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
The Long Road to Recovery.......1
Put It to Work.......................2
FAQs..........................3
The Duke Update..........................4
Aging Parents............................8

The Long Road to Recovery – And There's a New Game In Town!

Second Worst Year

Chart 1 vividly illustrates what we have come to know as the financial crisis of 2008 – the second worst year in the capital markets in the last 130 years. What is more devastating is the impact on the much-favored balanced portfolios – a mix of stocks and bonds; the second most terrible year for us as well! ***(See Chart 2)***

Most Asked Question

In many one-on-one meetings and countless telephone visits, the number one question posed by clients, friends, advisors, and our mailman is: "Are we going to be alright?" Followed immediately by, "How long until we recover?"

These are really pointed questions which can't be answered with certainty; it's confusing for all of us as we've had a strong rally, regaining most of the losses during the first two and a half months in 2009. Are the good times here again or is this a short-lived bear rally?

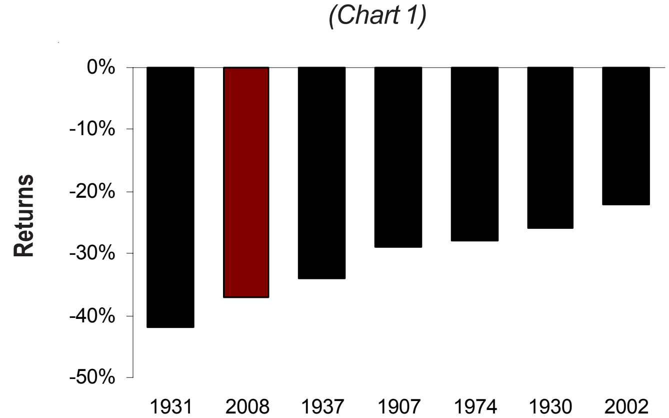
Highly Unusual

What jumps out at you is the highly unusual Yin and Yang of the stock

*(See **Most Asked Question** Page 5)*

2nd Worst Year For Stocks In a Long Time

(Chart 1)



Source: Vanguard

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Put It to Work

Toss or Treasure?

When you sit down to set up your financial control center, you might find yourself buried in a mountain of white – old bills and receipts, bank and investment account statements, the owner's manual for your water heater, love letters (OK, those might be pink). If so, it's time to get your control center under your control. To get you started, we break out the must-keep paperwork from the stuff that you can toss.

Shred:

- Bills and receipts for items you can't deduct
- Pay stubs
- Reconciled monthly and quarterly investment statements
- Cancelled checks or nondeductible purchases

Keep until updated, sold, or disposed of:

- Insurance records
- Household inventory
- Loan agreements
- Receipts for expensive purchases and home improvements
- Form W-2 (until you start collecting Social Security)

Keep for seven years after asset is sold:

- Year-end investment statements
- IRA and 401(k) contribution and distribution documents (after you retire or close the account)
- Documents that prove cost basis
- Filed tax returns

Keep forever:

- Birth and adoption records
- Death certificates
- Deeds
- Marriage and divorce papers
- Education and employment history
- Military records
- Health records
- Social Security card

FAQs

Q. What happened to my diversified portfolio?
A. After the worst stock market crisis since the Great Depression, it's no wonder I'm asked what went wrong with our portfolios. The "perfect storm" of a housing market collapse, credit markets drying up, corporate failures and the country on the verge of a depression explains why the capital markets have been falling for over a year.

Since October of 2007, investors have had few safe harbors to ride out this devastating tsunami – almost all our investments, U.S. and foreign equities, real estate, commodities, even most bonds, were battered beyond all imagination. Only U.S. Treasuries provided shelter in the storm!

Given this attack on portfolio diversification requires a rethinking of some basic assumptions about asset allocation, diversification, a "buy and hold" strategy, and actively managed mutual funds.

Diversification means owning different assets with supposedly low correlations from each other – stocks go up, bonds go down, international stocks differ from U.S., etc. Well, when all assets crash, diversification goes out the window.

Since the 1950's, the benchmark for investment management and portfolios was diversification through asset allocation to improve investment returns and reduce volatility – correlation gave us statistical ratios to measure how investment returns relate and move with each other.

However, this widely accepted tool failed when stocks, bonds and alternative assets all crashed in unison and slammed our portfolios.

Our response to this tide change is to suggest a portfolio mix for all seasons – well, these really reflect San Diego's climate.

<u>Summer</u> – Money market, treasuries, CDs, "liquidity" assets.
<u>Winter</u> – REITs, TIPs, inflation-adjusted annuities.
<u>Spring</u> – Stock and bonds using EFTs, index funds and individual dividend securities.

