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SENIOR FINANCES

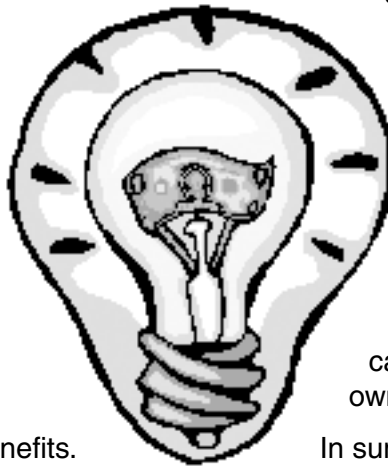
COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

First Quarter January – March 2004

Wealth Uncovered!

Many of us have wished that we could take better advantage of one or more investment opportunities. While we won't cover all the possibilities, the focus today is currently owned insurance policies. Specifically, policies of \$500,000 or more that were purchased for a purpose that no longer exists, are too costly, or are not compatible with our current needs.

What should we look for? The policy purchased for business or estate planning, to payoff a mortgage, interim term insurance, etc. Another area of concern deals with under-performing policies that do not contain guarantee provisions as to premiums and death benefits. This may allow premiums to rise uncontrollably at the whim of the insurance company. These policies often have devastating consequences for the insured. What was supposed to be paid up and self-sustaining still needs continuing premiums to stay in force. Finally, increased estate tax thresholds may have reduced or eliminated client exposure.



So, whether one of these policies is self-sustaining or we're continuing to pay premiums, we traditionally are faced with three options. The first is the conversion to a paid up policy of lesser face amount. The

second option is to surrender the policy to the insurance company for its cash surrender value (CSV). The third option is to gift the policy to a charity and get a charitable tax deduction.

Finally, a newer option is available, that is the sale of the policy to an investment bank/firm for significantly more than the CSV. This option is available on a case-by-case basis and can be accomplished by the individual owner or through a charity.

In summary, you may have hundreds of thousands of dollars available to invest tied up in an unneeded, unwanted, or inappropriate insurance policy. It may be time to spend a few minutes reviewing your policies. Look to see if the purpose you purchased the policy for is still valid. Call us if you think you may have some hidden wealth.

Which Investments Are Best for Your IRA?

The latest tax law change has reduced the long-term capital gains tax and the tax on qualifying dividends to 15%. However, interest income, nonqualified dividends, and short-term capital gains will still be considered ordinary income and therefore taxed as high as 35%. In light of these changes, you may want to reevaluate which of your investments should be in your IRA and which ones should be held in taxable accounts.

The IRS considers all distributions from your IRA as ordinary income and therefore taxed as high as 35%.

On the other hand, withdrawals from a taxable account might be treated at the more favorable 15% rate if they are qualifying dividends or long-term capital gains. Based on these numbers, you could conclude that you would be better off putting bond funds in your IRA and stock funds into a taxable account. But the answer may not always be that simple.

Suppose that you own a stock fund in a taxable account, and the manager trades frequently and

continued on page 3

Kelly's Korner

Hopefully, you are starting to relax now that the stress of Tax Time is over! Last quarter we offered a client education workshop on how to read your statements and access your accounts through the Wall and Company website. It was a GIANT SUCCESS.

Clients learned a lot and felt much more comfortable after attending. Since not everyone could make it last time, we decided to do it again on May 4th at 4pm and on May 6th at 11am.

Once again we will meet in the Vanderbilt Conference Room located on the third floor of our building. Space is limited, so please call Amy LeClare at 828-651-9617 to reserve your seat. We look forward to seeing you there!

This quarter I want to address what can be thrown out in your "Spring Cleaning" of important documents. We are not responsible for maintaining documents on site after two years. This can make regenerating information very difficult and sometimes impossible. These are my recommendations:

For Managed Accounts

Keep the Following for at Least 5 Years:

- Quarterly Statements from Vendor Companies (Millennium Trust Company, American Skandia or Putnam for example)
- Quarterly Performance Reports from Wall and Company (these will provide the total of your management fees)

For Non Managed Brokerage Accounts

Keep the Following:

- Keep your Account Statements for 5 Years
- Keep all confirmations for any of the following in order to provide the necessary cost basis information to your accountant to determine whether or not you have a gain or a loss:

Stocks - Any Buys or Sells

Mutual Funds - Any Buys, Sells or Reinvestments

Bonds - Any Buys, Sells, Maturities, or Full Calls

You may be thinking, "Well I still have a lot of paper to keep up with." While in some cases this may be true, the IRS does not typically audit until about 18 months or later after a particular tax year. It's better to have too much information than not enough. Tax Time is not as bad when you are prepared with your documentation!!

