

WEALTH MANAGEMENT JOURNAL

Swimsuit Edition 2007, Volume 16 Number 50 © 2007 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.

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Urge to Merge, Private Equity and Insider Trading – "Oh, The Places You'll Go!!"

Buckle Up, Again

So far in 2007 global stock markets have had a lot of turbulence and pundits are once again predicting more volatility before year-end. On top of the shaky bullish trend, the U.S. bond market did a real back-flip as the 10-year Treasury note hit a five year high at a shade under 5.25%. With second quarter earnings announcements and consumer numbers still to come, the market may slide into a short-term pull-back.

Sell in May, Go Away!

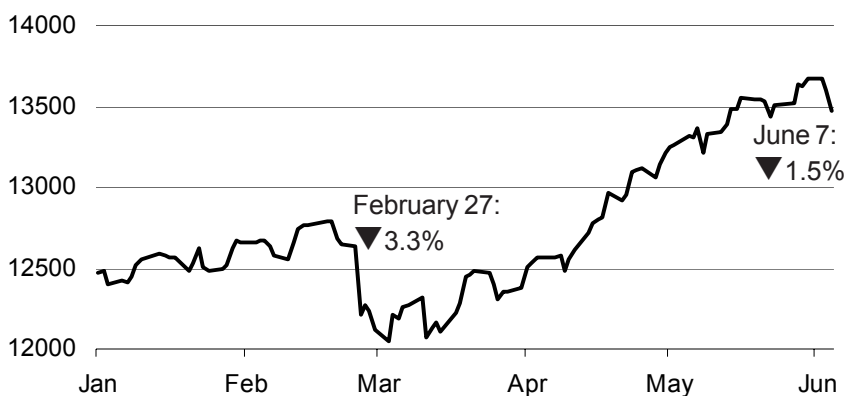
Short-term pull-back or the Summer Doldrums? It is tough sailing if you intend to invest in stocks during the

infamous May to October period. Since 1945, the S&P 500 stock index has gained 1.6% during the Doldrums. From November through April during this period, the S&P 500 has increased an average of 7%. Since 1990 stocks gained almost 8% on average during prime time (November to April), but only 2% from May to October. Not an absolute predictor of market returns, but a pattern to take heed of. We feel the market has already hit record highs, and may be pausing at this point; couple this with both corporate earnings and the economy slowing, it may be time to take profits or at least be a bit more defensive. My sense is 'tis the season to look at

(See *Urge to Merge* Page 3)

Dow Dives

Despite a rally Friday, the Dow Industrials suffered their worst week since early March.



Source: WSJ Market Data Group

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

Wealth Management Journal is published quarterly by the La Jolla Institute for Wealth Management at 7946 Ivanhoe Avenue, Suite 216, La Jolla, California 92037. Copyright © 2007 by the La Jolla Institute for Wealth Management.

Annual Subscription: USA \$34.90 Canada \$36.90

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Potpourri – Back By Popular Demand!!

The Family Swap Meet or How to Keep Peace in the Valley!

Okay, on my TOP TEN LIST OF FAMILY DEAL or NO DEAL ISSUES is what to do with a family's tangible personal property – usually items of sentimental value (my golf trophy), but often expensive jewelry, China or other quality or rare items, that may cause real friction and animosity among children, over the “who gets what” contest.

I've consistently advised clients to give away some items now, and then ask children for input on items of personal property that have sentimental value or special meaning for them. A number of novel methods were outlined in a Wall Street Journal article published on April 18, 2007 on Page D1, entitled “How to Keep Peace Among Heirs.” This piece is terrific stuff to share with you, your children and friends who have substantial personal property – some of real value, but also of sentimental value to someone close to you! I can cite an example: My mother-in-law was one of five daughters of the former General Counsel of the Illinois Central Railroad. Their home in Chicago had many items that would appeal to the gals – when her mother decided to move to a smaller residence, she had all five daughters attend a “Dutch Auction” and chose, in order by age, personal property they desired. One method, and a moderately fair outcome!

