



# The THOUGHTFUL INVESTOR

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Second Quarter

April-June 2010

## Market Update

The stock market closed out a painful second quarter and left investors with losses and far more doubts about the economy than they had just months ago. Stocks had their worst quarterly performance since the March 2009 bottom. The Standard & Poor's 500 index, considered by many professional investors to be the best measure of the market's health, lost 11.9%, while the Dow Jones industrial average lost 10%. Both indexes are at their lows for 2010.

Worries about Europe continued to rattle the market. The euro, the common currency used by 16 European nations, was very volatile during the quarter. The Euro has been seen as a proxy for confidence in Europe's economy following Greece's near bankruptcy and steep budget cuts around the continent to combat rising deficits. World markets have regularly dropped

along with the euro in recent months. Asian markets also fell as Japanese and China economic data showed their countries' recovery slowed. Investors are worried that a global rebound is weakening. Those fears appear to have spread to consumers as well. Consumer confidence ratings fell in June after three straight months of gains.

According to Market Watch, *"while credit markets suggest further equity strength is not only possible — it's probable — the disconnect between stock prices and the underlying economy, or the chasm between perception and reality, continues to widen. Conventional wisdom dictates that equities will enjoy further upside before facing headwinds later this year, akin almost to the mirror image of 2009. Respect—but don't defer to— these choppy waves of optimism. When caught in a riptide, the surest path to survival is* continued on page 2

## Will the U.S. Be Another Greece?

It's easy to watch the financial turmoil in Europe and think, "It could never happen here. Our economy is too big, our resources too plentiful and our ability to create new businesses and products too great." The United States Government Accountability Office (GAO) however, reports we are well on our way to becoming a future Greece, it's just going to take a few years longer.

According to the GAO's **The Federal Government's Long-Term Fiscal Outlook: January 2010 Update** which was released on March 2, 2010, "absent changes to federal entitlement programs, spending on Social Security, Medicare, Medicaid, and interest on the federal debt will account for an ever-growing share of the economy. ... Assuming federal revenue remains constant at 20.2 percent of GDP—higher than the historical average—by 2030 there will be little room for "all other spending," which consists of what many think of as "government," including national defense, homeland security, investment in highways and mass transit and alternative energy sources, plus smaller entitlement programs such as Supplemental Security Income, Temporary Assistance for Needy Families, and farm price supports."

There are very few tools available to the federal government to avoid the problem, one of which is to increase taxes. This is already taking place and can be expected to accelerate. When the federal government starts looking for more money, it will look, as bank robber Willy Sutton once said, "where the money is."

## Advantages of the Living Trust

Does a revocable living trust make sense for you and for your heirs? Let's look at some of the advantages of having a revocable living trust in place:

- **Avoids Probate** – Probate is the legal process for transferring your property when you die. Assets named in trust avoid the costly and time-consuming court probate proceedings.
- **Avoids Multiple State Probate Proceedings** – A living trust can be especially helpful in avoiding

expensive multiple probate proceedings when you own real estate or other property in several states.

- **Changeable or Revocable** – The living trust allows you to make changes (or amendments) to the trust document while you are still alive.
- **Protects Your Privacy** – Trusts allow the transfer of your personal assets to remain private. The probate process may expose your estate to the public.

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## Market Update *continued from page 1*

to swim parallel to the shore until the dangerous current passes.”

I am personally concerned about recent weakening economic reports. The number of economic indicators surprising to the downside have dominated headlines. According to the astute Bespoke Investment Group, “Of the eleven economic indicators released last week, only six came in ahead of expectations, while five surprised to the downside.” One of those downside surprises was Wednesday’s shockingly weak New Home Sales, which inked the weakest reading since the statistics

% Change	2Q 2010	1Q 2010	Y-T-D
DJIA	-9.97	+4.11	-6.27
NASDAQ	-12.04	+5.68	-7.05
S&P 500	-11.86	+4.87	-7.57
10YrTIPS Yield	-28.13	+8.11	-22.30

(Source: CNBC.com, ustreas.gov, 7/1/10)

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

began in 1963. Another barometer of our economic health, the widely followed ECRI Index, has been declining at a sharp rate that indicates a stalled economic recovery. Lastly and most

important, our proprietary market trend indicators have dropped into “sell” territory. As such, on the close of June, our tactical growth programs moved out of equities and into the safety of shorter-term bond funds. Additionally, our tactical bond programs moved out of longer-term bonds into less volatile short-term bond funds. We will remain in these defensive positions until market conditions improve.



