



The THOUGHTFUL INVESTOR

Warren Wall, CFP®, MBA

First Quarter

January-March 2008

The Market & Performance Update

The fear of the unknown that has rattled the stock market for months now appears to be fading. As I am finishing up this quarter's Market Update, April 5, 2008, the market's big rally last week has moved all of Wall & Company's tactical equity programs back into positive performance territory year-to-date. It has been interesting to see how the stock market has recently rallied... even in the face of a lot of negative news. The important takeaway here is that even if we are in a recession, the market's historical tendency is to lead the economy by six to nine months at major turning points. Usually, news is good at market peaks and bad at

market bottoms. The old saying that the market tends to "climb a wall of worry" may apply here. Regardless, we may be seeing a classic market bottom right now.

The stock market suffered large declines in the first quarter of 2008 as evidenced by the S&P 500 total return loss of -9.46%. Fortunately, Wall & Company's defensive moves out of stocks into cash during the quarter allowed us miss most of that decline. Of equal importance, our systems signaled us to move back into

the stock market at what now appears to be near the market's lows. We are also excited about some new strategy enhancements we are making to our tactical equity programs that should improve returns and reduce overall investment volatility. More details on these changes are being mailed to all affected clients.

Wall & Company managed programs "net-after-fee" model quarterly results ending March 31, 2008 are shown below:

	GGPVA	WGO	WGO II	BAP	S&P 500 TR
First Quarter 2008 Results	1.28%	(0.96%)	(2.39%)	(3.66%)	(9.46%)

Financial News and a Grain of Salt

In one of my favorite money manager interviews, the manager is asked to account for his recent investment success. He replies that it was due to deciding to ban financial news broadcasts from the office. Turning off the television not only saved time spent watching market updates but also gave the manager an opportunity to form his own unbiased view of the market and individual investments.

While financial news can be great entertainment, it's easy to get a distorted view of the financial markets

and individual investments if you rely on the news media. In fact, one contrarian indicator is to bet against any company or market prognosis featured on a major magazine cover. The theory is that by the time the trend reaches the cover of a major publication, the news is already fully reflected in stock prices. The only way for prices to go is in the opposite direction.

To test the contrarian indicator, three finance professors at the University of Richmond reviewed headlines from stories in *Business Week*, *Fortune*, and *Forbes* for a 20-year period.¹ Their goal was to determine whether positive cover stories were followed by superior future performance and negative



stories preceded inferior future performance in comparison with an index or another company in the same industry and of the same size.

Based on 549 cover stories, categorized positive and negative, the profes-

¹ Are Cover Stories Effective Contrarian Indicators? Tom Arnold, CFA, John H. Earl, Jr., CFA, and David S. North, *Financial Analysts Journal*, March/April 2007, Vol. 63, No. 2: 70-75

Window Opens to Capture Long-term Gains with 0% Capital Gains Taxes

If you want to sell some long-held investments but have been holding back because you would face substantial capital gains taxes, you may have a window to do so with lower tax consequences. Beginning this year and extending through 2010, the long-term capital gains tax rate for individuals in the 10% and 15% tax brackets will drop to zero.

What hasn't been widely reported in the financial press, however, is that even if your taxable income exceeds the 15% bracket, you may still be able to qualify for the 0% rate for at least a portion of any capital gains you realize in 2008 through 2010. The reason for this is the progressive structure of our tax rates, where the last dollar is typically taxed at a higher rate than the first.

Who qualifies for 0%:

Based on the 2008 tax brackets, individuals must make less than \$32,550 in taxable income while couples have to remain within the \$65,100 tax bracket to take advantage of the 0% capital gains tax break. Taxable income includes all sources of income less any allowed "above-the-line" adjustments – itemized and standardized deductions, and exemptions.

What investments qualify:

The favorable capital gains treatment applies to net long-term capital

gains minus net short-term capital losses, but excludes sales from collectibles, IRC section 1202 qualified small business stock (both of which are taxed at no more than 28%), and sales of depreciable real property (i.e., unre-captured section 1250 gain, which is taxed at no more than 25%). For most taxpayers, this is simply the sum of net capital gains from the sale of stock, bonds, or mutual funds. If you sell a stock for \$60,000 that you purchased for \$30,000, only the \$30,000 in gain counts as taxable income.

Strategies to consider:

1) If you have a choice of sources of income, such as withdrawals from a tax-deferred retirement account or liquidating stock and bond positions with long-term capital gains, you may want to consider using the proceeds of capital gains sales before other sources of income. For example, assume you file a joint return and have taxable income from various sources of \$30,000, and capital gains of \$50,000. You would pay no capital gains tax on the first \$35,100 of capital gains; this is the difference between the \$30,000 of other income and the \$65,100 maximum for the 15% bracket. You would pay 15% capital gains tax only on the remaining \$14,900, that portion that exceeds the \$65,100 maximum.