This article suggests a family auction, a round robin selection strategy (a la the Chicago family) or tagging of items by each child, to help prepare a written letter of instructions of how the property is to be divided. A video to accompany

a written letter would be quite helpful, too.

The best course of action is to have families get together and talk over this issue while all are in good health and good spirits. In many cases the story behind the object is just as important – I have a collection of Norwegian knives given to me by my father and cousins visiting from the Old Country. Each represents a special time or place for me and perpetuates a special custom among Norwegian men – and I love to tell the stories.

University of Minnesota professor, Marlene Stum, has conducted research on property distribution, and helped the university create a program called “Who Gets Grandma's Yellow Pie Plate?” which includes a workbook, video and website, <http://yellowpieplate.um.edu>, with pointers to help families discuss property distributions.

Remember, it's only stuff, but it may be really important to someone you love!

"In every age "the good old days" were a myth. No one ever thought they were good at the time. For every age has consisted of crises that seemed intolerable to the people who lived through them."

~Brooks Atkinson

Urge to Merge

(From Page 1)

health care, consumer staples and low U.S. correlation international as sectors for emphasis. A Summer Doldrums does not change our three to five year investment protocol. True global diversification, low expenses and low turnover will keep the wind at our backs in all waters, in all seasons!

New World, New Math

Saw an interesting headline – “9 to 5 Billionaires” describing the super rich hedge fund managers, merger and acquisition gurus and private equity buyout CEO’s. These guys have made the market gains happen this year and make compensation deals that boggle the mind. Today’s front page of the Wall Street Journal (June 13) describes the CEO of a buyout firm as the “\$7 billion man.” This chap, describes himself as “little man” who finds ways to win – wanting to “inflict pain” on and “kill off” his rivals. Gee, who says only lawyers lack civility? It was reported in the December 18, 2006 issue of the Wall Street Journal Europe that about 6% of the world’s \$1.2 trillion in hedge fund assets is managed out of Greenwich, Connecticut. My, how the town must have changed! Can’t find a parking space in the village for all the Ferraris. But mega-wealth is being spread around. According to a Merrill Lynch and Capgemini Consulting study titled “World Wealth Report,” the number of high-net-worth people is expanding globally at an unprecedented rate. Over the past decade high net worth wealth grew at an 8% annual rate, from \$16.6 trillion in 1996 to \$33.3 trillion in 2005.

Globally, the report cites there are 8.7 million people who hold more than \$1 million in financial assets (excluding primary residence), and here at home, there are approximately 2.9 million households who can rub together more than a million bucks. Ranks of the world’s ultra high net worth gang swelled to 85,400, a 10% increase over 2004. Ultra high net worth are those with an excess of \$30 million in real assets. And, their biggest concerns? Terrorism, pandemic disease, pollution, population? No! The #1 worry – are the kids going to have the same “inflict pain” drive and interest in building family assets that mom and/or dad did? Hmm, first look at Paris!

The New Math

The high net worth investor has gained much from this long-in-the-tooth bull market. By breaking away from traditional portfolio construction and investing in private equity funds, hedge

funds and certainly real estate, the “Old Math” of a stock and bond portfolio (usually 60% stock, 40% bonds) can’t match the returns of a “New Style” portfolio, consisting of stocks, bonds and alternative investments like hedge funds and real estate. J.P. Morgan Private Bank calculates the new style portfolio would have returned an annualized 6.8% from 2001 through 2006, versus 4.1% for a straightforward stock-and-bond portfolio.

