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

Holiday Cheers!

New Stock Market Highs for Young & Old!! What's Coming in '07??! On a Roll!

In spite of a topsy turvy world, the capital markets surged to new highs, marking the fourth straight year of positive returns. Total stock market returns exceeded 16% in 2006. Sweet spots in the universe nudged large value stocks ahead of growth stocks (in a projected growth stock year); small cap continued to lead big stocks; and right on the mark, international stocks outpaced the local benchmarks. Wow, guess our bragging rights went up! Our emphasis on value, international, REITs, and small cap stocks provided real value for your portfolios. Health care, financials, and consumer stocks lagged the S&P 500, while energy stocks, utilities, and telecom services were outstanding sectors. Note the chart below.

Active vs. Passive

The Great Debate continues – indexing versus actively managed funds. But which strategy pays off for investors? You know our stance – build a core equity position with a broad index, and complement with managed funds and exchange-traded funds (ETFs) to add sector spice.

Some revealing stats from S&P and the Sunday New York Times caught my eye. Columnist Paul Lim observed that through September, only 28% of actively managed large capitalization funds posted higher returns than the S&P 500 index. More startling – only five actively managed funds beat the index in third quarter 2006!

We embrace these results for two fundamental reasons. First, our long-term guidepost is that 75% of the active fund managers don't consistently beat the index. Second, in the long-term, we believe index funds will outperform because lower investment management fees, transaction costs, taxes, and turn-

*(See **Holiday Cheers** Page 5)*

	-------------- Close --------------		
	2006*	**2005**	**% Change**
DJIA	12463.15	10717.50	16.3%
S&P 500	1418.30	1248.29	13.6%
Nasdaq Comp	2415.29	2205.32	9.5%
Wilshire 5000	14257.55	12497.18	14.1%
Russell 2000	788.66	673.22	17.1%

*Through 12/29/06 Source: Yahoo! Finance (1/2/07)

WEALTH MANAGEMENT
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SEC & NASD: The Story of the Mother and Big Brother

by Judith Johnson

A long time ago, (after the crash of '29) our government passed the "truth in securities" law, the Securities Act of 1933 which (1) required that investors receive financial and other significant information concerning securities being offered for public sale; and (2) prohibited deceit, misrepresentations, and other fraud in the sale of securities. Then Congress passed the Securities Exchange Act of 1934, creating the Securities & Exchange Commission (SEC). This Act empowers the SEC with broad authority over all aspects of the securities industry, including registration and regulation of brokerage firms, transfer agents and self regulatory organizations (SROs) which include the New York Stock Exchange, American Stock Exchange and the National Association of Securities Dealers (NASD) which operates the NASDAQ system. The Act also identifies and prohibits certain types of conduct in the markets and provides the Commission with disciplinary powers over regulated entities and persons thus associated.

The Act further empowers the SEC to require periodic reporting of information by companies with publicly traded securities. This includes the big boys--companies with over $10 million in assets whose securities are held by more than 500 investors. The SEC is also vested with power to regulate proxy solicitations (disclosures soliciting shareholders' votes for election of directors and approval of corporate actions), tender offers (anyone seeking to acquire more than 5% of a company's securities), and insider trading (trading while in possession of material non-public information). This Act requires registration with the Commission and regular filings of disclosure documents. By registering as a self regulatory organization (SRO), NASD must create rules that allow for member discipline and ensure market integrity and investor protection approved by the SEC.

If you go to a broker/dealer such as Merrill Lynch, A.G. Edwards, or Morgan Stanley, you are working with a NASD member, a "Big Brother" registered under "The Mother" SEC. This retail kind of organization charges fees (commissions) for transactions and can include additional in-house fees. The rules allow brokers to advertise and promote securities products directly to customers. Stock brokers must pass the regulatory series 7, 63 and 3 or 4.