- 2) If you provide financial assistance to individuals in the 10-15% tax brackets, consider gifting highly appreciated stock or bonds that you have held for over a year. The investments can be sold without capital gains taxes as long as the recipients' income remains under the maximum income levels for the 15% tax bracket. Individuals can give up to \$12,000 a year, per person, without having to file a gift tax return. For married couples, this can mean \$24,000 a year without having to deal with gift-tax rules now. If you're considering gifting to a child, be aware that the Kiddie Tax rules have been extended to children up to age 24 who are full-time students, if their income is less than or equal to half the amount of their support.
- 3) This may be the time to take losses or make expenditures that will reduce your taxable income to the 10-15% tax brackets to take advantage of the 0% capital gains taxes.
- 4) Consider using the 0% capital gains tax opportunity to rebalance taxable portions of your portfolio to reduce individual stock risk, or to use more appropriate asset classes.

With only a three-year window, time is limited to take advantage of this 0% capital gains tax rate. Barring action from Congress, capital gains rates are scheduled to sunset in 2011, and revert to the pre-2001 rates of 15%, 28%, 31%, 36%, and 39.6%, depending upon your income bracket.

As with all strategies to reduce taxes, be mindful of unintended consequences. Be sure you will qualify for the 10-15% tax brackets before you begin selling assets. Not all gains may be eligible for the tax break. Gains from the sale of capital investments could trigger taxes on Social Security benefits, offsetting the savings from the 0% capital gains rate. Financial gifts can also impact an individual's eligibility for programs such as Medicare. Talk to your tax adviser before you make any decisions. Future legislation could change the capital gains tax rate prior to 2011.

2008 Tax Brackets

Tax Rate	Single	Married Filing Jointly
10%	Not over \$8,025	Not over \$16,050
15%	\$8,025 - \$32,550	\$16,050 - \$65,100
25%	\$32,550 - \$78,850	\$65,100 - \$131,450
28%	\$78,850 - \$164,550	\$131,450 - \$200,300
33%	\$164,550 - \$357,700	\$200,300 - \$357,700
35%	Over \$357,700	Over \$357,700

PERFORMANCE REPORT

WALLCO DYNAMIC ASSET ALLOCATION ILLUSTRATIONS

First Quarter – Ending 3/31/08 (Total Returns Net After Maximum Fees)

Hypothetical Asset Allocations (Net after Maximum Management Fees)	2008 1st Qtr %	2007 Annual %	2006 Annual %
Aggressive Growth Allocation 100% Global Growth Program (WGO)	-0.96%	4.98%	19.41%
Capital Growth Allocation 80% Global Growth Program (WGO) 20% Bond Allocation Program (BAP)	-1.50%	4.38%	17.14%
Balanced Growth Allocation 60% Global Growth Program (WGO) 40% Bond Allocation Program (BAP)	-2.04%	3.78%	14.88%
Conservative Allocation 40% Global Growth Program (WGO) 60% Bond Allocation Program (BAP)	-2.58%	3.19%	12.61%
Preservation Allocation 20% Global Growth Program (WGO) 80% Bond Allocation Program (BAP)	-3.12%	2.59%	10.35%
MARKET INDICES			
S & P 500 Composite Index (with dividends)	-9.46%	5.54%	15.81%
Lehman Brothers Aggregate Bond Index	2.17%	6.97%	4.33%
Lehman Brothers High Yield Index	-3.02%	1.87%	11.85%
US Treasury Bill (3 months)	0.99%	5.20%	4.91%

IMPORTANT DISCLOSURE INFORMATION W. Wall & Company, Inc. (“WCI”) performance results represent the actual results of two different existing WCI managed model programs (WGO and BAP) in various hypothetical asset allocations during the corresponding time period. The performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, the maximum investment management fee that would have been charged by WCI during the corresponding time period, and the separate fees assessed directly by each unaffiliated mutual fund holding that comprised each portfolio. WCI utilizes its model account programs to monitor how existing client in these programs may have performed. Prior to 3/31/08, historical performance illustrated was partially allocated to investment programs that no longer exist. Programs include WGOII-A, ETF, BBH-S and BBH-B.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal either the WCI performance results reflected or any corresponding historical index. The composition/percentage weighting of each corresponding WCI index (i.e. S&P, Lehman Bond) is also disclosed. For example, the S&P 500 Composite Index (the “S&P”) is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor’s chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P (and those of or all indices) do not reflect the deduction of transaction and custodial charges, nor the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The historical S&P performance results (and those of all other indices) are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a WCI portfolio performance meets, or continues to meet, his/her investment objective(s). A corresponding description of the other comparative indices, including the Lehman Brothers Aggregate Bond Index and Lehman Brothers High Yield Index (i.e. fixed income indices), is available from WCI upon request. It **should not** be assumed that WCI account holdings will correspond directly to any such comparative index. **Please Note:** The WCI hypothetical performance results do not reflect the impact of taxes. WCI’s model investment programs generally involve an above-average turnover, which could negatively impact upon any net after-tax gain experienced by an individual client in a taxable account.

