

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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Making a List.... Checking it Twice!

Repeat Performance

Our 2004 Holiday version of the WMJ featured a segment entitled "Seven Strategies for Tax-Smart Investing." We had such good response that it bears repeating this year too. The exhibits herein should help with your year-end planning as well. CAVEAT! Please be alert to the "Alternative Minimum Tax (AMT) TRAP"! I am compelled to give a brief overview of AMT to aid tax and investment planning not only for 2005, but 2006 too.

AMT Story

The AMT was enacted some 36 years ago in order to catch the "rich" taxpayers using big write-off tax shelters and paying little or no federal income tax. Today AMT impacts an increasing number of families, penalizing if you exercise stock options, take large capital gains, pay higher-than-average property taxes, or have more than 2.5 children! You must develop a strategy before year-end to manage AMT. If you are sure to be in AMT, take more income in 2005, because the maximum AMT tax rate is 28%, compared to a 35% maximum marginal rate for regular taxes. But if you are just at the AMT threshold, accelerating income may reduce your

allowed AMT exemption, so hold off on bringing in more income. You may also consider *not* paying state income and property taxes -- this smaller state tax deduction will reduce or even eliminate the AMT owed. Run your software or call your tax preparer for an AMT test before year end!

The List

Lower tax rates may have lulled investors into thinking that year-end tax strategies aren't a big deal now. Not! "Congress giveth and taketh"—starting in 2009, low capital gains and dividend tax rates will "sunset." In a 25% marginal tax bracket, the 15% capital gains rate goes to 20%, a 33% increase! The big hit in 2009 comes with the qualified dividend rate jumping from 15% to ordinary income rates, a 66% increase for the taxpayer in the 25% tax bracket.

We suggest you treat the qualified dividend as a temporary benefit and plan to treat your dividends as ordinary income after 2008. We still believe high-yielding, constant dividend-paying stocks add value long-term. Our sense is that investors will continue to earn single digit returns, a portion of which should represent dividend income.

(See *Making a List* Page 5)

Poinsettias and Potpourri

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Plan D Prescription Puzzle

What a mess this is, another Great Society government plan for all Medicare recipients. This optional Medicare prescription drug plan starts up on January 1, 2006. You can enroll in the plan starting November 15, and no one can be denied for health or income reasons. If you have existing employer or retiree health plan coverage or other coverage similar to Medicare Part D, you can pass on the government plan (the government gave specifications to insurance industry to issue and administer). Because the health insurance industry is delivering this prescription plan, confusion reigns! Too many notes, too many policies!

The chart below depicts the standard benefit plan. Private insurers, driven by their marketing departments, offer two or three additional plans that complicate the selection process. It is best to take a step back and do the following.

1. List your current prescriptions and their costs to date; one savvy client brought her list to her pharmacist and asked for the retail costs of each item.

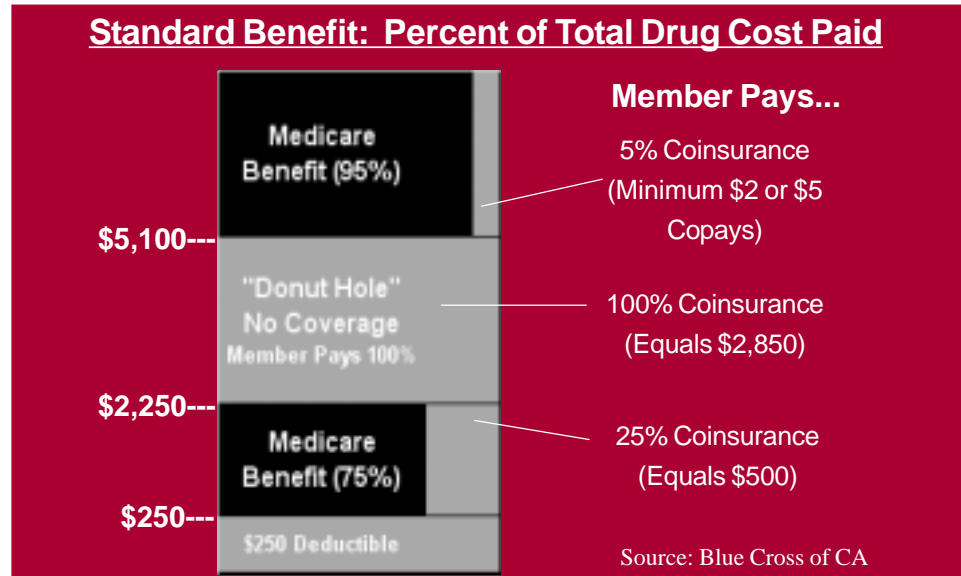
2. Go on the web-- www.medicare.gov, or call 800-633-4227 to calculate premiums, co-pays, and out-of-pocket costs based on domicile, drug formulary, and plan selected. If you take special drugs, make sure the generic or brand is offered.

