WEALTH MANAGEMENT JOURNAL

Spring Edition 2008, Volume 17 Number 51 © 2008 La Jolla Institute for Wealth Management

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

The Gang That Wouldn't Shoot Straight – Bankers, Brokers and Borrowers

Oh What a Mess!

Gee, where do I begin?! This financial and credit market collapse has a 24/7 buzz going on in TV and key print headlines. Sort of the Ides of March and March Madness giving investors sleepless nights with nervous glances at their portfolios. Add to these concerns falling housing prices, fast rising inflation, lower interest rates on savings, free-fall U.S. dollar, and stocks in the tank. Wow, this may be the 20-year opportunity we've been waiting for!

The Glass is Half Full

It may be difficult to see it this way today, but we believe you may agree in six to twelve months from now! The government bailout (you and me) of the investment bank Bear Sterns, may be the swan song of this tough financial crisis

*(See **Stay the Course** Page 3)*

Market Declines Are Normal

Declines in the Dow (1900-2007)[1]	Number of Declines Since 1900	Average Length (Days)	Frequency
"Routine" Declines (5%+ Loss)	360	39	3.3 per year
"Moderate" Corrections (10%+ Loss)	117	106	1.1 per year
"Severe" Corrections (15%+ Loss)	58	211	1 every 2 years
"Bear" Markets (20%+ Loss)	31	367	1 every 3 years

[1] As of 12/31/07, these market declines/corrections were ongoing. Therefore, data related to "Average Length" and "Frequency" are subject to change.

Source: Ned Davis Research, 12/31/07

WEALTH MANAGEMENT JOURNAL

Tax and Law Editor
Duke Johnson, JD, MBA (Tax), CLU

Assistant Editor
Judith Johnson

Researchers
Duke Johnson
Judith Johnson

Layout and Design
Michelle Shebest

Wealth Management Journal is published three times a year by the La Jolla Institute for Wealth Management at 7946 Ivanhoe Avenue, Suite 216, La Jolla, California 92037.

Annual Subscription: USA $34.90 Canada $36.90

"The Second Time Around" 2008 Economic Report

How Do You Get To the Poorhouse? Taxes, Taxes, Taxes!!

We are including our 2008 Economic Report which you received in your last quarterly report. It was written this January and still is on target. However, I would like to add higher taxes to my economic review. As ***figure 1*** points out in dramatic fashion, tax rates have been all over the place. But I do know high income wage earners were hit with tax rates as high as 90% in the 50's and 60's. I remember the tax shelter days in the mid to late 70's, when tax rates were 70%.

With the election yada-yada going all out, my guess is that in 2009, we will see income and capital gain rates increase. The government budget is in the red now, and add to the war cost of $12 billion a day; increased government welfare programs, credit crisis bailouts, home mortgage buybacks, and we're bordering on a social welfare state.

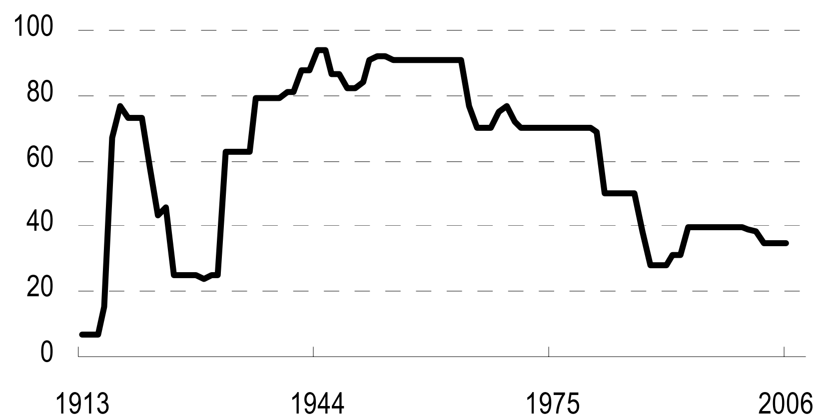
OPTIONS:

- Sell appreciated stocks to harvest gains at 15% in 2008 and part of 2009. Watch out for retrospective tax legislation;
- Add municipal bonds to all taxable portfolios;
- Stay diversified with multi-asset class portfolios, avoid market timing and turnover, and dollar-cost average into this current market over the next 6 months.