La Jolla Institute for Wealth Management is an independent advisory firm which answers to "The Mother" SEC. Rules under the SEC do not allow direct promotion sales, testimonials or blatant sales advertising. There are explicit disclosure and filing rules. Advisors must pass regulatory Series 65 to become an Investment Advisor Representative (IAR). There are no commissions paid; rather a fee-for-service or percentage of managed assets fee is paid. Advisors have a special fiduciary responsibility (duty) to clients.

The Duty

So what does a "fiduciary duty" really mean? Advisors owe a *higher duty* to clients. Section 206 of the Investment

(See **SEC & NASD** *Page 7)*

Pension Protection Act of 2006: Goodies for All!!

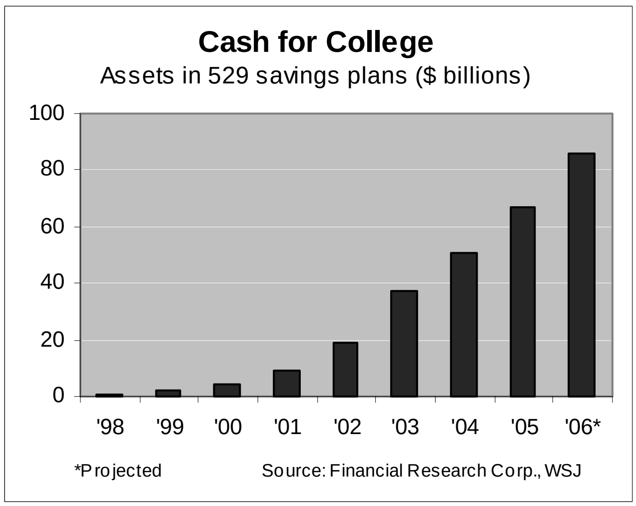
Load-Up on 529

Congress passed the PPA in August of this year and supercharged the Section 529 College Savings Plan by making permanent its tax-free benefits. Contributions to 529 Plans are after-tax (CA has no state income tax deduction for 529 contributions), but growth is tax-free and withdrawals are tax-free if used for post-secondary education expenses, including room and board. These benefits were set to expire in 2010, so this removes the uncertainty of withdrawals being taxed down the line. The chart at right illustrates the slow growth of assets in 529 plans, but this tax-law change makes the 529 plan the most efficient plan for college savings.

It Gets Better!

With this tax treatment, more assets will flow into these plans, resulting in lower fees, more investment options and hopefully, more state income tax deductions for 529 Plan contributions.

Especially good news for you and me- Fidelity Investments outbid Vanguard and the existing plan provider, TIAA-CREF, to gain California's 529 Plan. Fidelity said it will deliver reduced fees, more investment choices and better administration of the plan services. Check out the relevant details at www.scholarshare.com. Here you will find prudent age-based investment options, or you can choose active or index styled portfolios.



Fidelity capped expenses at 0.5% and a minimum of $50 with no account fees.

Another positive factor in selecting the 529 plan is the adverse change in the 2006 PPA affecting UGMA taxation. Before the 529 Plan came on the scene, we suggested (and owned) Uniform Gifts to Minor Accounts. These accounts did not tax the first $850 of income, taxed the next $850 at my child's rate, and taxed the excess at my rate, but only until my child reached 14. After age 14, all income was taxed at the child's rate. The new law taxes all income above $1,700 at the parent's higher rate until the child reaches 18.

Now that I'm writing this, how asinine is our tax policy that makes a change like this! Was there a substantial loss of revenue? Do the members of the tax committee dislike teenagers? I don't get it! Besides, we invested in UGMAs using index funds and tax-free munis. Tax wasn't even an issue! Oh, brother!

*(See **PPA** Page 6)*

"I owe the Government $3400 in taxes. So I sent them two hammers and a toilet seat."
~Sue Murphy

"Ah, the everlasting promise of TAX REFORM - The Pension Act of 2006 More than 900 pages!!"

~Duke Johnson

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

~TALMUD: MEGILLAH, 7B

the DUKE up DATE

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

All in the Family

Family and Planning

In the last issue of our journal, we provided tools and tips for your health care planning. We continue to offer these useful tools provided by the ABA.

