Social Security Number printed on your checks. You can add it if it is necessary, but if you have it printed, anyone can get it.
- Place the contents of your wallet on

*(See Identity Theft Page 8)*

***"If you take care of everyone you meet, you never have to worry about whom you might have slighted along the way ."***

***~Claude Harmon, Jr.  
The Pro***

## **Identify Theft**

(From Page 7)

a photocopy machine. Do both sides of each license, credit card, etc. You will know what you had in your wallet and all of the account numbers and phone numbers to call and cancel. Keep the photocopy in a safe place. I also carry a photocopy of my passport when I travel either here or abroad. We've all heard horror stories about fraud that's committed on us in stealing a name, address, Social Security Number, credit cards.

Unfortunately, this attorney has firsthand knowledge because his wallet was stolen last month. Within a week, the thieves ordered an expensive monthly cell phone package, applied for a VISA credit card, had a credit line approved to buy a Gateway computer, received a PIN number from the DMV to change his driving record information online, and more. But here's some critical information to limit the damage in case this happens to you or someone you know:

5. We have been told we should cancel our credit cards immediately. But the key is having the toll free numbers and your card numbers handy so you know whom to call. Keep those where you can find them.
6. File a police report immediately in the jurisdiction where your credit cards, etc., were stolen. This proves to credit providers you were diligent, and this is a first step toward an investigation (if there ever is one).

But here's what is perhaps most important of all: (I never even thought to do this.)

7. Call the 3 national credit reporting organizations immediately to place a fraud alert on your name and also call the Social Security fraud line number. I had

never heard of doing that until advised by a bank that called to tell me an application for credit was made over the internet in my name. The alert means any company that checks your credit knows your information was stolen, and they have to contact you by phone to authorize new credit.

By the time I was advised to do this, almost two weeks after the theft, all the damage had been done. There are records of all the credit checks initiated by the thieves' purchases, none of which I knew about before placing the alert. Since then, no additional damage has been done, and the thieves threw my wallet away this weekend (someone turned it in). It seems to have stopped them dead in their tracks.

Now, here are the contact numbers:

Equifax: 800-525-6285

Experian (formerly TRW): 888-397-3742

Trans Union: 800-680-7289

Social Security Administration (fraud line): 800-269-0271

*"You learn nothing from your success except to think too much of yourself. It is from failure that all growth comes, provided you can recognize it, admit it, learn from it, rise above it and then try again."*

~Dee Hock,  
founder of Visa International, from the  
book, *The Speed of Trust* by Stephen  
M. R. Covey

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