



The THOUGHTFUL INVESTOR

Warren Wall, CFP®, MBA

Fourth Quarter

September-December 2010

Market Update

In spite of a rocky start, stock markets ended 2010 with a flourish. At the conclusion of its strongest December since 1991, the S&P 500 was up 14% and the DJIA was up 11% for the year.

2010 started off with optimism and, after one jarring sell-off, stocks rallied into April. Then, anxious investors endured steeper declines

including the Dow plummeting in its biggest one-day point drop ever. What came to be known as the “flash crash” rattled confidence and fueled mistrust. All this, on top of lingering concerns from the financial crisis, scared off many investors. The second half of the year brought longer rallies punc-

tuated by less severe declines, and a 20% swing in six months. Individual investors withdrew some \$80 billion from domestic growth funds in 2010 while they added some \$250 billion to bonds. Just when many investors were concerned that the economy would

	QTR CHG	2010	2009	2008
DJIA	+7.32	+11.02	+18.82	-33.84
NASDAQ	+12.00	+16.91	+43.89	-40.54
S&P 500	+10.20	+12.78	+23.45	-38.49

Source: online.wsj.com, bigcharts.com, ustreas.gov, bls.gov - 12/31/10
Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends.

fall back into recession, economic reports started to show more strength. Unemployment is still a serious problem in the U.S., but

private sector jobs have been slowly growing for about a year. Consumer and business spending has also slowly improved. The second half of the year was responsible for nearly all of the 2010 market gains. Equities were bolstered by corporate earnings growing

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Consider the Impact of Inflation on Your Financial Plan

Would you purchase \$10 billion of five-year U.S. Treasury inflation protected securities (TIPS) at auction with a yield of negative 0.55%, in effect, paying the U.S. government to take your money?

When that happened October 25, 2010, the message was clear. Investors expect that the Federal Reserve’s announced intention to create inflation will be effective. Effective to the point of substantially recovering the loss incurred at the initial purchase of the

securities through the TIPS’ increase in yield over time to match inflation.

After two years of government intervention to get the economy back in gear and lower unemployment, the Federal Reserve stepped in at its November meeting to initiate Quantitative Easing II with a very specific goal – to spur inflation at sustainable rate of 2%. In comparison, for the first three quarters of 2010, U.S. inflation,

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2010 Tax Bill Update

Most of you are aware that Congress finally enacted a comprehensive tax bill in late 2010. Below is a summary of key elements of the tax deal.

- No increase in the alternative tax.
- No increase in the Income Tax or Capital Gain Tax on all income thresholds.
- Current business research and development tax credits and incentives are continued for two more years.
- Extension of unemployment benefits for an additional 13 months (to 3 years).
- Reduction in Social Security payroll tax from 12.4% to 10.40%.
- Various other tax credits.
- The Estate Tax is increased from zero in 2010 to 35% on estates over 5 million dollars during 2011 and 2012. In 2013 Estate Tax rates go back to 55% on estates over 1 million dollars.

With all these changes, I highly recommend that everyone have their estate plan reviewed as soon as possible. Call Kim at 828-628-9019 to schedule a complementary meeting in our offices with estate attorney Jeff Marsocci.

Consider the Impact of Inflation on Your Financial Plan — continued from page 1

as measured by the Consumer Price Index, averaged just above 1%.

Inflation at its most basic is a broad rise in the prices of goods and services that reduces purchasing power.

Inflation encourages people to buy more today, moving purchases forward in time. When it works as intended, inflation-produced demand drives a ramp up in production, creating new employment opportunities from the manufacturing floor to the sales room.

Extending this same reasoning to the housing market, inflation could stabilize sales prices and create increases in housing prices, spurring a recovery in an area viewed with the most concern by many economists. If foreclosed homes can be sold for higher prices, losses will be less for banks, mortgage investors – including Freddie Mac and Fannie Mae – and ultimately the U.S. taxpayer. With sufficient improvement in home values, home building will make sense again, generating construction jobs.

Inflation will be good news for borrowers because they can repay their debts with currency that is worth less. Higher inflation also tends to push up wages, making it easier to pay off fixed-rate loans. For local, state and federal governments, higher wages mean increased tax revenues, providing more funds to pay off accumulated debt and to fund increasing costs.

“Inflation is not such good news if you are retired, however, even if 2% may seem like a manageable annual increase.”

Inflation erodes the value of savings

Deliberately creating inflation could open Pandora’s box. Will the Fed be able to control inflation at its 2% target? In targeting a sustainable 2% rate of inflation, the Federal Reserve uses the median Consumer Price Index. The median CPI disregards price changes in food and energy, two factors

that have considerable influence on household budgets.