For reasons including variances in portfolio account holdings, variances in the investment management fee incurred, market fluctuation, the date on which a client engaged WCI’s

investment management services, and any account contributions or withdrawals, the performance of a specific client’s account may have varied substantially from the indicated WCI composite model portfolio performance results. In addition, the underlying individual mutual funds which have comprised, and that continue to comprise, the model programs are subject to change at the discretion of WCI. Historical information pertaining to the underlying mutual funds and changes thereto is available from WCI upon request.

The hypothetical allocation results have inherent limitations, including: (1) the hypothetical results do not reflect the results of actual trading using client assets, and, (2) for various reasons (including the reasons indicated above), WCI’s clients may have experienced investment results during the corresponding time periods that were materially different from those portrayed in the model.

In the event that there has been a change in a client’s investment objectives or financial situation, he/she/it is encouraged to advise WCI immediately. Different types of investments and/or investment strategies involve varying levels of risk, and there can be no assurance that any specific investment or investment strategy (including the investments purchased and/or investment strategies devised or undertaken by WCI) will be either suitable or profitable for a client’s or prospective client’s portfolio. **Accordingly**, no client or prospective client should assume that the above model portfolios (or any component thereof) serve as the receipt of, or a substitute for, personalized advice from WCI, or from any other investment professional.

All performance results have been compiled solely by WCI utilizing the performance results reported by each respective mutual fund (and other holdings) that comprised the portfolio, are unaudited, and have not been independently verified. WCI also maintains all information supporting the performance results in accordance with regulatory requirements. Information pertaining to WCI’s advisory operations, services, and fees is set forth in WCI’s current disclosure statement, a copy of which is available from WCI upon request.

Report created 4/8/08



W. Wall & Company
GLOBAL CAPITAL
MANAGEMENT

W. Wall & Company
Global Capital Management
Two Town Square Blvd., Suite 310A
Asheville, NC 28803
828-651-9617
www.wallco.com

Raiding Retirement Plans Costly Source of Cash

With retirement plans now the primary savings tool for many Americans, there's always the lure to solve a current financial problem with a loan from your 401k, 403b or 457 account. After all, since you will pay yourself a market rate of interest, it might even sound like a

good investment. But before you borrow, consider the risks.

- If you leave your job before you pay back the loan to your account, the remaining balance must be paid in full or else you will face taxes and possible penalties of 10% on unpaid balances if you are under age 59 ½.

- Loans plus interest must be repaid in after-tax dollars. This can make it harder than you might anticipate to repay borrowings. Instead of paying \$1,000 in pre-tax earnings to your account, at a 25% tax rate repaying your account costs \$1,250, \$250 of which is lost to taxes.
- All too often, employees who borrow from their retirement plans find it difficult to repay the loan and make new contributions, and miss out on employer matching contributions, further increasing the cost of the loan.
- The interest you pay on the loan may be less than you could have realized in market returns if the funds had stayed in your account.
- Your plan may charge origination fees and annual loan servicing fees, further increasing the cost to borrow.
- Retirement plans are protected from creditors in the event of a bankruptcy or financial claim. They are the safest place to keep your assets if you are facing financial difficulty.

Before you borrow from your retirement fund, take a moment to look at the total cost to borrow and whether or not you will be able to repay the loan and keep up your contributions. It may be there are alternatives to borrowing that will serve you better.

Financial News and a Grain of Salt

continued from page 1

sors found that after the stories were published companies that received the most positive coverage underperformed while those who suffered negative coverage overall managed to beat the market.

What's happening?

By the time news makes the front cover of a major publication, all too often, it's not news. The market has typically already priced the information into share prices. The market decline in 1987 resulted in a rash of articles at the market's bottom that were the exact reverse of future reality. Among the 1987 cover stories were:
U.S. News – How to Ride Out the Bear Market
Newsweek – Heading Off Hard Times
Time – The CRASH

BusinessWeek – How Bad?

As the researchers pointed out in their paper, “positive stories generally indicate the end of superior performance and negative news generally indicated the end of poor performance.”

The market has repeatedly turned around and performed exactly opposite of media expectations. Individuals who use the news coverage as the basis of their investment decisions are all too often destined for failure.

Our advice to individuals is to regard financial news as entertainment rather than a reliable view of the future. Take it with a grain of salt. Be aware that favorable news may already be reflected in the value of the investment. Investing based on news coverage has a very poor track record of success.



W. Wall & Company
Global Capital Management
Two Town Square Blvd., Suite 310A
Asheville, NC 28803
828-651-9617
www.wallco.com