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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Second Quarter, April-June, 2003

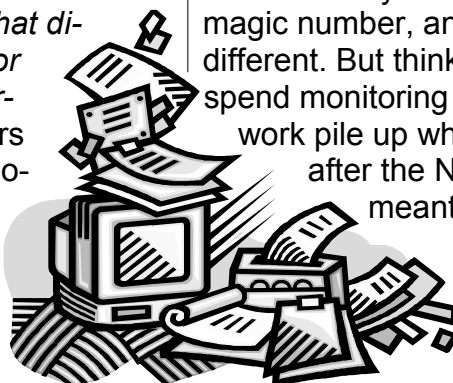
How Many Mutual Funds is Too Many?

You've probably heard for years that diversification is one of the keys to successful money management. And as many employees of scandalized companies have recently learned, lack of diversification can mean the difference between a comfortable retirement and possibly none at all. *(Note however that diversification does not ensure a profit or protect against loss in a declining market).* But are you one of those investors who collect mutual funds like other people take aspirin? If two are good, then four must be better?

It's easy to get into the rut of owning an overabundance of funds. You might have a few that you've owned for decades, several more that you recently bought because they were hot performers, and some in your IRA that got rolled over from your 401(k)

plan. But what has this accomplished? Could you possibly have diversified yourself to the point of diminishing returns and now have done more harm than good?

So how many funds are too many? There's no magic number, and each investor's situation is different. But think about how much time you spend monitoring your portfolio. Does the paperwork pile up when the tax forms start coming in after the New Year? Mutual funds were meant to make life simpler.



Suppose your financial plan calls for a specific balance of asset classes. And each year you make adjustments among your investments in order to maintain that balance. This means that you would sell part of the asset classes that have done well and buy more of the

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Passive Asset Allocations Fall Short

In 1997, many financial planners thought that they had discovered the holy grail of investing in the most comprehensive, objective study ever done of historical returns in the U.S. capital market -- Stocks, Bonds, Bills and Inflation: Historical Returns (1925-1996). The authors, Roger Ibbotson and Rex Sinquefeld, analyzed the indicated asset classes, their total returns and their volatility over extended time periods.

Their conclusion was that small stocks can be expected to return an average 12.5% annually, while large cap stocks, represented by the Dow Jones Industrial Average, would average 10.0%. Bonds were pegged at an average annual return expected to average 3.7% annually.

The Securities and Exchange Commission has long required money managers and investment advisors to warn clients that past performance is no guarantee of future returns. But that didn't stop the planning industry from trotting out historical returns as a basis for designing passive allocation investment portfolios.

Some planners implied that all investors needed to do was to establish their required rate of return and risk tolerance based on existing savings and intended future savings, have a passive asset allocation prescribed, and then build a portfolio of mutual funds to meet that allocation. The idea that large cap stocks gain 10% per year on the

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New IRS Rule Might Prevent Depleting Your IRA

Were you an early retiree who took advantage of the “substantially equal periodic payments” provision in the tax code to get around the 10% early withdrawal penalty from your IRA? This special exception required that you calculate the amount that you intended to take out and stick with that plan for five years or until you are 59½, whichever would come last.

For years this concept worked out well. Recently, however, after a declining stock market, many retirees have found that their IRA balances have shrunk, but their required distributions have remained the same. Therefore, they now have to cope with the possibility of draining their accounts many years sooner than they had originally anticipated. On October 3, 2002, the IRS issued an announcement that should help this group of retirees.

The IRS will now allow you to switch, one time, without penalty, to a method of determining the amount of your payments that is based on the value of your account as it changes from year to year. This means that you would recalculate the required payout each year by dividing the account balance for that year by the number from the chosen life expectancy table for that year.

Whether or not this new ruling can work for you will depend on how much your IRA has dropped, your age, and how far you are from the end of your required payments.

If you are worried about depleting your retirement funds and would like help to review your new alternative, please check off and return the enclosed coupon.

How Many Mutual Funds is Too Many?

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asset classes that have fallen behind. The more funds you own, the more complicated this becomes, and the greater the possibility of sizable capital gains taxes.

Over-diversification might possibly increase portfolio risk. What if two of your funds are large-cap, growth-oriented and both have large holdings in the same stock? If that stock were to take a dive, both of your investments would suffer. After many years of investing, you may not be sure whether or not you own too many funds.

This might be a good time to go over them and think about why you bought each one. Would you still buy them today? Have any of the funds changed their investment style over the years, and how might that impact your overall financial plan? Is there now overlap of investments within the funds that exposes you to greater risk?

Look at your funds' Web sites or semi-annual reports. Do the same company names appear in the top ten holdings of several of your funds? If you think that your basket of mutual funds has become too overwhelming to manage or there might be investment overlap resulting in less diversification and greater risk, consider the capital gains tax possibilities before you start consolidating.

For a free analysis of your mutual funds and which you should consolidate, including overlap that might be within your portfolio, return the enclosed coupon.