## Investment Strategies that Avoid Triggering Tax Consequences

With higher tax rates on the horizon, it’s important to look at ways you can avoid triggering tax consequences in your investment portfolio. Any time you can reduce the tax bite, you have more money to invest, more money earning money, and ultimately, more money for your own needs.

- **Take capital gains in 2010 on assets you may want to sell in the next few years.** Given that taxes are headed up, 2010 may be the year to sell capital assets that have appreciated substantially, but that you don’t want to hold forever. You may also want to look at long-term holdings where you have substantial gains, but intended to hold for a while yet. By selling now, you lock in current capital gains at the lower tax rate. You can then repurchase the investment establishing a higher tax basis.
- **Maximize contributions to tax advantaged retirement accounts.** Given the rapid phase-out of deductions and exemptions for reported income above \$250,000 for couples

and \$200,000 for individuals, your goal should be to keep your income as low as possible by increasing 401(k), 403(b), IRA, SEP IRA, and other retirement plans that allow you to deduct contributions from income.

- **Fund a Roth IRA, and consider rolling over existing IRAs to a Roth format this year.** Everyone is eligible to rollover or fund a Roth IRA in 2010 regardless of income levels. Even if you have to pay taxes to roll over a traditional IRA, you may be paying taxes at the lowest level you will see for some time.
- **In higher tax environments, minimize realizing gains in taxable accounts unless you have offsetting losses.** This doesn’t mean forgoing risk management. Instead find an adviser who understands the use of tools to protect asset values in a down market.
- **Substitute perks for taxable paychecks.** This pretty much says it all, just check with your accountant first.

- **If self employed, consider forming a C-corporation.** Partnerships, LLCs or Subchapter S corporations are currently taxed on profits at the owners’ individual income tax rates. A C corporation is a separate taxpayer with an initial tax rate of 15%, allowing business owners to hold profits in the corporation for growth and expansion with less eaten away by taxes. C corporations can deduct certain employee benefits that would otherwise be taxable income adding up to more tax savings.

The disadvantage to a C corp is that profits can end up taxed twice – first at the corporation’s level and then at your personal level – if not properly planned.

Before putting in place any of the strategies above, make certain and talk to your tax adviser. Everyone’s personal financial situation is different and your tax adviser should be able to determine whether or not these strategies will have the benefits you want, or unintended side effects.

**PERFORMANCE REPORT**  
**(Total Annualized Returns Net After Maximum Fees)**

<b>Hypothetical Asset Allocations</b>		<b>2010 2nd Qtr</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>	<b>7 Year</b>
<b>Aggressive Growth</b>						
100% Stocks	50% Global Growth Program (WGO) 50% Global Growth Program II (WGOII)	-12.26%	-0.23%	3.67%	11.55%	12.41%
<b>Capital Growth</b>						
80% Stocks 20% Bonds	20% Bond Allocation Program (AB-BAP) 40% Global Growth Program (WGO) 40% Global Growth Program II (WGOII)	-10.08%	1.91%	4.05%	10.08%	10.70%
<b>Balanced Growth</b>						
60% Stocks 40% Bonds	20% Short-Term Bond Allocation Program (ST-BAP) 20% Bond Allocation Program (AB-BAP) 30% Global Growth Program (WGO) 30% Global Growth Program II (WGOII)	-7.26%	4.00%	4.54%	8.74%	9.01%
<b>Conservative</b>						
40% Stocks 60% Bonds	30% Short-Term Bond Allocation Program (ST-BAP) 30% Bond Allocation Program (AB-BAP) 40% Global Growth Program (WGO)	-5.50%	5.30%	3.56%	5.63%	6.06%
<b>Preservation</b>						
20% Stocks 80% Bonds	50% Short-Term Bond Allocation Program (ST-BAP) 30% Bond Allocation Program (AB-BAP) 20% Global Growth Program (WGO)	-2.21%	7.64%	4.59%	5.00%	4.86%
<b>MARKET INDICIES</b>						
<b>S&amp;P 500 Composite Index (with Dividends)</b>		-11.43%	14.40%	-9.83%	-0.80%	2.84%
<b>Barclay US Aggregate Bond Index</b>		3.46%	9.50%	7.55%	5.54%	4.96%
<b>Barclay US 1-5 Yr Gov't/Credit Index</b>		1.77%	5.64%	6.03%	4.93%	3.98%