This issue was a key topic at a client meeting I conducted the Saturday after Thanksgiving. We introduced the family, twelve in all, to to the Certified Private Fiduciary we had selected to administer a living trust in the event of incapacity or death. We thought this strategy was ideal for the situation: the estate is large and complex and the children are busy and successful. For us it was a perfect match to enlist the help of an objective third party to deal with time consuming, complex details of the estate. The Private Fiduciary was well received by the children; yet issues of health care decisions and the distribution of substantial personal property caused much debate.

After a good exchange of ideas, we agreed that health care decisions, ranging from living facilities to the end of life process, would be decided by personal physicians, three of the qualified children (two MDs and one PhD) and the detailed Advance Health Care Directive. I also suggested that all family members complete the Life Crisis File™ for their own peace of mind.

The tricky personal property distribution process was solved by Mom and Dad completing a written form directing specific property to family and to charity.

I didn't think to raise this issue during our two-and-a-half hour meeting, but another writing is needed to cover all the bases. One between husband and wife, written by the spouse who handles the money and knows where the assets and documents are located. This Survivor's Blueprint™ should spell out the foundation of the family wealth: how much, what and where; what to sell or hold for income, long-term care, and life insurance. Know who to call for specific tax and investment advice, and remember to make no major moves without input from children and trusted advisors.

I think I'll take time right now to complete this gift to my dear Judith.

Life Crisis File ™

Our Life Crisis File ™ was first copyrighted in 1988! This four-page document has been a valuable tool to help family and advisors when a person dies or is incapacitated. It is designed to provide critical detail in a short format--easy to fill out, easy to read, and easy to copy.

A long time ago, a professor taught us a process he described as "trial probate." In fact, the Life Crisis File ™ we developed follows this process I first learned some thirty years ago in law school.

We have used data from this file to estimate estate taxes, establish values for inheritance, discover civil, military, or government benefits lost to memory or poor documentation, plan for memorial services and to honor funeral interment wishes. I've reviewed many similar compilations -- the majority are too complex or too detailed, too computer-driven and in a format difficult to copy. These documents are most likely to end up on a shelf.

Believe me, please, that you can complete the Life Crisis File™ in less than one hour and will be able to easily make copies for your family, closest friends, attorney, and church. Call our office and it's in the mail to you straight away.

'Tis the Season.

A happy and healthy New Year to you and yours!

Duke

Holiday Cheers

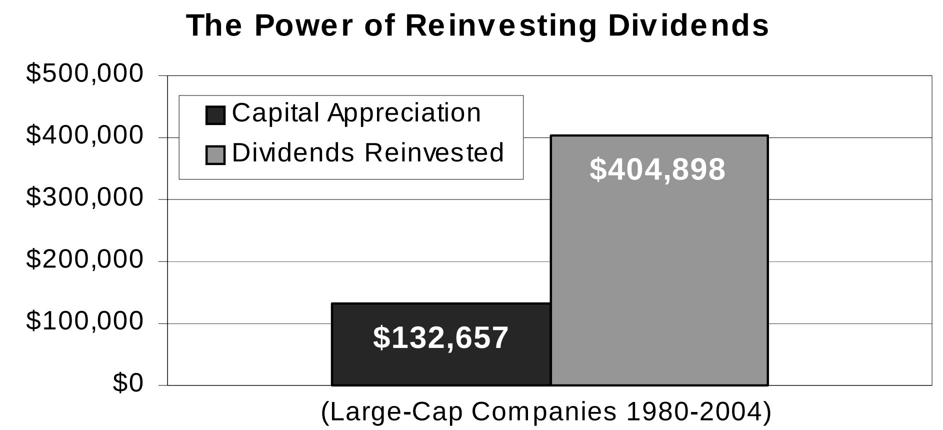
(From Page 1)

over is too great a hurdle for stock picking funds to overcome.

What's up Ben?