3. General Rule: if you have low cost prescription drug outlay, enroll in the basic plan offered by your present health insurer. High cost/frequent participation plans must be researched. You can choose any private insurer's plan and can change each year during the open-enrollment period from November 15 through December 15, with changes effective January 1 of the following year.

Another option for prescription drug coverage: select a Medicare Advantage plan. This HMO Medicare Plan offers free drug coverage, but you'll have to buy the Medicare Part B coverage for outpatient and doctor visits.

Bottom line -- if don't enroll by May 15, 2006, you will pay a penalty for late enrollment.

(See *Poinsettias & Potpourri*, Page 6)



Give and Receive: Tax Benefits of Charitable Giving in 2005

'Tis the Year to Give!

In the aftermath of Hurricane Katrina, Congress enacted legislation known as the Katrina Emergency Tax Relief Act of 2005 ("KETRA"). This special legislation provides additional tax benefits for taxpayers contributing cash to "qualified charities" through the end of 2005 by temporarily suspending limits on deductions for gifts of cash to such charities. We have highlighted several key provisions of the legislation and encourage you to consider these incentives as you decide whether to make a last minute gift in 2005.

■ Donors may now deduct qualified charitable gifts in amounts up to 100% of their contribution base (typically adjusted gross income). This is an increase from the usual limit of a deduction of 50% of AGI. As a result of this temporary provision, a taxpayer can virtually eliminate all federal taxable income for 2005

■ The reduction of itemized deductions for taxpayers with AGI over \$145,950 (or \$72,975 for married donors filing separately) is suspended for qualified charitable donations. The limit normally reduces the deduction for such taxpayers by 3% of the taxpayer's AGI in excess of \$145,950 (or \$72,975), up to a maximum of an 80% reduction in allowable deductions.

■ Donors over the age of 59 1/2 may withdraw funds from IRAs, 401(k) plans, 403(b) plans, and similar retirement accounts for donation to qualified charities. Although the withdrawal increases the taxpayer's AGI, there is a 100% deduction offsetting the additional income taken.

■ Qualified contributions from individuals do not have to be related to Katrina efforts in any way.

■ Note that "qualified" charities do not include private non-operating foundations, supporting organizations, and donor advised funds. In addition, cash gifts to charitable remainder trusts and pooled income funds are excluded from the benefits of the act.

■ These benefits are available for a short time only, applying to gifts made beginning August 28, 2005 and ending December 31, 2005.

■ Individuals are cautioned to consider their entire tax situation before making gifts. Taking advantage of benefits of KETRA may have a negative impact on other aspects of a donor's federal and state income tax liability.

'Tis the season for giving, and if the tax incentives fit your situation, it may be a good season for "gifting" cash to qualified charities, too!

Contact us if you'd like to discuss these tax breaks with respect to your individual situation. We are happy to assist.

Holiday Cheer

**"I will honor
Christmas in my
heart, and try to
keep it all the year."**

~Charles Dickens,
Ebenezer Scrooge,
A Christmas Carol

**"An optimist stays up until
midnight to see the new
year in. A pessimist stays
up to make sure the old
year leaves."**

~Bill Vaughn

**"HOPE FOR A
MIRACLE- - BUT
DON'T DEPEND ON
ONE."**

~TALMUD:
MEGILLAH, 7B

**"Christmas, children, is
not a date. It is a state
of mind."**

~Mary Ellen Chase

the DUKE & DATE

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

Humble Thanks



Duke Johnson, JD, MBA (TAX), CLU

**#1
Financial
Planner
in
La Jolla**

*Thank you La Jolla for your support and confidence in La Jolla Institute for Wealth Management.
~ Duke Johnson*

Surprise!

What a pleasant surprise to receive this "Best of" award from the La Jolla community! It is rewarding to be recognized in a profession that you so enjoy.

For more than 18 years, Judith and I have worked to build a financial planning presence in La Jolla. Our goal was simple-- to help people meet their investment objectives, preserve their

capital, and offer our clients comprehensive, competent services in insurance, estate, and income tax planning. We wanted to be independent to avoid conflicts of interest and use no-commission, no-load products, and charge a fee for our services. Our principles and goals remain the same today.