**IMPORTANT DISCLOSURE INFORMATION** Performance results illustrated represents a combination of both "actual" and "hypothetical" historical performance. Performance prior to 2/27/09 represents "hypothetical" performance that illustrate the potential benefit of program changes made in early 2009. Clients should refer to their individual quarterly performance reports for their specific performance history. Past performance may not be indicative of future results. Therefore, no current client or prospective client should assume that future performance will be profitable, or equal to the Wall & Company Inc ("WCI") program performance results reflected or any corresponding market indices. The above is only a generalized or hypothetical presentation of how investors with different risk profiles might allocate between specific WCI investment programs. Specific client recommendations would depend upon a client's unique risk profile, age, income needs, tax bracket and net worth. All performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custody charges. The maximum WCI management fee and any separate fees assessed directly by each unaffiliated mutual fund holding that comprises each portfolio has also been deducted. WCI individual investment program fact sheets detailing performance and disclosures are available upon request. The S&P 500 Composite Index ("S&P") is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. The Barclay U.S. Aggregate Bond Index ("AGG") is a market capitalization weighted index of investment grade fixed rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year. This index is often used as a proxy for the general bond market. The Barclay 1-5 Year Gov't/Credit Index ("1-5G-C") includes US Government and investment grade corporate bonds that have maturities between one and five years. This index is used as a proxy for the short-term bond market. The historical performance results of the S&P, AGG and 1-5G-C do not reflect the deduction of transaction, custody or management fees, the incurrence of would have the effect of decreasing indicated historical the S&P, AGG and 1-5G-C performance results. The historical S&P, AGG and 1-5G-C performance results are provided exclusively for comparison purposes only, so as to provide general comparative information to assist a client or prospective client in determining whether the performance of a WCI portfolio meets, or continues to meet, his or her investment objectives. The S&P, AGG or 1-5G-C indices are not directly tradable investments. It should not be assumed that WCI account holdings will correspond directly to any such comparative indices. **Please note:** Although performance results do reflect deductions for WCI management fees and related custody expenses, the results do not reflect the impact of taxes. WCI investment programs generally involve above-average turnover, which could negatively impact upon gains experienced by an individual client in a taxable account. Specific WCI investment program performance, fees and related disclosures are available upon request.

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 WCI client's account may have varied substantially from the indicated composite model portfolio performance results. In addition, the underlying individual mutual funds that has comprised, and will 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 upon request.

**Hypothetical performance results** were achieved by means of the retroactive application of the model portfolio, and, as such, the corresponding hypothetical results have inherent limitations, including: (1) the model results do not reflect the results of actual trading using participant assets, but were achieved by means of the retroactive application of each of the above referenced models, certain aspects of which may have been designed with the benefit of hindsight; (2) back tested performance may not reflect the impact that any material market or economic factors might have had on the adviser's use of the model if the model had been used during the period to actually manage participant assets; and, (3) for various reasons (including the reasons indicated above), participants may have experienced investment results during the corresponding time periods that were materially different from those portrayed in each model. Hypothetical illustrations do not illustrate the impact of mutual fund short term redemption fees. Mutual funds used in the hypothetical back test may differ from what mutual funds will actually be used in this program. **Actual performance has historically underperformed hypothetical performance illustrations.**

**In the event** that there has been a change in a client's investment objectives or financial situation, clients are encouraged to advise their financial advisor 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.