Another issue, is the tool the Fed will use to create inflation – quantitative easing. Quantitative easing (QE) essentially floods the market with excess cash by printing money to purchase federally insured debt. The first round of Quantitative Easing took place throughout 2009, as the Fed bought up distressed mortgage-backed securities from banks in exchange for cash, taking the Fed balance sheet of securities from \$800 billion to \$2.2 trillion.

Interest rates and value of U.S. dollar will be affected

In addition to spurring inflation, QE II is expected to drive long-term interest rates lower and continue the decline in the value of the U.S. dollar. While lower interest rates benefit borrowers, they penalize creditors. Many investors are creditors through their investments in income producing bonds and debt securities.

A lower U.S. dollar will make U.S. exports more attractive in international markets but has the potential to increase imported energy and food costs as well as the costs for a vast array of products imported from other nations.

By lowering the yield of Treasuries and other safe debt instruments, the Fed encourages investors to put their money into different, potentially higher-yielding investments. Investment in equities and high-yield debt will increase funds available to businesses to expand. The risk to investors in moving from relatively low risk/low return securities to higher return/higher risk investments is that they fail to understand the risk they are assuming for that higher return.

Factoring inflation in a portfolio

In uncertain times, capital preservation has to be a primary consideration. The current market uncertainties will pass and there will be opportunities to profit with lower risk, but only if your capital is kept intact. Preserving and optimizing capital through risk managed investing is essential.

Investments cannot be selected based on what has worked in the past, but what is working now. Any investment in equities must be made with an exit plan in place. Short-term debt, which gives the investor the flexibility to reinvest when interest rates rise, Treasury Inflation Protected Securities (TIPS) that adjust to keep pace with changes in the consumer price index, and floating-rate debt are tools to consider.

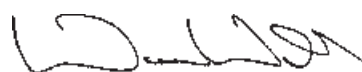
These are tricky markets to negotiate. Before you invest in these or other investments suitable to inflationary times, talk with your financial adviser, understand your risk exposure and remember, times change. Don’t lock yourself into positions from which you cannot recover.

Market Update

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faster than expected. The last quarter was the best of the year as our slowly improving economy fueled stocks to their highest levels since the 2008 financial crisis.

The general consensus is for S&P 500 earnings to grow 11% this year. Of course, just about when most investors expect smooth sailing, some unforeseen complication may arise. As always, our best advice to our clients is to stay alert to intermediate-term trends in order to respond to changing market leadership, and use disciplined asset allocation to help cushion volatility. Given the strength of the US equity markets and subsequently the trend indicators we follow, we continue to be fully invested in equities within our growth portfolios. We have entered a seasonally strong period for the stock market and the Fed continues to accommodate the markets with “quantitative easing”. We continue to have an “optimistic” outlook for the stock market in 2011.



Warren Wall, CFP®

PERFORMANCE REPORT
(Total Annualized Returns Net After Maximum Fees)

Hypothetical Asset Allocations		2010 4th Qtr	1 Year	3 Year	5 Year	7 Year
Aggressive Growth						
100% Stocks	50% Global Growth Program (WGO) 50% Global Growth Program II (WGOII)	7.63%	-2.08%	2.72%	10.65%	11.06%
Capital Growth						
80% Stocks 20% Bonds	20% Bond Allocation Program (BAP) 40% Global Growth Program (WGO) 40% Global Growth Program II (WGOII)	6.30%	-0.54%	3.21%	9.47%	9.62%
Balanced Growth						
60% Stocks 40% Bonds	20% Short-Term Bond Allocation Program (ST-BAP) 20% Bond Allocation Program (BAP) 30% Global Growth Program (WGO) 30% Global Growth Program II (WGOII)	4.72%	1.24%	3.76%	8.36%	8.23%
Conservative						
40% Stocks 60% Bonds	30% Short-Term Bond Allocation Program (ST-BAP) 30% Bond Allocation Program (BAP) 40% Global Growth Program (WGO)	3.09%	1.63%	3.89%	5.63%	5.47%
Preservation						
20% Stocks 80% Bonds	50% Short-Term Bond Allocation Program (ST-BAP) 30% Bond Allocation Program (BAP) 20% Global Growth Program (WGO)	1.60%	3.76%	4.53%	5.17%	4.60%
MARKET INDICIES						
S&P 500 Composite Index (with Dividends)		10.76%	15.05%	-2.88%	2.29%	3.84%
Barclay US Aggregate Bond Index		-1.37%	6.58%	5.92%	5.81%	5.11%
Barclay US 1-5 Yr Gov't/Credit Index		-0.61%	4.08%	4.61%	5.06%	4.07%

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 clients 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.