We have grown over the years with referrals from our clients to their families,

friends, and colleagues. We have also benefited from referrals from professionals who recognize the need for independent, objective investment counsel and our ability to consistently meet that need.

A First Time and a Last Time

The President's Page in the current issue of the San Diego Lawyer magazine had a reference to a meeting speaker who repeated the phrase, "There will be a first time and a last time." At the conclusion of his presentation, he said in more detail, "You must remember, there will be a first time and a last time. A first time you go to court and a last time. A first time you see a friend and a last time. There will be a first time you sit with family and have dinner and a last time." He then said, "If you know there is a first time and a last time for everything, it will change the way you think about everything." So in this season of Thanksgiving and celebration of Christmas, take time to savor the time with those you love. Remember, there is a first time and a last time!

We thank you for your trust and confidence and remain committed to doing our best for you and your family. May your days be happy and bright.

Making a List

(From Page 1)

Snooze and Lose

If you don't use these tax-savvy techniques—shame on you! Tax rates won't get lower in coming years, so act before the end of 2005.

Strategy #1:

Take Capital Gains Now

Netting 85 cents on every dollar of gain is a sweet deal, especially if the stock has appreciated for over one year. Now is the time to take gains from a large holding of one stock or a stock you are emotionally tied to. Try to hold no more than five to seven percent in a single stock to avoid the Enron, Merck, and Marsh McLennan debacles.

Strategy #2: Harvest Losses

A prudent task is to sell stocks that are in a loss position for two good reasons: 1) Losses can be used to offset capital gains you may have taken (see #1 above); and 2) Losses of up to \$3,000 can be used to reduce ordinary income. You can carry over losses in excess of \$3,000 for use in future years, establishing a "tax harvesting" strategy each year. Smart tax planning!

Strategy #3:

Christmas Stock Stuffer

Give those children and grandchildren appreciated stock through a custodial account (Uniform Transfers to Minor Account). I like this because it allows you to control the timing of the gift, sale, and use of

the funds (preschool, special education, language camp, etc.). The child takes your cost basis in the security and then the sale is taxed at the child's lower capital gains rate, perhaps at 5% or 10%. Don't sell the stock and give the cash!

Strategy #4: " 'Tis The Season"

This is a busy time in our shop as we are practicing what we preach. Gifts of appreciated stock to charity are in vogue. Again, don't sell and give cash or drop checks in the collection plate; by donating appreciated stock, you maximize your gift to charity while minimizing taxes. You deduct the full value of the stock at the time of donation and the charity sells with no tax liability. If you hold the stock in your taxable account, get the charity's brokerage account information and simply transfer the stock or mutual fund from your account to theirs—ah, philanthropy

Strategy #5: A Balanced Investor?

With all this jazz at year-end, don't overlook the rebalancing act needed to keep your long-term asset allocation goals on target. If you plan to take some gains to bring the overall portfolio

(tax and tax-exempt accounts) into balance, you may want to sell the appreciated stock in your tax-deferred account. No tax issues are involved and the asset allocation objective is brought in line with long term objectives.

Strategy #6: Watch the Wash!

Think of laundry on the line—take it off and put more on right away. That is the essence of the wash-sale rule. If we suggest taking losses, but want hold a similar stock in the same industry or sector, we can buy the "replacement stock" immediately. But watch for the IRS trap—you lose the tax loss benefit if you buy the same stock (or even a substantially similar investment) within 30 days.

We see two options: sell the stock or mutual fund and wait 31 days to replace it; or sell a stock or actively managed mutual fund and buy a low-cost exchange-traded fund (ETF) in the same sector to replace it. To use ETFs for tax harvesting, you might sell Qualcomm to realize a gain and buy a technology ETF to stay in the sector.

(See *Making A List* Page 6)

Next Year's Taxes

The following are projected federal income tax brackets for 2006 compared to 2005:

Tax Rate	-----Married Couples Filing Jointly-----		-----Most Single Filers-----	
	2006 Taxable Income	2005 Taxable Income	2006 Taxable Income	2005 Taxable Income
10%	Not over \$15,100	Not over \$14,600	Not Over \$7,550	Not Over \$7,300
15%	15,100-61,300	14,600-59,400	7,550-30,650	7,300-29,700
25%	61,300-123,700	59,400-119,950	30,650-74,200	29,700-71,950
28%	123,700-188,450	119,950-182,800	74,200-154,800	71,950-150,150
33%	188,450-336,550	182,800-326,450	154,800-336,550	150,150-326,450
35%	Over \$336,550	Over \$326,450	Over \$336,550	Over \$326,450

Note: The figures for 2006 taxable income are projected.