*(See **Economic Report** Page 6)*

FROM PEAK TO VALLEY IN 50 YEARS *(Figure 1)*

Historical range of the highest marginal income tax rates



Source: Tax Policy Center

Questions?

Please Contact:

La Jolla Institute for Wealth Management
7946 Ivanhoe Avenue
Suite 216
La Jolla, CA 92037

www.lajollawealth.com

Tel: (858) 459-8818
Fax: (858) 459-2818

Stay the Course
(From Page 1)

and the beginning of the "Bankers and Brokers Relief Program." March 27th marks the first Federal Reserve Bank's open window, offering $75 billion of Treasuries to dealer banks for 28 days. After the JP Morgan deal (or steal) for Bear Sterns, the brokers and bankers will be in the money again.

[1]Barron's columnist Randall Forsyth provides a clear, crisp assessment of what is going on: "Where it once lent only to banks that take the public's deposits, such as JP Morgan, Bank of America or Citigroup, that privilege is extended to Goldman Sacks, Morgan Stanley or Lehman Brothers. And where the Fed once lent only against top quality collateral, U.S. Government or Agency Securities, it NOW ACCEPTS investment-grade residential or commercial mortgage-backed securities and corporate debt as collateral against our cash or Treasuries." Yikes! Is this another fairy tale or a true picture of the mess we're in?!

History Repeats

But, I've found a good news bear – analyst Thomas Lee of JP Morgan (oh, them again) points out that the failure of a major investment banking firm may be the precursor to higher stock prices in the next year. He references four failures of major financial institutions over the past 25 years – great names like Drexel in 1990 and Long Term Capital Management in 1998, and that a year later after the failures, the market was up 12% in 1991 and 25% in 1999.

So beware, the oracles may be telling of a strong rally in the winds.

It is What it is!

I'll pay for using this heading. But the bottom line is this: The central bank and this government will not let the U.S. fall into an abyss (a.k.a. depression). They will take the "junk money" from the credit markets, and trade cash and Treasuries for the banks to keep our system going. More write-offs will come over the next few weeks (only $200 billion so far), and perhaps a surprise or two yet to come, but we'll grind this out over the next 6 to 18 months, and the new players in D.C. will start all over again. Our focus will then shift to Iraq/taxes, healthcare/taxes, welfare/taxes, and all the new wonderful ideas of Congressional staffers, 2 years out of MBA school.

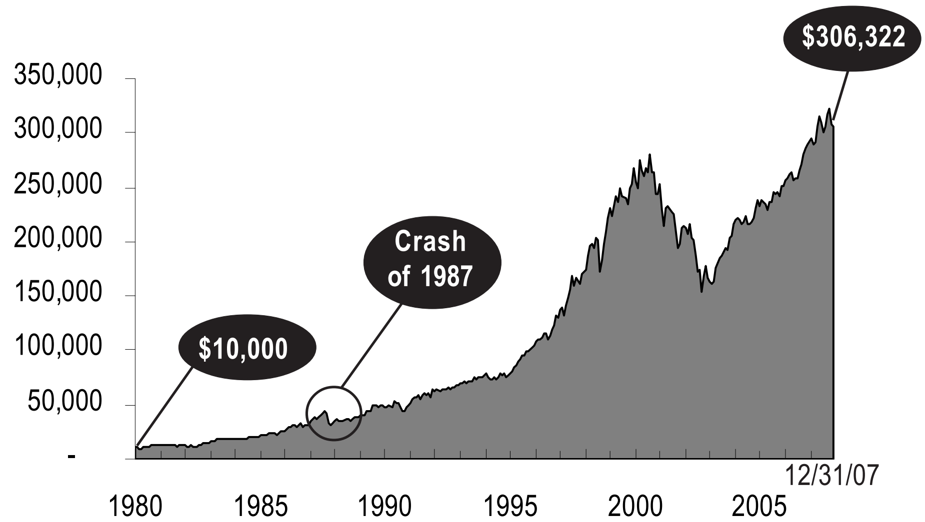
Stay the Course!

I help the 30-40 year-old "Echo Boomers" (children of boomers) with their 401(k) investment allocations. My advice is to pour it on and to max out all contributions! We also help manage retirement portfolios and use the accumulated cash for distributions and will add to high-yield stocks, NOW! Whether you are 30 or 60, think 20 years out. Asset allocation and rebalancing wins this long-term race; and don't forget, low fees and tax management of your personal portfolios, will add incremental returns.