Working Together to Help Laid-off Workers



Warren Wall presents the Financial Survival Kit with Greg Walker-Wilson, Mountain Microenterprise Fund and Celeste Collins, Consumer Credit Counseling Service of WNC.

Nearly 5,000 jobs have been lost in Western North Carolina in the past 15 months due to plant closings. Now local organizations have offered to assist those displaced workers by providing a free "Financial Survival Kit."

Community Angels Fund, Consumer Credit Counseling Service of WNC (CCCS) and Mountain Microenterprise Fund (MMF) recently joined forces to help ease the financial burden for those who have suddenly found themselves without a regular paycheck.

Community Angels Fund of the Community Foundation of WNC, is a philanthropic fund supported by W. Wall & Company, Inc. CCCS is a United Way funded agency that provides free, confidential professional budget counseling and money management assistance to people in financial crisis. MMF provides aspiring entrepreneurs with the skills they need to start or expand a small business.

Explains W. Wall & Co. President Warren Wall, "We are fortunate to have area technical colleges and state and federal agencies, such as the N.C. Employment Security Commission and the Joblink Career Center, to help displaced workers with financial aid and job retraining. But additional support services are desperately needed to help these workers deal with other personal financial concerns and other options for supporting themselves financially."

W. Wall & Company has agreed to provide a free financial review to displaced workers as well as a complimentary copy of Warren's newly released book on "Retirement Investing," while CCCS and MMF provide free or low-cost workshops and private counseling in the areas of budgeting for a reduction in income, debt and mortgage management, and how to start and operate a successful small business.

Any worker who has recently lost their job can receive their free Financial Survival Kit by calling the 24-hour recorded message line at (800) 893-5798.

How a Roth IRA Can Save Your Heirs Tax Dollars

When beneficiaries other than your spouse or children inherit your non-Roth IRA, they will have to withdraw the funds based on your life expectancy. And the distributions will be considered taxable income to the recipients. However, with a Roth IRA, the original account holder's age is not a factor when determining the payout schedule since the Required Minimum Distribution Rule (RMD) does not apply.



Rather it is based on your heir's life expectancy. Therefore, your beneficiaries have the opportunity to leave more money in the Roth and for a longer period of time than they could with a non-Roth IRA. For example, suppose you left your Roth IRA to your 30-year old granddaughter. She would have the option to take withdrawals over the next 53 years instead of over your shorter life expectancy. She will, however, have to make the first withdrawal by December 31 of the year after your death to qualify for the lifetime income stream.

As long as the assets have been in a Roth for at least five years, money coming out of the account is income tax free, no matter who takes it out. Nor does it matter how much they withdraw. But the more money that can stay in the account, the more that can accumulate tax-free. This tax-free compounding can possibly mean greater growth when compared to taking the non-Roth inherited funds over a shorter period of time then investing in a taxable account.

No one particularly likes to pay income taxes. And when you convert your IRA to a Roth, you will have to pay on the total transferred. But look at it this way: You're paying today to help your heirs build a tax-free nest egg for the future.

I can help you understand the complex rules on inherited IRAs, Roths, and other investments. Return the enclosed coupon, and I'll call you to schedule a time to meet.

Thank You For Your Referrals!

Our thanks to those of you who have participated in the Client Referral Program! We have learned that encouraging you to refer your friends and relatives to us works for all of us. Our referral program works like this: for each person you refer who becomes a client, we will send you an American Eagle Silver coin. If you send more than one, you become a **client of the quarter!** Again, we thank you for your trust and confidence in us!

Which Investments Are Best for Your IRA?

continued from page 1

creates short-term gains? The gains will be passed on to you and taxed at the ordinary income rate. Therefore, in this case, a stock fund held in a taxable account, was not tax efficient. Would you be better off holding it in an IRA? It's possible; especially when you consider that the tax deferral within an IRA can enhance the compounding of the earnings.