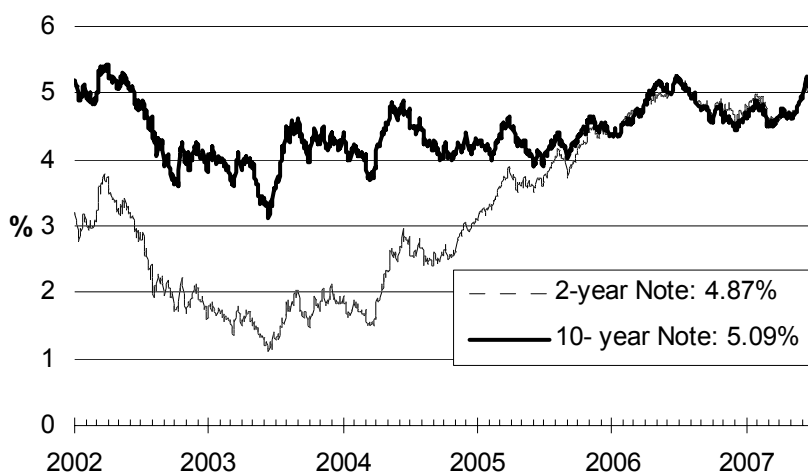
"Our portfolio avoids hedge funds (too costly), and venture capital is too risky."

How does our typical taxable portfolio fit with the new style method?

Okay, I think – we target a taxable income portfolio at 50% equity and 50% municipals, REITs, TIPs and cash for 2 years distributions. Our portfolio avoids hedge funds (too costly), and venture capital is too risky. Our clients have worked hard to earn their assets – our job is to conserve them. We’ll stick with global diversification, AAA munis, and a tax-managed total return protocol to keep our style, “New Style!”

Rising Anxiety

Yields on the 2-year and 10-year Treasury notes climb on the possibility of higher inflation and interest rates.



Source: US Department of the Treasury, June 25, 2007

the DUKE & DATE

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

A Family Practice

My good friend and personal physician is #1 in the Family Practice Group at UCSD. When we visit about “clients/patients,” it strikes me how similar we view our roles. I always envisioned my business as a family practice; small enough to be with my clients, know their family and develop a trusting relationship. My goal is to bring my experience and special training to help my clients achieve their financial and lifestyle objectives. Preservation of their capital and proper estate planning for future generations is the core of my practice, and what brings me to the office with energy each day.

My “Doc” has a similar confidential, caring and trusting relationship with his

patients. I can always count on him to see me, even on a moment’s notice; he knows our family and always puts our health and well-being first. I’ve been thinking a lot about my practice and how it will change over the next few years. My good doc will retire in a few years. He has seen too many changes in his profession and wants to experience some long-delayed adventures.

For me, traditional retirement is not even being considered. I will use technology to be more time-efficient and will have back-up (Duke’s Angels) if I’m out of the office for more than a few days. More of our operational functions are outsourced and you will see more efficiencies over the balance of this

year. But my bottom line is, I’m committed to my practice, and plan on being active in my business indefinitely and helping my clients achieve their goals!

“Now that said” – I’ve been threatening to change our office hours over the summer months for years. So here goes:

Monday – Thursday: 9am to 4pm
Friday: 9am to 1pm

*Voicemail or my mobile phone
for urgent matters:
(858) 229-DUKE (3853)*



~ Check in with Duke ~

duke@lajollawealth.com

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Or, visit our office in the Village:

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Mom and Pop Don't Leave Home

Reverse Mortgages Send You the Money: Such a Deal!

A Fax in Time?

I walked into Judith's office yesterday and she had this scanned in here for me to review. Read it. I did two or three times until I caught the drift! No debt! No interest! No payments! No kidding!!