And Double Your Savings Rate!

Q. What is this reference to the "New Normal?"
A. I guess I saw it first in the PIMCO Investment Company newsletter citing that the global crisis runs deep and will inhibit a return to the high growth and low inflation/interest rates that were considered normal in 2002-2007. <u>Bottom line</u>: Global governments had to pull out all the stops to avoid another Great Depression and a turnaround

*(See **FAQs** Page 6)*

"In poker terms, the Treasury and the Fed have gone "all in." Economic medicine that was previously meted out by the cupful has been dispensed by the barrel. These once-unthinkable dosages will almost certainly bring on unwelcome aftereffects."

~Warren Buffett

"You cannot help the poor by destroying the rich. You cannot strengthen the weak by weakening the strong. You cannot bring about prosperity by discouraging thrift. You cannot lift the wage earner up by pulling the wage payer down. You cannot further the brotherhood of man by inciting class hatred. You cannot build character and courage by taking away people's initiative and independence. You cannot help people permanently by doing for them what they could and should do for themselves."

~William J. H. Boetcker

the DUKE up DATE

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

2010 Changes For Retirees

With the first half of 2009 behind us, let's update you on some key changes that will affect retirees, the soon-to-retire and savers:

FDIC increased insured deposits to $250,000 per account. On the FDIC website, note that if your account is registered in your Living Trust, the $250,000 applies to each trust beneficiary. Our Trust has 3 beneficiaries, so we are FDIC insured up to $750,000 at the bank; recent legislation extended the $250,000 FDIC guarantee until 2013.

Roth IRA conversions are easier in 2010 with the income cap drop allowing anyone to convert their Regular IRA: pay the tax bill over 2 years, 2010 and 2011.

In spite of expected serious inflation down the road, Social Security payments are expected NOT to receive COLI increases, but will pay more for health care and insurance premiums.

Retirement plan required minimum distributions (RMD) are waived for 2009. After the 2008 stock market crash, a time-out is welcome for all receiving mandatory distributions from accounts with lower values. If you decide to pass on the RMD this year, there are two things to do now: 1) Alert your accountant so any adjustments can be made before year-end; and 2) let me know, so your account can be adjusted now.

"After the 2008 stock market crash, a time-out is welcome for all receiving mandatory distributions from accounts with lower values."

I suspect the Estate Tax Division has fewer auditors and tax returns are not going out the door very fast – with the estate tax scheduled to be repealed next year (maybe) – Congress is expected to nix the repeal and instead, not tax $3.5 million of estate values and tax the balance up to 45%. If the carry over basis rules are held (step up in basis at death) intact, we have very workable Federal Estate Tax legislation.

<u>Key Employee Update:</u> Aiden, my grandson office assistant (age 7), has requested the summer off to sharpen his golf game and attend golf camp!! Where did I go wrong? Next thing you'll know, we'll be a union shop.

Enjoy this summer with family and friends, travel safely and treasure the good times.

Duke

~ Check in with Duke ~

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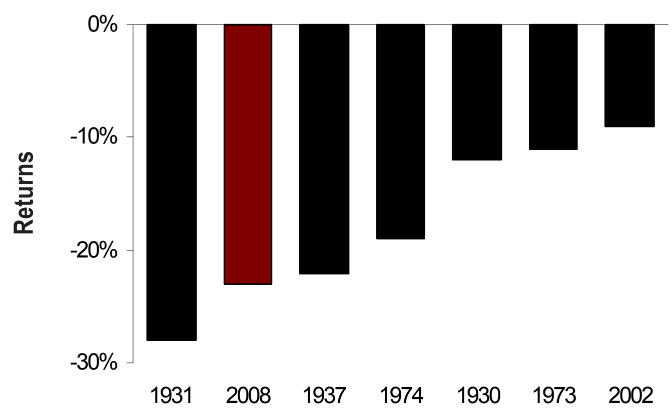
Most Asked Question

(From Page 1)

market over the past 18 months: from a peak in the Fall of 2007 until March 2009, the market dropped by greater that 55% and since March 6th, the market has returned more than 30%. According to a recent report, this is the fifth time stocks have rallied since October 9, 2007. The prior four comebacks fell short and new lows were found. Have we finally hit the bottom and will this bull market rally bring 2009 to a positive year-end?