But there is another point to consider. If the fund is held in a taxable account it will receive the step-up in basis when you die. This will eliminate any capital gains tax that your heirs would pay on your

investment's accumulated profit. In addition, you can deduct losses within a taxable account yet cannot for an IRA.

Saving money on taxes is certainly important, but you need to take your full financial picture into consideration before making any decisions.

If you are not sure whether your investments are making the best of the recent tax changes, return the enclosed coupon to schedule an appointment.

PERFORMANCE REPORT

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

As most of Wall & Company's clients are invested within our five asset allocation models, effective in 2004 we will be presenting the performance of these five general asset allocation models. As always, clients can refer to their individual quarterly performance reports for individual account performance, or logon to their individual accounts by going to our website at www.wallco.com.

First Quarter ~ Ending 03/31/04 (Total Returns Net After Maximum Fees)

| Wall & Company Asset Allocation Programs Net after Maximum Management Fees | 2004 1st Quarter % | 2004 YTD % | 2003 ⁽¹⁾ Year End % |
|---|-----------------------|---------------|-----------------------------------|
| Aggressive Growth Allocation 100% World Growth Opportunity (WGO) | -1.25 | -1.25 | 8.34 |
| Capital Growth Allocation 80% World Growth Opportunity (WGO) 20% Bond Allocation Program II(BAP II) | -0.21 | -0.21 | 10.15 |
| Balanced Growth Allocation 60% World Growth Opportunity (WGO) 40% Bond Allocation Program II(BAP II) | 0.84 | 0.84 | 11.95 |
| Conservative Allocation 40% World Growth Opportunity (WGO) 60% Bond Allocation Program II(BAP II) | 1.88 | 1.88 | 13.77 |
| Preservation Allocation 20% World Growth Opportunity (WGO) 80% Bond Allocation Program II(BAP II) | 2.93 | 2.93 | 15.57 |
| MARKET INDICES | | | |
| S & P 500 Composite Index | 1.29 | 1.29 | 26.38 |
| Lehman Brothers High Yield Bond Index | 2.34 | 2.34 | 39.17 |
| US Treasury Bill (90 days) | 0.23 | 0.23 | 1.02 |

(1) The 2003 returns use Bap model results. BAP II began First Quarter 2004.

DISCLOSURE: Wallco Dynamic Asset Allocation programs are investment management services offered through W. Wall & Company, Inc., a Registered Investment Advisor. Returns represent the total return from actual management of model accounts representing many of the mutual funds or variable annuity families in which W. Wall & Company, Inc. (hereinafter referred to as W.W.C.I.) has client funds under such management. Individual account performances will be different than the above "model account performance" based on the clients' start date, the total assets under management (larger assets qualify for lower advisor fees-see Form ADV II) and amounts deposited to and withdrawn from an account during the period. The identity of the families will be supplied upon request. W.W.C.I.'s fees are deducted quarterly in arrears from the model accounts at the maximum advisory fee of 4% annually through 3/31/02. Effective 4/1/02, the maximum advisory fee was lowered to 2.95% annually. See Wall & Company Form ADV II for more details. Performance returns also account for fund/sub-advisor management, administrative, 12-B-1 fees and other costs automatically deducted from fund assets. All distributions are reinvested. Total returns are calculated by taking the change in a model accounts' value, assuming reinvestment of all income and capital gains distributions during the period, and then dividing by the model accounts' initial value. The inception to date effect can be calculated by the formula $(1 + \text{Return}\%)(1 - \text{EstFee}\%) - 1$ where % is expressed in decimals. Income tax impact is infinitely variable and is not considered. The W.W.C.I. management programs produce "short-term" capital gains in non-qualified accounts. Short-term capital gains are taxed at a higher rate than long-term gains. Therefore, higher taxes could have a negative impact on overall performance. References to indices such as the S & P 500 and the Lehman Brothers Aggregate Bond Index, are for comparison only. The inclusion of an index is demonstrative only. The composition of these indexes may be significantly different from the various investments used within the Wallco Dynamic Asset Allocation Programs. No such index is a directly tradable investment. Specific funds used may not remain available and may materially under perform or outperform these results. Methodologies have undergone enhancements during the period. Since the actual results are portrayed, the effects of such enhancements are demonstrated. Developmental efforts are ongoing and may dictate future changes in methodology. Information presented herein is obtained from sources believed to be accurate, but no guarantee is made of its accuracy.