All performance results have been compiled solely by WCI utilizing the performance results reported by each respective mutual fund and ETF 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 Form ADV II, a copy of which is available from WCI upon request. Information pertaining to any mutual fund or variable annuity sub account that is current component of WCI model portfolios are set forth in each respective prospectus, copies of which are available from WCI or directly from the mutual fund or variable annuity company. Some but not all articles are written by Warren Wall. **Report Created 1/5/11**

Bubbles and the Investor

The greatest destroyer of wealth over the centuries is a tight race between wars and investment bubbles. Both situations are a result of human nature and government actions and tend to produce collateral damage well beyond the primary event. In an effort to understand investment bubbles and the signs that may help identify the next bubble, we present the following, with the caution that bubbles are easiest to recognize with hindsight. Some of the best minds in the financial industry have found anticipating a bubble impossibility, including former Federal Reserve Board chairman Alan Greenspan.

The most famous bubbles have included:

- 1634-1637 – Tulipomania
- 1711-1720 – South Sea Bubble
- 1717-1721 – Mississippi Scheme
- 1840s – Railway Mania
- 1920s – U.S. Roaring Twenties Market
- 1970s – Nifty Fifties
- 1980s – Biotech stocks
- Late 1980s – Japanese stocks
- 1987 – Taiwanese stocks
- Late 1990s – Internet stocks
- 1990-2000s – Real Estate
- 2008 – Commodities
- 2010s – Gold??

In Investment philosophies: successful strategies and the investors who made them work, by Aswath Damodaran, the author identifies four stages to a speculative bubble.

Phase 1: In the Birth of the Bubble, comes a kernel of truth. The market provides positive reinforcement of the argument and more investors pile in.

Phase 2: The Sustenance of the Bubble is provided by institutional investors – from investment banks, brokers and analysts, portfolio managers and the media. Bubbles make for an exciting investment story, one that is easy to sell. Ultimately academia joins the rush, providing intellectual sup-



port for why old rules no longer apply and why the bubble has staying power. New paradigms are presented.

Phase 3: The Bursting of the Bubble is typically the result of a confluence of factors. At some point, the supply of vulnerable new investors runs short. Each new investment opportunity into the bubble is often more outrageous than the previous one. The first hint of doubt among the true believers turns quickly to panic as reality sets in. Well devised exit strategies break down as everyone heads for the exit doors at the same time. The same forces that created the bubble cause its demise. The speed and magnitude of the crash tend to mirror the formation of the bubble.

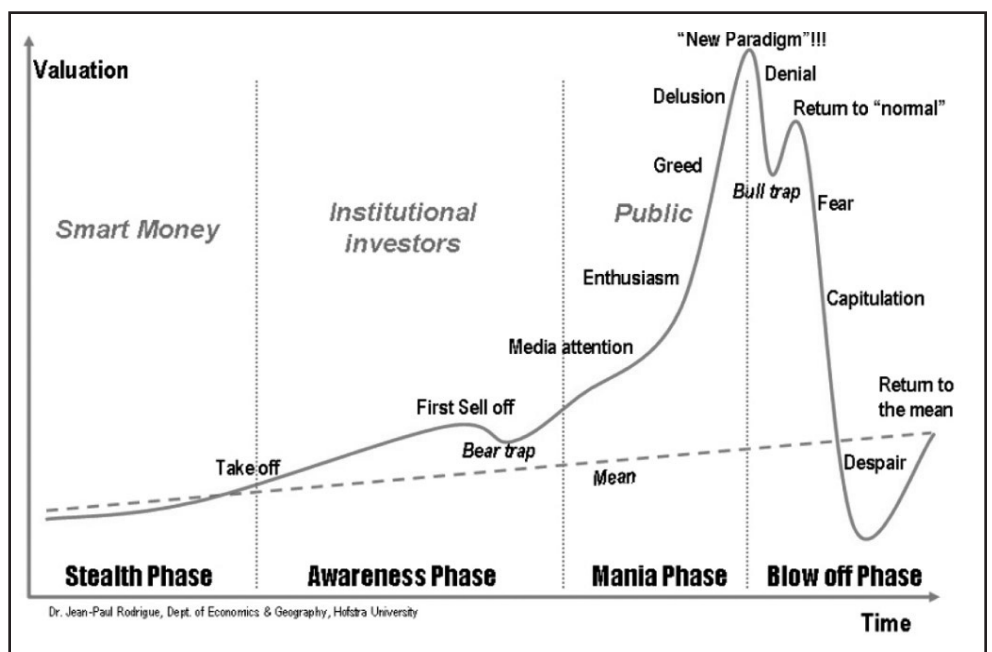
Phase 4: The Aftermath often starts as complete denial. As time passes and investment losses from the bursting of

the bubble become too large to ignore, the search for scapegoats begins.