Primary Residence This is not a loan	NO PAYMENTS NO INTEREST For 50 Years!
Dear Friend,	
No debt! No interest! No payments! No kidding!	
This is not a loan! It does not require any monthly payments and carries no interest charges.	
This is not a typographical error. This select program offers you CASH! You may be able to get up to 15% of the current appraised value of your home in CASH!	
This financial benefit is offered to owner occupied single family residence only. Program is limited. This is not a loan. It carries no monthly payments or interest expense. Money can be used for any purpose! You can use this unique instrument to payoff debts or to help restructure your current financing and reduce your monthly payments.	
<p>Your Payment Rate is 0%! Your Payment is 0! Cash back to you to use for any purpose.</p>	
<p>Call for more details</p> <hr/> <p>Let us help you get CASH with this amazing financial offer. This offer expires June 22, 2007</p>	

A reverse mortgage is a loan against your home that you don't have to pay back for as long as you or any co-owners stay there. The proceeds from this transaction can be paid to you in several ways:

- A single lump-sum of cash;
- A regular monthly cash advance;
- A credit line, or open amount of cash you determine when and how much to be paid;
- Any combination of these payment options.

Proceeds of this debt you've created are tax-free, since you are borrowing your own "equity" and there is no impact on Social Security or Medicare benefits. The amount of money you are entitled to is based on the value of the home, the age

of the borrowers, current interest rates and the type of mortgage chosen. Most plans do not restrict the use of the funds. You can use the funds for home repair, health care expenses, current bills and the cruise to Hawaii!

More Debt, Less Equity

Reverse mortgages have appeal to seniors who have played the traditional mortgage game – paying down their mortgage, building equity, and if they don't live in Youngstown, their home has increased in value quite nicely. So, taking back some of the equity may make sense in certain circumstances. But make no mistake about it, a reverse mortgage increases debt and decreases your equity unless your home's value increases at a high rate.

Nota Bene: While we're on the subject of residential real estate values, a new report from Fidelity Investments¹ cautions people about using home equity for retirement funding. According to the study, home values underperformed stocks and bonds over every five and ten year period from 1963 to 2005. Over this period, stocks had an average annual return of 5.95% compared to realty's 1.35%. Median prices in the U.S. have risen since the early 1970's at an annual average rate of 6%. But, big dips occurred three times – remember the late 70's, 80's and 90's!

The Executive Director of Fidelity's research report, cites the basic issue presented as: "If I have home equity, how

(See *Reverse Mortgages* Page 6)

¹The Equity You Live In: The Home as a Retirement Savings and Income Option. Fidelity Research Institute, MarketWatch (Dow Jones)

**"To reduce stress, avoid excitement.
Spend more time with your spouse."**

~Robert Orben

Reverse Mortgages

(From Page 5)

should I think about using it in retirement?" The report's conclusion: "The returns on residential real estate are probably less than what most people think they are."

San Diego's residential real estate market has had large moves in values. Coastal properties will increase in value – they aren't making any more building lots – but condos and rural areas may follow the national pattern. So a reverse mortgage in a high growth realty market may increase your equity over time.

Hot Topic, Big Players

Reverse mortgages are hot topics being talked up by financial planners and insurance agents. Generating new money for retirement or insurance is stimulating conversation or seminar fodder. Beware of aggressive advisors who promote reverse mortgages as a source of premiums for long-term care insurance, commission loaded annuities or life insurance, or a back-end loaded mutual fund portfolio. A reverse mortgage may work for seniors if doing so will improve the quality of their lives and permit them to live in their homes for a longer period of time.

Reverse mortgage funds, in my opinion, should be used for major home improvements to accommodate a disability, NOT long-term care insurance, annuities or low-liquidity investment products. My advice is to

buy the long-term care and other insurance products at a younger age, and consider a reverse mortgage as a "warehouse" to be opened when all other funding options have been exhausted.

Federally insured reverse mortgages (FHA) called Home Equity Conversion Mortgages (HECM) is the most used. Big name lenders – Countrywide Financial and IndyMac Bank are in this niche market in a big way. Countrywide recently launched a proprietary

reverse mortgage program offering lower upfront costs for higher initial loan-draw amounts. The lender will waive origination fees and closing costs if the entire loan is paid out at closing. As baby boomers retire, the push is on by Wells Fargo and Bank of America to dominate the reverse mortgage industry.