NOTE: PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. ANY INVESTMENT HAS THE POTENTIAL FOR LOSS AS WELL AS GAIN. (Report created 04/05/04)

A 0% Capital Gains Tax Could be in Your Future



The most recent major tax law change was passed in May 2003. Within the new rules several taxes phase out and then phase back in. For the alert investor who is willing to set up a plan, one provision in particular could mean significant tax savings.

The tax act reduced the long-term capital gains rate to 15% for anyone in the 25% or higher bracket and down to 5% for taxpayers in the 10%-15% brackets. These rates will remain effective through 2007. In 2008, however, another change emerges when the capital gains tax falls to 0% for individuals in the 10%-15% brackets. This presents some money saving opportunities for you if you are considering

giving assets to anyone in a lower tax bracket, such as children or grandchildren.

For example, suppose you own a mutual fund that you want to use to help your grandson when he starts college in 2008. If you are in a high tax bracket, you will have to pay 15% on any gains that you realize on the fund's sale.

The IRS specifies that when you give an appreciated asset, the donee receives the gift at your cost basis. Therefore, any untaxed profit is passed on with the asset and taxed based on the donee's tax bracket when sold. So if your grandson sells any of the gifted shares between now and the end of 2007, he will have to pay at least 5% on the profits.

On the other hand, you could hold off giving him the fund until 2007 and have him keep the account for at least one year. As long as he liquidates the fund in 2008, he will have a good chance of avoiding the capital gains tax. However, based on present law, if he does not sell out until 2009, he could face a 10% capital gains tax.

The new law includes other income and estate tax-savings tactics. Just return the enclosed coupon, and I'll be glad to meet to discuss them with you.

Will the Federal Deficit Hurt Your Investments?

Investors frequently look at federal deficits as bad news for stocks. And this year will be the highest ever—\$455 billion. They believe that to pay for the mounting debt, the government must increase interest rates and raise taxes. Corporate borrowers would have to bump their interest rates to compete with Treasury bonds, then prices go up and profits decline. Fortunately, this is not how it always goes.

There has been a budget deficit in 16 of the past 20 years. Still, over that time the 10-year Treasury bond's interest rate fell from 11% to less than 4%. And the stock market's return does not seem to relate to deficits either. In 1975, the deficit hit a high of \$75 billion. The S&P 500 rose 32%. Then in 1985, the government spent \$216 billion more than it took in. And the market went up 26%. The last record-setting deficit was in 1992 with \$327 billion. Even so, stocks went up 4%.¹ So does this mean that we can expect stocks to surge in light of another record deficit?

Much of the present budget situation came about because of the tax cut, escalating military operations,

and unemployment benefit extensions. And each of these programs could actually help the economy. The possible proof for this assumption may have occurred in September 2003, when the Economic Cycle Research Institute's index of leading economic indicators reached a 20-year high.²

As a financial advisor, I don't like to see budget deficits, either within my clients' finances or my government's. Nevertheless, recent history indicates that the state of the federal budget may have little impact on how well your investments perform. Therefore you should base your investment decisions on the fundamentals that have been successful in the past and not on how our politicians spend our money.

There are several investments that I believe will benefit from the increase in government spending over the next several years. For a free copy, please check off and return the enclosed coupon.

¹ Money, September 2003, page 48C

² <http://www.businesscycle.com/#>

Valuable **FREE** Information

Please complete this form and mail to:

Wall & Company

One Town Square Boulevard, Suite 100
Asheville, NC 28803

For more information on the items mentioned in the newsletter, please mail in this form or call Renee at 828-651-9617 or toll-free at 888-253-9141.

Please send me information on these items mentioned in your newsletter:

1. I have an insurance policy that I would like for you to review.
2. I understand that having the right investments inside my IRA and having the right investments out of my IRA can reduce my total lifetime income tax. Please help me review this.
3. I would like to find out if a Roth IRA conversion would benefit me.
4. I am interested in qualifying for the 0% capital gains rate.

I would like a copy of these booklets (enclose \$1 for each)

- Avoid Mistakes Buying Long-Term Care Insurance
- Annuity Owner Opportunities (a must read if you own an annuity)
- Mistakes in Selecting Mutual Funds

I think these people would like to receive your newsletter and an invitation to your next public presentation:

Name _____

Address _____

City, State, Zip Code _____

Name _____

Address _____

City, State, Zip Code _____