Making a List

(From Page 5)

Strategy #7: Three D's of Taxation!!

Defer: Set up IRAs, Section 529 College Savings Plans, Coverdell Education Saving Accounts, Annuities, I-Bonds, and Health Savings Accounts;

Deduct: Maximize your contributions to 401(k), 403(b), traditional IRAs, pension, and profit sharing plans. If just starting out, make sure plan is set up before 12/31/2005.

Divide: Establish multiple savings and investment accounts for children and grandchildren. Fund these accounts with appreciated stock, high-yield bonds, and mutual funds.

Creating more taxpayers spreads overall tax liability and lowers effective tax rates.

Forecast: Five to seven percent total long-term returns, higher tax rates, inflation, and changing demographics which may prematurely exhaust social benefits.

Defense: Save! Reduce discretionary spending, and cut investment expenses. Never pay retail!

Plan for the Future: 2006, 2006 and 2007 IRA Funding Limits				
	Under Age 50	Under Age 50	Age 50 and Older	Age 50 and Older
	2005	2006-2007	2005	2006-2007
Traditional IRA	\$4,000	\$4,000	\$4,500	\$5,000
Roth IRA	\$4,000	\$4,000	\$4,500	\$5,000
Rollover IRA	\$4,000	\$4,000	\$4,500	\$5,000

Source: TD Waterhouse December 2005 Newsletter.

Poinsettias and Potpourri

(From Page 2)

Second Place

Our year-end tally of Q&A at the office had Medicare Plan D questions in first place, followed by reverse mortgage inquiries. Home Equity Conversion Mortgages (HECM), better known as reverse mortgages, are in vogue due to higher home prices and low interest rates, and a need to deal with rising health care costs and increasing local taxes.

We advise caution in pursuing this tool for increasing cash flow. In spite of growing numbers -- 8,000 reverse mortgages in 2001, 47,000 in 2004, and a projected 60,000 for 2005 -- they are not for

everyone. Reverse mortgages are expensive, with significant up front fees for loan originations, mortgage insurance, closing costs, service fees, and appraisal adding to up to 6-8 percent of the home's value. The up front loading feature dictates staying in the home for the long-term.

If a relative or friend is over age 62 and owns a residence, but needs more cash flow for a higher quality of life -- not a cruise -- it may be worth checking out. The amount of income depends on interest rates, the value of the residence and home equity. Check out www.reversemortgage.org for specific reverse mortgage calculations. Payouts from the reverse mortgage can be lump sum, monthly, or a line of credit. The credit line seems best as you can draw money as needed and accrue interest only on the balance.

Contrary to popular belief, the lender does not "grab" your home when the loan "matures". In contrast, your heirs have many options; they may sell the home and pay off the balance or keep the home by repaying the loan.

"Contrary to popular belief, the lender does not 'grab' your home when the loan 'matures'. In contrast, heirs have many options..."

Retirees are required to go through special counseling before taking a reverse mortgage. Good input from family is a must, and we are happy to help you consider whether a reverse mortgage may be appropriate for someone close to you.

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.



Duke & Judith Johnson

Just a few friends and clients who attended our "#1 Financial Planner" Open House Celebration. Thanks to all for your support and warm wishes!

Happy Holidays from the Institute

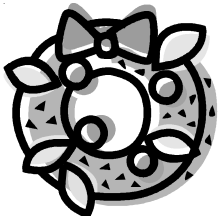
by Judith Johnson



So folks, this is it -- year-end is near,
Tax-planning, gifting, & saving --Oh! Dear!
With Duke at the helm & Candace first mate,
We know that things will turn out great!



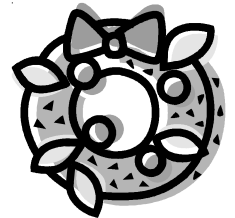
Duke received a special honor this year--
Voted #1 Financial Planner in La Jolla -- big cheer!
After 40 years of education, planning and such,
He's delighted with the plaudits and positive touch!



We look to the long run with dollars and cents,
It's the big picture you see, that makes good sense.
So we're careful to watch your portfolio with care,
In hopes that Saint "Riches" soon will be there!



We're filling your stockings with money and gold,
So it's there when you need it, as you grow old.
You have a lifetime to earn, then play in the sun.
We need good planning years for our job to be done!



We're heartened by our partnership and your trust.
Working well together with resolve is a must!
We send our warm wishes this Holiday time--
For family and friendship and ties that bind!



Duke *Judith* *Michelle*
Candace *JD*



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