2006 soared to a strong finish, due for the most part, to new Fed Chairman Ben Bernake's holding interest rates steady, lower oil prices, and major trading and merger activity on Wall Street (if any doubt, check the bonuses paid!). So, the big name "experts" are forecasting another up year for stocks, and many predict the Federal Reserve will reduce interest rates. Ah, perfection!

We feel the market gave us a wonderful gift in 2006. We took gains, increased cash for distributions and eased into a bit of a defensive posture. We continue to emphasize income stocks, and still believe that dividend yields will offer less volatility than non-dividend payers. Congress recently extended the maximum tax rate on qualified dividend income at 15% through 2010. Surprisingly, over the last 25+ years, dividend paying stocks have slightly outperformed the non-dividend paying stocks. Coupled with preferential tax treatment, dividends prove a solid complement to our balanced portfolios. We have most accounts set up to reinvest dividends and capital gains. This strategy builds your holdings over time and harnesses the power of compounding interest! Later, when income is needed, we can change this option to send dividends and capital gains on a regular basis. The chart below reflects the dramatic effect of dividends on portfolio growth.



*Ibbotson Associates®

Core & Satellite

We've written before about our strategy of using a core index fund, e.g. Vanguard 500 Index, iShares Total Stock Market, together with individual stocks or specialty funds to reflect our economic sector bias. In the past, we have used health care, REITs, energy and utilities in our efforts to increase incremental returns. We do the same in portfolios where our investment policy calls for income primary, growth secondary.

For income-oriented portfolios, we center investments around a dividend-focused equity core-- iShares Dow Jones Dividend Select, Vanguard Dividend VIPERS or Schwab's Dividend Equity Fund. We then add individual stocks that pass a rigid screen reflecting dividend increases each year, a long history of dividends, low payout ratio (reflecting a commitment to investing in future growth) and greater dividend growth than their industry median growth rate. We have names such as Southern Co., Johnson & Johnson, Wells Fargo, and GE. We frequently take advantage of dividend-paying stocks in the international markets to diversify and to leverage the weak dollar.

Regardless of what 2007 brings in the investment world, it is our fervent hope that you and your families have health, happiness and peace on Earth.

Be well and do good works.

Monster of a Bonus

The 2006 bonus of
Lloyd C. Blankfein,
chairman of Goldman Sachs

YEAR	$53.4 million
PER MONTH	$4,450,000
PER WEEK	$1,026,923
PER DAY	$146,301
PER HOUR	$6,096
PER MINUTE	$102
PER SECOND	$1.69

Figures assume seven-day workweeks and 24-hour days

The New York Times

PPA--Pension Protection Act of 2006

(From Page 3)

Grand Daddy Warbucks

We have clients paying $50,000 per year in after-tax funds for private college costs. How long will it be until the cost is $100,000 per year? Another generation? A recent report on the news cited a small private school in Pennsylvania raising tuition as a "marketing tool" to attract potential students.

"If the kids get a full scholarship and won't need the 529 plan, you can name yourself as the beneficiary and attend an approved school in London to master English cuisine!"

Bottom Line

It is what it is! Perhaps grandparents can set up 529 plans as well as their children to meet this challenge. Each grandparent may contribute $12,000 per grandchild per year to a 529 plan they own. Two grandparents are able to contribute a lump sum of $60,000 each, a total of $120,000, representing 5 years of contributions. The contributions are considered gift-tax free and out of their estate for estate tax purposes. A big plus for parents too – 529 Plan assets are usually not reported on the federal financial aid form!

If the kids get a full scholarship and won't need the 529 Plan, you can name yourself as the beneficiary and attend an approved school in London to master English cuisine!

Beware of GIFTS

Big changes here, too! It must really bug Congress for us to give cars, boats, planes, and golf carts to Father Joe. Even the ten bucks in the collection plate is up for audit!

First, The Good!

- IRA Charitable Rollover - the PPA allows individuals age 70 ½ and older to make direct gift transfers to a qualified charity tax-free. The gift cannot exceed $100,000 and must be completed by Dec. 31, 2007. This distribution counts toward the required minimum distribution for IRAs, and is not included in taxable income.