Informed Decision

In spite of the financial service industry's excitement over reverse mortgages, not all seniors fit the "everyone should have one" mentality! There are major drawbacks:

Up Front Cost

According to the AARP, the total upfront costs for a 74-year-old borrower in a \$250,000 home could be about \$25,000 – not including interest. The homeowner can draw about \$1,000/month. Double the numbers and it still is a bad deal. Costs are in the 8-10% range today – you are

locked in a situation I describe as easy to get into, hard to get out of!

As the interest continues to compound, it limits your other options. Your emergency fund is diminished and if you need to move to a less independent living facility, the reverse mortgage comes due and little equity may be available.

Take the Quick Quiz

1. How long do you plan to stay in the house?
2. Is downsizing a better option?
3. Is the financial need really there?
4. When do you need the money?
5. How much money can you get?

Answer

- Wait! Lower costs and more competition is coming.
- A last resort! This is not to pay for the cruise trip!
- A Home Equity Line of Credit is a better alternative.
- Move to a home of equal or lesser value – property tax saver!
- Wait!

If you can't, shop around!

"Rule Number 1 is, don't sweat the small stuff. Rule Number 2 is, it's all small stuff. And if you can't fight and you can't flee, flow. "

~Robert Eliot

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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Potpourri – Back By Popular Demand Part II

Put It In Writing

Now you've followed Part I and taken care of the transfer of all that "stuff" to your heirs. What's next?

About 2 years ago, they tried to convince me to go to a paperless office. A company would come to my office, scan all my files over the weekend, and on Monday all that information/data would be on my computer. Not a chance – I need paper, especially in crammed file folders!

But this relic, who enjoys holding the document to be read, recognizes a flaw in heirs tracking critical financial data in a life crisis situation, if you've gone "paperless." Using online tools for tax returns, banking, investment and insurance management, coupled with online bill paying, creates a maze that may even stump a PC forensics expert!

Best to keep good records and leave a written road map that lays out the key information needed for a smooth estate administration and transfer of assets.

Better yet, ask for our free *Life Crisis File™*, that compiles this critical data

(See *Put It In Writing* Page 8)

"The amateur practices until he can get it right; the professional practices until he can't get it wrong."

~Unknown

Put It In Writing

(From Page 7)

in brochure form:

- Asset information – bank and investment accounts, life insurance policies, real-estate, retirement plan data, location and account numbers;
- Names of advisors – lawyer, accountant, insurance and fee advisors;
- Safe deposit information – location, contents and location of key, signature card;
- Funeral arrangements, pre-paid plans, type of services, location etc.;
- Location of Will and Trust documents and the contact information for executors and trustees;

If our ***Life Crisis File™*** doesn't fit your paperless style, I'm sure Google will get you to a site where you can enter all the data, produce a PDF file, print it and stick it in your home office file draw or hopefully, a fire-resistant home safe.

That's the best you can do – and please, tell your spouse what and where NOW, not at another time!

A History Lesson: The Estate Tax and War, 1797 to 2007

The tide of history demonstrates the connection of the nation's estate tax with the revenue needs of warfare.

1796-1801: The first estate tax arrives to help finance an undeclared naval war against France. France was seizing American ships that were trading with the British under the Jay Treaty of 1794 because they felt it violated the Treaty of Alliance of 1778. The war ended and the estate tax was repealed in 1802.

1862-1870: Civil War expenses prompt President Lincoln to impose an estate tax.

1894: A national death tax arrives but is determined to be unconstitutional.

1898-1902: Spanish American War estate tax.

1916-Present: World War I: The Emergency Revenue Act of 1916 includes an estate tax a decade after an inheritance tax was proposed by President Theodore Roosevelt.

1941: World War II – Revenue needs prompt the top estate tax rate to spike up to 77%.

2007: With an undeclared “quasi-war” in progress, Congress is once again ready to keep the estate tax in place. It's 1797 all over again.

Robert L. Moshman, Esq.
Wealth Manager Update, Ashton Asset Management
May/June 2007

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