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# Should You Buy the Market Because It Is on Sale?

**A**re market declines an invitation to buy equities?

One of the arguments made for buying in falling markets is the comparison of discounted stocks to discounted items at a store. If a 25% off sale on apparel or sporting goods makes items more attractive, the same should apply to the market when it is on sale, argue many traditional investment advisers.

At the risk of sounding cynical, buying long when the investment is falling in value is a great way to help generate fees for a stock broker or to keep a mutual fund manager – whose pay is based on assets under management – from suffering a drop in income. But it doesn't mean it's a good investment.

By that, we don't mean that you shouldn't invest during down markets.

But you don't invest while values are falling. Wait until you see your investment of choice start to show gains, accompanied by respectable volume. Then you can invest. But not before.

Trading volume is an important requirement because rallies can be short-lived if they are not supported by volume. Without demand, prices can't continue to increase.

Comparing investments to apparel or sporting goods on sale is comparing apples to donuts. The same principles don't apply. When you buy an item on sale, you buy usability. You are purchasing something that has value to you. Something you can use, or eat, or enjoy. When you purchase an investment, you are buying its future value. When you purchase that item has a tremendous impact on its future value.

If you buy a stock and it continues to fall another 15%, you will have to earn 18% to make up that loss. If you wait until after the stock falls 15%, recovers 5% and shows signs of continuing up to buy, you have a 13% advantage over buying too soon.

Contrarian investing – when everyone else is headed for the lifeboats – is one of the most difficult investment approaches. Even if you are right about the ultimate direction of the investment, markets rarely keep to the investor's schedule.

By all means continue to save and set aside money during falling markets, but set yourself a plan as to when you will invest that money that is based on logic beyond the idea of "It's on sale."

## Advantages of the Living Trust *continued from page 1*

- **Eliminate Challenges to the Estate** – The standard will can create family disputes at your death and be challenged for alteration by any member of your family. By using a trust, you avoid contests.
- **Segregation of Assets** – This is useful for married couples with substantial separate property that was acquired prior to the marriage, as a gift or for inheritances.
- **Helps if You Become Incapacitated** – A properly drafted living trust package will include Powers of Attorney for financial and medical needs as well as Living Wills and Nominations of Conservator.
- **Guardianship for Minors or Disabled Children** – A properly drafted living trust package will include guardianship documents.
- **Estate Tax Minimization** – While the main reasons for doing estate planning with a revocable living trust are stated above, you may also take advantage of some tax planning benefits with a revocable living

trust. Trust tax planning should be completed with competent counsel of an estate planning attorney and your financial planner.

### Disadvantages

While there are many advantages to establishing a revocable living trust, there are also some drawbacks: initial cost is higher than creating a will; you must make sure all your assets are in the Trust or you don't avoid probate; there may be additional recordkeeping for the trustee; sometimes you are misinformed that there is asset protection with a revocable living trust but property is treated just like you own it in your own name; and there may be minor complications such as having to take property out of trust before refinancing.

### Conclusion

While there are a few minor disadvantages of having a revocable living trust, the advantages far outweigh them. The peace of mind you receive from taking care of your estate while you are living and having its disposition settled is worth the investment.

Wall & Co. will be hosting Living Trust Workshop luncheons with guest speaker Estate Planning attorney Jeff Marsocci. Workshop dates are: August 11 from 12:00 noon to 1:00 p.m. and on August 12, the workshop will be held from 1:00-2:00 p.m. Workshops will be held at the Wall & Company Education Center Conference Room and complimentary lunch will be provided. Seating is limited so contact Kim or Mary at 828-651-9617 to reserve your seats.



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