- A major change starting in 2007 permits tax-free rollovers from a deceased person's IRA or retirement plan to a non-spousal beneficiary. Prior to the PPA, only a spouse could inherit the retirement money as a Rollover IRA. Surviving children and even sibling beneficiaries were forced to pay substantial taxes either in a lump sum or over a five year period.

- Direct deposit of tax refunds into IRA accounts.

- Automatic enrollment in 401(k) at initial employment.

The BAD!

- PPA disallows any deduction for a charitable donation of cash or check, unless you have: (1) bank record – cancelled check - or (2) written notice from the charity documenting the donation. I can see it now – usher at church giving receipts for cash – or maybe a punch card with amounts, sort of like a train conductor.

The UGLY!

- No deductions allowed for clothing or household items that are not in "good used" condition. Naturally, the PPA doesn't define what "good used" means. So, the AmVet, Goodwill, and other pick-up folks will have to sift through the bags, and household items (furniture, TVs, mixers, etc.) and accept or reject the "good" from the "junk."

"We must care for each other more, and tax each other less."
-Bill Archer

Where do we get the Congressional staffers who write this trash? Sorry! The Bill Archer quote in this issue says it all: "We must care for each other more, and tax each other less." Amen.

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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SEC & NASD

(From Page 2)

Advisors Act of 1940 is a general anti-fraud provision prohibiting investment advisors from conflicts of interest -- even situations that might be perceived as creating a conflict of interest. Advisors must document their commitment to compliance with extensive and thorough policies and procedures (a big job!). Specific obligations include:

1. Duty to provide disinterested advice;
2. Duty to provide thorough written disclosures regarding potential or actual conflicts of interest on the client agreement and Form ADV;
3. Duty to maintain confidentiality;
4. Duty to refrain from fraud and misconduct.

In addition, an advisory firm must be prepared to document that its recommendations are suitable. Rule 206(4)-7 of the Investment Advisors Act requires SEC-registered advisors to implement and audit their policies and procedures. Rule 204A-1, the “Code of Ethics Rule,” reinforces the fiduciary duty underlying the investment advisory relationship. So you see, “fiduciary duty” really means (under the SEC “Mother”) that advisors must always act in the best interest of the client. Now, don’t you feel well cared for?

Even the Playing Field

David Spinar, Senior Vice President and Chief Securities Officer for Securities America, questions the advisory vs. broker transaction roles. NASD brokerage firms hold themselves out as financial planners and provide advisory services. However, federal law requires that investment advisors (SEC "Mother") -- but not broker-dealers (NASD "Big Brother") perform the care and loyalty duties of a fiduciary. Mr. Spinar recommends new regulations modeled on the fiduciary obligations in the Advisors Act of 1940, for broker-dealers and investment advisors. Then the interests of the investor would outweigh the interests of the financial professional. It will take an act of Congress to even the playing field!

Sources: www.sec.gov; D. Spinar, "Even the Playing Field", *Financial Planning*, 9/1/2006.

Glad Tidings

by Judith Johnson

Peace on Earth, good will toward men -
We hear that verse again & again.
Hopes & dreams and ties that bind,
making life good for all mankind.

At La Jolla Institute we truly care -
to help organize your family fair share.
Setting the financial path out just right,
so nothing is lost or left out of sight.

In December, Duke wears his Santa hat
so he can do this and then do that!
With a clever twinkle, he nods with a jerk -
to perfect your estate plan and make it work.

The office hums efficiently handling your lair -
Tax planning, investing, distributing with care.
We hover, discover, discuss and demand
to give you the very best darned plan we can!

Duke demands the best from everyone,
to keep the good from coming undone.
Giving you the blessing of all time -
that you and your family have peace of mind.

So at this time of holiday cheer
we want you to know we hold you most dear.
Season's greetings and Merry Christmas, too -
Blessings and love from us to you!

Duke   Judith
Candace   Michelle

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