Dr. Jean-Paul Rodrigue, Dept. of Economics and Geography, Hofstra University, presents the phases of a bubble in a slightly different format in the graphic below.

The problem with bubbles is that when they collapse, so does the broader market, in part because the bubbles are typically the stocks or leverage propelling the market upward. Even when investors enter a bubble market with the intent to sell at the first sign of weakness, computerized models and trading accelerate the speed with which the initial bubble collapses, making it more difficult for the general public to avoid catastrophic losses.

The persistence of bubbles over time is one of the main reasons active management is so important to investors. If we accept that human nature tends to produce cycles and periods of extreme values, then it only makes sense to put in place investment strategies that seek to take advantage of bubbles by riding the up move and minimize participating in falling markets or seeking investments that avoid the highs and lows of bubble driven markets.



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This retirement planning course will teach attendees how to:

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Education for
Adults Age 50-70



- Create a plan to retire early.
- **How to make your money last during your retirement**
- Use new tax laws to your advantage
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- Select the retirement plan distribution choice that is right for you
- **Use 5 investment strategies to minimize risks and maximize returns**
- Plan retirement income strategies to preserve your standard of living



What Attendees Receive

- An easy-to-understand education on life planning and retirement planning
- A 230-page textbook with examples and illustrations which is theirs to keep
- After the course, they are entitled to an optional consultation with the instructor. This is their opportunity to ask specific, personal financial questions

Instructor

Your instructor, Warren W. Wall, CFP®, IAR, MBA, has more than 20 years of financial education experience educating individuals and couples who are retired or are planning on retiring soon. He has co-authored two books; ***The Senior's Complete Guide to the Secrets of a Secure and Peaceful Retirement and Retirement Investing***, Warren is an Investment Advisor Representative with W. Wall & Company, Inc., located in Asheville, North Carolina.



Class Format

This is a 2 session course format for a total of 6 hours.

- PowerPoint Presentation is used to deliver the course
- Professionally designed workbooks are provided to attendees
- This course is educational and non-commercial. No specific financial products are discussed or sold

Dates and Times

Thursdays:

Mar. 17th and Mar. 24th - or -
6:30 p.m. – 9:30 p.m.

Saturdays:

Mar. 19th and Mar. 26th
9:00 a.m. – 12:00 p.m.

Cost

\$49.00 (Includes spouse or guest at no additional charge)

Registration

Contact Kim Carver at 828-651-9617

Turn over for
Course outline

Course Outline

Life Planning for Retirement

- Traditional vs. new retirement
- New retirement opportunities
- Values and objectives in nine areas of life
- The retirement planning process

Retirement Needs & Expenses

- Early retirement trends
- How long must your money last?
- Inflation, prices and purchasing power
- Real rate of return
- Retirement expectations
- How much will you need to retire?
- Can you retire today?

Retirement Roadblocks & Mistakes

- Ten retirement planning mistakes
- Financial and cash-flow statements
- Credit and debt
- Taxes and marginal tax rates
- Eleven strategies to save money on taxes
- Taxable investments
- Capital gains income tax exclusion
- Investments with tax advantages

Retirement Income Sources

- Traditional IRAs
- Roth IRAs
- IRA to Roth IRA conversions
- Other retirement income sources
- Social Security eligibility and benefits
- Employment income and Social Security
- Employer-sponsored defined benefit plans
- Employer-sponsored defined contribution plans

Retirement Plan Distributions

- Retiring or changing jobs?
- Defined benefit and contribution plans
- Three important considerations
- Lump sum vs. IRA transfer vs. annuity payments
- Rollovers, direct rollovers and transfers
- Annuity income and choices
- Pension maximization
- Early retirement considerations
- Minimum required distributions

Investments

- Considerations before you invest
- Cash accounts
- Bonds
- Stocks
- Mutual funds
- Unit investment trusts
- Individually managed accounts
- Tax-deferred annuities
- Investment risk management strategies

Risk Management & Asset Protection

- Disability income insurance
- Health insurance and Medicare
- Long-term care and insurance
- Comparing life insurance

Estate Planning

- Planning for incapacity
- Taxes
- A will may not be enough
- Probate
- Gifting assets
- Joint ownership of property
- Direct transfer assets
- Benefits of trusts
- Types of trusts