---

1 Barrons 3/24/08, M18

Stay the Course
Growth of $10,000 Invested in Stocks (1980-2007)



Source of chart data: FactSet, 12/31/07. The chart depicts the growth of a $10,000 hypothetical investment in the stocks in the S&P 500 Index on 1/1/80 held to 12/31/07. The S&P 500 Index is a broad-based measure of domestic stock market performance that includes the reinvestment of dividends. The index is unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment.

the DUKE up DATE

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

Aiden and "The Files"

Something of Value

Aiden, my six-year-old grandson, has a good start on financial independence! No, we haven't paid for his Ivy League education, nor do we intend to shower him, or our other grandchildren with money. Our responsibility is to teach Aiden, Madison and Rhys, the value of money. Yahoo! Finance has a terrific article on this point (http://finance.yahoo.com/how-to-guide/family-home/12820).

Something of value has to be earned – so after his short-day at school, we grab a quick lunch and head for the office. I've saved Proxy mailings ("The Files"), financial reports, and other financial mailings for these monthly work sessions. Aiden opens each piece of mail and puts aside Proxy statements we will vote on your behalf (he sees the control number) by phone. He dials in and we complete the voting process. He knows that I make money by helping my clients with their money, and part of what I do, is do these important "Files." He is paid 25 cents per Proxy voted; his stash is in an old Altoids mint box in my desk drawer. When he accumulates $5, he's off to the La Jolla Bank.

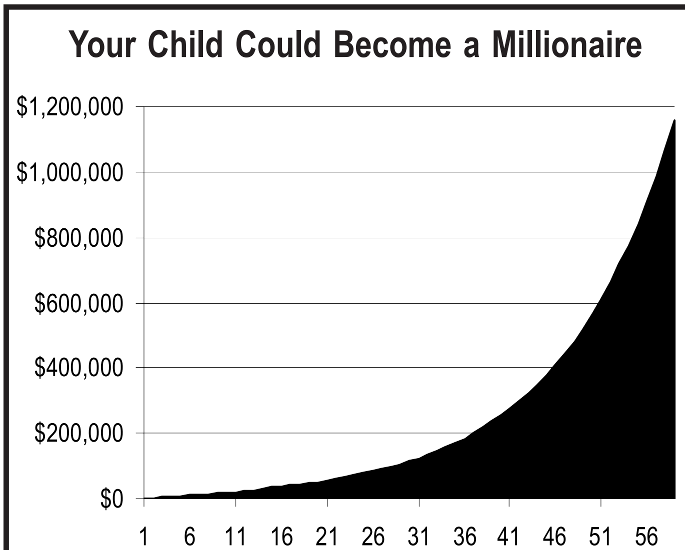
This is the critical part: The bank is in cahoots with us on this adventure. When we opened the account (no minimum), the goal was to make the deposits from working the "Files." But the fun part was when La Jolla Bank presented Aiden with a piggy bank and told him they would put $1 into his account for each inch he grew. Ah, compound interest! The message is clear – you earn it and save it, and we'll help you make more. We throw in a few dollars for interest, too.

Seems pretty basic, and not a big deal. But I can tell you there are two activities my grand-boy asks his Fafa to do:

1. "Hit some golf balls;" and
2. "Do the Files."

Can you think of any time better spent with your child or grandchild?

Duke



This chart shows the growth, compounded at 8% monthly, of an investment of $100 per month beginning at age 4 and ending at age 18, assuming that the investment remains untouched at 62. This example is hypothetical and does not represent the performance of any actual investments.

~ Check in with Duke ~

duke@lajollawealth.com
Tel: 858.459.8818 • Fax: 858.459.2818 • Web: www.lajollawealth.com

The Preparation of a Lifetime

by Judith Johnson

With the emotional decisions dealing with patient rights to life in the news of late, it behooves each of us to "do the right thing"– fill out an Advance Health Care Directive (AHCD, see next column). Being prepared in such a way can save our loved ones from added grief in the event of a tragedy.

Do the "Right Thing": Contact us for your copy of the Life Crisis File™, or for more information on Advance Health Care Directives.