Even Balanced Portfolios Had a Tough Year

(Chart 2)



Source: Vanguard

Coping With The Bear

Thanks to the folks at Vanguard, (their theme, charts and stats are copiously included herein) we can look to a history of four nasty bear markets in the U.S. and Japan and note that ***Chart 3*** buoys a balanced investor by indicating a four percent withdrawal, indexed to CPI, keeps on ticking well into retirement. The Vanguard take-away is that the investor who stayed the course with reasonable saving and spending levels was able to maintain their portfolio into the future despite bear markets.

Is It Different This Time?

Well, I think so!! My best guess is we'll need five to ten years to get out of this mess and we may have more to give back! It's a long road back to even – if prices crashed by 55% from the highs, with a 30% plus return over the past 3 months, then we're only down 25%, right? Not so! Here's an example of an investor who put $10,000 into the stock market in November 2007:

Beginning Value	$10,000
Bear Loss (55%)	5,500
March 2009	4,500
33% Up	1,500
Current Value (5/09)	$6,000

Bought in at the high and still not back to even; in fact down 40% from the initial investment which leads me to believe my 3 to 5 year timeline for recovery is realistic and perhaps a bit too optimistic.

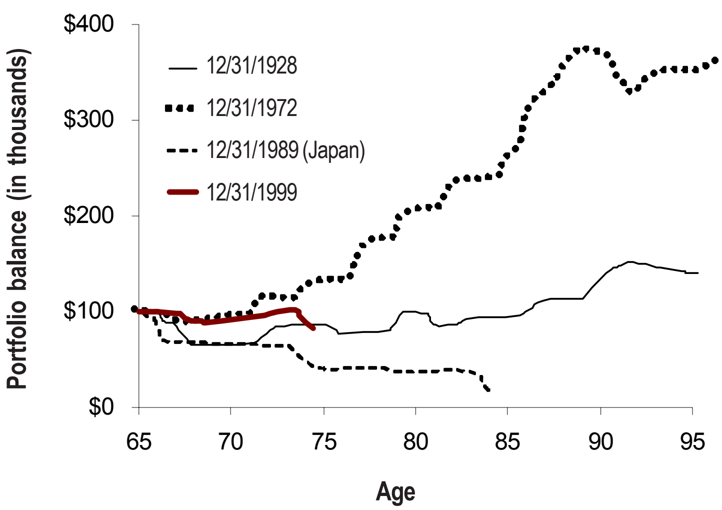
Summary Points

- Recovery expected to be one of the weakest since WWII;
- Stimulus – better than nothing, but most of the money won't help until 2010;

(See ***Coping With The Bear*** Page 7)

Enduring Four Bear Markets

(Chart 3)



Source: Vanguard. This hypothetical illustration does not represent returns on any particular investment. Other starting amounts had similar patterns.

FAQs

(From Page 3)

won't be soon or what we can expect from banks, brokerage, insurance companies, corporate America or the global economy. The "New Normal" will feature the de-leveraging, de-globalizing and a re-regulated financial system; lower global growth (e.g. China, India, emerging countries) coupled with sky-high unemployment and lower returns. A heavy-handed government will tax and tax, re-distribute wealth (welfare) all under the guise of "burden sharing." So, it's a new game in town – we know the rules, and we're on notice! Time to suit up and get in the game!

Q. OK, how do we invest for the recovery?

A. Before we get to specific suggestions for portfolio re-balancing/allocation, let's set forth basic tenets we will implement over the balance of 2009 and into 2010:

1. Actively managed mutual funds have UNDERPERFORMED their benchmark index for the past five years. We will replace under-performing funds with index funds and exchange traded funds (EFTs);

2. Individual securities in portfolios now and those selected in the future, will be stocks that generate INCOME through dividends and/or interest (tax or non-tax);

3. Asset allocations will reflect three key sectors: 1) liquidity assets; 2) stock and bond index funds and EFTs; 3) inflation protection assets, with an emphasis on dividend yield, inflation protected treasuries, and inflation-adjusted immediate annuities.

4. Implement ongoing tax-loss harvesting and consider re-balancing and profit-taking as markets recover.

We want you to know these key points as it will guide our investment process for years to come. I am tempered in all this by pointing to statistics that will help us to return to the market peak in October of 2007. The returns of the S&P 500 for 5 years would have to average 18% per year; if the market returns average historical returns, it would take more than 9 years to get back to the October peak. These sobering statistics are pre-tax, pre-inflation – so going forward, it would be a critical mistake to push for more risk and strategies to recoup lost value; the "New Normal" requires wise and patient investing while we wait for stocks to recover.