Along with preparing your AHCD, you will want to have current personal information and final wishes on file, which can be achieved with our Life Crisis File™. This file helps to organize and compile such information as: driver's license, Social Security, and passport numbers; doctor, accountant, attorney, investment consultant, and other emergency contacts; the location of wills, trusts, personal effects video, and safe deposit boxes; information on life insurance policies, investment accounts, banks, and credit cards; and vital information like your blood type, illness/death arrangements, and special requests.

You may request a Life Crisis File™ from our office. We will be happy to forward one to you and yours. Many of you may have yours in the bottom of a drawer somewhere or have forgotten to fill it out. The time is now!

Protecting Yourself: Advance Health Care Directives

The Advance Health Care Directive (AHCD) combines two powerful legal documents that, if properly executed, will help to protect you in the event of a debilitating disaster. The first part, the Power of Attorney for Health Care, names a trusted individual to make legal decisions about your healthcare if you are no longer able to speak for yourself. The second half of the document, often called the Living Will, allows you to indicate your wishes about prolonging your life, withholding or withdrawing treatment, pain management, and more.

The act of completing an Advance Health Care Directive is simple; the paperwork is available online, and the questions and instructions are relatively straightforward. The decisons themselves present the most difficulty, as the AHCD forces individuals to imagine the unthinkable and dictate preferences based on hypotheticals. However, it is imperative to discuss decisions with your physician, close family, and the person you name as your agent. The Advance Health Care Directive poses the following questions:

- Who is the agent you designate to make decisions about your healthcare if you become unable to make decisions yourself or unable to communicate your wishes?

- Are there exceptions to your agent's power to make decisions to "provide, withhold, or withdraw artificial nutrition and hydration and all other forms of health care to keep you alive" (such as a "Do Not Resuscitate Order")?

- Do you direct for the treatment for "alleviation of pain or discomfort be provided at all times," even if it hastens your death?

- Will you donate your organs? For what purpose (education, transplants, research, or therapy)?

It is important to know that in signing an AHCD you do not cede any rights or give up authority to make your own decisions. As long as are capable of making decisions, your consent must be obtained prior to medical treatment. Health care providers cannot legally ignore the patient in favor of one's agent or even written instruction. In most states, advance health care directives do not take effect unless and until the patient lacks the capacity to make a health care decision. And finally, you have the ultimate protection in your right to modify or revoke the document at any time.

Nobody can anticipate a tragedy, but everybody should be prepared. Obtain a copy of the AHCD and take the first steps in protecting yourself and your loved ones.

There is No Free Lunch

Tips for Seniors for "Free Lunch" Seminars

Society of Certified Senior Advisors joins regulators in urging seniors to thoroughly understand "free lunch" seminars.

- The Securities and Exchange Commission advises that nearly all investment seminars are designed to sell. Although you have been invited to an "educational" program or investment "workshop," never lose sight of the fact that the sponsor's goal is to sell products. (CSAs must disclose in promotional materials if the purpose of the seminar or workshop is to identify prospects for the products and services the CSA sells.)

Beware of seminars that have language such as "what your banker won't tell you" or "no financial advisors allowed."

- Beware of seminars that have language such as "what your banker won't tell you" or "no financial advisors allowed."
- Investment seminars are legitimate marketing tools. However, some seminars may involve fraudulent sales practices such as sales of fictitious products or outrageous misrepresentations of risk and return. You should always thoroughly check any product before investing.
- Advertising and sales materials may include misleading or exaggerated statements about the safety, liquidity or anticipated rates of returns.

*(See **Free Lunch** Page 7)*

Fraud Alert!

Stop Selling My Name!