What To Invest In a "New Normal" World

In no particular order are examples of securities we will suggest for client portfolios over the next 6 to 9 months:

- <u>Dividend Paying Stocks/EFTs:</u> Johnson & Johnson, Verizon, Consolidated Edison, U.S. Steel, Emerson Electric, Southern Company, Altria Group, iShares Dividend ETF (DVY);

- <u>Fixed Income:</u> Municipal Bonds (Tax-exempt), Build America Bonds (Fed taxable, no state tax), Public Master Limited Partnerships (Pipeline and energy shipping) such as – Enterprise Partners, Kinder Morgan Energy Partners, Plains All American Pipelines;

- <u>Inflation Protected Assets:</u> Treasury Inflation Protected Securities (TIPS), Vanguard Inflation-index Immediate Annuity, Vanguard REIT Index, PIMCO Commodity Real Return;

- <u>Liquidity:</u> CDs, 1-3 year Treasury EFTs, Money Market Savings and Money Market Funds.

We don't know what's ahead, but for the next 5 years, it's best to count on lower returns, spend less and save more, working longer and perhaps part-time post-retirement. Plan for the "New Normal" and be happy with higher returns.

> ***"We've seen crisis. We've seen recession. But we've not seen the core of the financial system shaken like this. It's just crazy."***
>
> **~Joseph Balestrino**

> ***"Thought for the Day: Be nice to your kids. They'll choose your nursing home."***
>
> **~Unknown**

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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Coping With the Bear

(From Page 5)

- Inflation fears overdone; unemployment and no credit keeps rates low;
- Housing and commercial real estate still a wild card;
- Government has their big fist in financial and corporate America; a huge markdown in asset values caused by "burden sharing" and redistribution/regulation;
- Invest with the government: buy bonds for stable and secure income;
- The Five Spoilers:
  1. Rising mortgage rates
  2. Higher gas prices
  3. Asset depreciation/write offs
  4. Obama's approval ratings falling
  5. State budgets and unemployment

My sense is that all these point to a very different recovery than in past years. Over the near future we must deal with lingering problems in our financial system and a weak recovery around the globe. We believe taxes will increase and more government control will be exercised in larger portions of our economy. Oh, brother!!

The Biggest Question

Will the body politic put America first and make the tough choices to pull us through this crisis? Will the shape of our "New Normal" economy, based on private/public ownership, keep us in our leadership role? An America we know as a vibrant, entrepreneurial, can-do nation, of diverse people and unlimited capacity!

Time will tell – but we folks love a challenge and given the freedom to pursue our dream, "we will be alright!"

Be well and do good works.

Aging Parents:
10 Things to Know For an Emergency

If your aging parents were to have a medical emergency, could you provide the information doctors would need to care for them? Do you know the names of your aging parents' doctors? Is your mom taking any medications? Has your dad ever had any surgery?

While you might not know the answers to some of these questions about your aging parents, it only takes a few minutes to collect and write down this vital information. And it can save precious time in an emergency.

"Sometimes a parent isn't able to give medical information when an emergency arises, so emergency medical personnel must rely on the adult children or a spouse for that information," says Paul Takahashi, M.D., a specialist in geriatrics at Mayo Clinic, Rochester, Minn. " Just as you fill out those emergency cards for your kids in school, you should have similar information available about your parents."

Listed, in order of importance, are the 10 things you need to know about your aging parents' health.

1. **Names of their doctors.** If you don't know anything else, this is probably the most important piece of information. Why? Chances are good that your parents' doctors can provide much of the rest of the information needed as well as more details about your parents' specific health histories.

2. **Birth dates.** Often medical records and insurance information are catalogued according to birth date. This can improve communication in an emergency or a crisis.

3. **List of allergies.** This is especially important if one of your parents is allergic to medication – penicillin, for example.

4. **Advance directives.** An advance directive is a legal document that outlines a person's decisions about his or her health care, such as whether or not resuscitation efforts should be made and the use of life-support machines.

5. **Major medical problems.** This includes such conditions as diabetes or heart disease.

6. **List of medications and supplements.** It's especially important that a doctor know if your parent uses blood thinners. It's also important for the doctor to know if your parents take any vitamin or herbal supplements that might interact with medications given in an emergency situation.

7. **Religious beliefs.** This is particularly important in case blood transfusions are needed.

8. **Insurance information.** Know the name of your parents' health insurance provider and their policy numbers.

9. **Prior surgeries and major medical procedures.** List past medical procedures including implanted medical devices such as pacemakers.

10. **Lifestyle information.** Do your parents drink alcohol or use tobacco?

Knowing these 10 things should help you take care of your parents in an emergency.

Source: MayoClinic.com

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