One of the best ways to protect yourself from identity theft and telemarketing fraud is to stop businesses and charities from selling your name. To remove your name from most marketing lists, follow this checklist:

- ☐ Don't play direct mail sweepstakes or talk to telemarketers.
- ☐ Register with the National Do Not Call Registry at www.ftc.gov/donotcall or by calling 1-888-382-1222. You must re-register every five years.
- ☐ Tell phone companies and others with whom you do business to put you on their "DO NOT CALL LISTS" – your right under a Federal Rule
- ☐ "OPT OUT" of credit reporting agencies' unsolicited credit card offers at www.optoutprescreen.com or 1-888-567-8688 – you have to enter your social security number.
- ☐ Call the customer service numbers for your credit card(s) and ask to "OPT OUT" of marketing programs, including "convenience checks."
- ☐ Reduce junk e-mail by contacting the Direct Marketing Association at Mail Preference Service, P.O. Box 282, Carmel, New York 10512 or online at www.dmaconsumers.org/consumerassistance. There is a $1 fee to be added to the Mail Preference Center.
- ☐ Make an annual charitable giving plan and give to just a few charities once a year. Request that your name not be shared with other organizations. Ask all other charitable solicitors to remove your name from their mailing list.

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.

Tel: 858.459.8818 Fax: 858.459.2818 Web: www.lajollawealth.com

Free Lunch

(From Page 6)

Sales materials also may make comparisons between dissimilar investments or services.

- Make sure you understand the qualifications, education and experience of the seminar presenter. Always evaluate the background of any adviser before you hand over your money. *Certified Senior Advisors (CSAs) have supplemented their individual professional licenses, credentials and education with knowledge about aging and working with seniors. You should ask what those licenses, credentials and education signify. The CSA designation alone does not imply expertise in financial, health or social matters.*

- Seminar solicitations should include information on the speakers and the name of the firm or product sponsors. Product sponsors, like mutual fund companies, brokerage houses or insurance companies, may fund the seminar with the expectation that their products will be sold to the attendees. Always get disclosure about any products that you are thinking about purchasing, including information on fees paid by the product sponsor.

"Never be afraid to try something new. Remember, amateurs built the ark. Professionals built the Titanic."

~Unknown

2008 Economic Report

Athletes use the "RICE" mantra to speed recovery from injury – **R**est, **I**ce, **C**ompression, **E**levation! Transposing this acronym to our economic forecast we see: **R**ecession, **I**nflation, **C**redit crisis, **E**arnings disappointments – a rough scenario for the U.S. economy and a long-term rehab program for recovery!!

The "R" word

By definition, a recession is a decline in the gross domestic product for two or more consecutive quarters, and many analysts are predicting a good chance in 2008. Standard & Poor's states a 40% chance; Goldman Sachs suggests recession the most likely scenario – perhaps a 2 in 3 chance; Merrill Lynch also in the "R" camp.

Inflation

The shadow risk for 2008 and 2009 – Obsessed by real estate and sub-prime loan disasters, the Federal Reserve has switched emphasis from tough inflation talk to moderate recognition, stating, "core inflation improved moderately this year". Contra evidence points to food/beverage up 5.7%, transportation up 6%, energy up 12% and healthcare over 7%. Modest improvement??

Credit Crisis

"It ain't over 'til it's over".[1] You bet, Yogi!! Talk about the big scam – bankers, brokers & buyers fooled 'em; and the lack of credit availability, slumping home prices and re-setting adjustable mortgages will push this decline into 2009.

Earnings Disappointments

Profit growth is experiencing a significant decline due to a transition from the housing boom, job growth and less consumer spending. The most troubling news is from the labor market: a major decline in private-sector payrolls (no comment on the public sector payroll growth – outrageous) and a significant increase in unemployment.

Half-Full or Half-Empty

The U.S. economy is struggling to cope with two major shocks: (1) a housing collapse; and, (2) a devastating turmoil in the financial markets initially triggered by the sub prime mortgage crisis.

In spite of these hurdles, my sense is the glass is half-full. Though risks are rising, I believe the economy will avoid recession, and a worst case scenario would have the recession last 2-3 quarters and be relatively mild.

The Fed to the Rescue

I feel the first half of 2008 will be the rocky road, but believe stocks may finish in positive territory at year-end. The biggest tipping point is the Fed's public vow to take "substantive additional action" to prevent a recession – lower rates throughout 2008 tend to lead to more consumer confidence and corporate borrowing, which boosts economic activity, jobs and corporate profits. The Fed seems to have decided the risk of recession is greater than inflation… at least until the next cycle when inflation comes to the forefront again.

1 Yogi Bera – NY Yankee Catcher

"Wall Street indexes predicted nine out of the last five recessions."

~Paul Samuelson

7946 Ivanhoe Avenue, Suite 216
La Jolla, CA 92037

Return Service Requested