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!

Passive Asset Allocations Fall Short

(continued from page 1)

average also formed the basis of arguments against trying to “time” the market, or actively manage portfolios.

But times have changed. Roger Ibbotson, head of Ibbotson Associates and co-author of the Ibbotson-Sinquefeld study that ingrained the 10% concept, now says the next quarter century will not live up to the past 75 years. Why? Conditions are different, says Ibbotson.

Fidelity Investments recently lowered to 7% its annual return target for its in-house pension plan. The Vanguard Group's *Plain Talk About Realistic Expectations For Stock Market Returns* has been removed from the fund family's web site. Likewise data on historical returns (up to 50 years) from T. Rowe Price are gone from that firm's web site.

We don't know what returns will be for the next year, or the next twenty years. Nor do we know which market sectors will prove the most profitable. In fact, the most accurate prediction of market behavior may well be simply that stocks will go up and go down. What we do know is that fluctuations create opportunities for profit if investors are willing to take an active approach.

Financial markets tend to establish trends, some short, some longer. The active manager strives to be positioned on the right side of the trend. To quote Will Rogers, “...if it don't go up, don't buy it.” Because we are not limiting ourselves to a fixed allocation, investment positions can be flexible to take advantage of different sectors. As a result, returns are not limited to those achieved by the major market indices.

Active management doesn't need to be 100% accurate because many short-term moves are continually taking place in the financial markets, providing opportunities to recapture losses from trades that don't work out. To achieve Ibbotson's once forecast average annual return of 10% annually, an active manager would need to realize 0.8% a month and let it compound.

Employee Spotlight!

Beverly Pressley, Office Administrator and Bookkeeper



Beverly Pressley joined Wall & Company after working for Asheville Investment Partners, LLC, as Office Manager. A graduate of UNC-Asheville with a Bachelor of Science degree, Beverly recently passed the General Securities Principal Registration Series 24 licensing exam.

Both Beverly and her husband, Tommy, are natives of Asheville, a rarity indeed! She enjoys reading and spending time with her family.



News at Wall & Company

Wedding bells will be ringing in the fall of 2004 for Service Team Manager, Kelly Mullin and her fiancé, Matt Roark. Matt popped the question on May 17th at a romantic, candlelight dinner at the Poplar Lodge in Hendersonville. Congratulations, Kelly and Matt!

AND THE CLIENTS OF
THE QUARTER ARE...

Al & Norma Snap

CONGRATULATIONS!

They will receive a dinner
certificate at a local fine
dining establishment!



Performance Report

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

Second Quarter ~ Ending 6/30/03 (Total Returns Net After Maximum Fees)

WALL & COMPANY MANAGEMENT PROGRAMS <i>(Net After Maximum Management Fees)</i>	2003 2nd Quarter%	2003 YTD%	2001 - 2002 Year End%
• Invesco World Program (IWP) <i>(Start Date 12/01/02)</i>	9.32	8.45	-2.15
• Invesco Growth Program (IGP) <i>(Start Date 10-19-00)</i>	8.40	5.19	-16.85
• Diversified Growth Program Variable Annuity (DGPVA) <i>(Start Date 01-01-01)</i>	10.07	5.52	-15.28
• World Growth Opportunity (WGO) <i>(State Date 9-03-02)</i>	1.57	-2.70	2.55
• Wallco Bond Allocation Program (BAP) <i>(Start Date 01-02-03)</i>	8.89	15.00	16.53 ⁽¹⁾
• Wallco Bull-Bear Program (WBB) <i>(Start Date 05/05/03)</i>	-3.76	-3.76	n/a
• World Growth Opportunity II (WGO II) <i>(Start Date 05/14/03)</i>	1.37	1.37	n/a
MARKET INDICES			
• S & P 500 Composite Index	14.88	10.76	-33.36
• Morgan Stanley E.A.F.E. Intrn'l. Index	16.42	9.18	-36.76
• Lehman Brothers High Yield Bond Index	10.10	18.49	3.80

(1) Wall & Company, Inc. leases a bond market timing signal from BTS Asset Management. The performance shown from 2001-2002 represents BTS's performance with the Putnam High Yield Bond Fund, net after fee. Please see BTS disclosure.

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, the Morgan Stanley E.A.F.E., 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 07/03/03)

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:

- I would like an analysis of my mutual funds to determine if overlap is affecting my diversification. My three largest mutual fund holdings are:

- I want to know if I am currently depleting my IRA faster than necessary.
- I want to know how to protect my investment accounts from identity theft.
- I want more information on active management programs.

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

- Avoid Mistakes in 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: _____

NAME: _____

ADDRESS: _____

(Please provide names and addresses with zip codes.)

Identity Theft

Over 700,000 people, just like you, are victims of identity theft each year. Thieves can easily steal your personal information, for example, your credit card account number, Social Security number, or driver's license number. And it can happen while you are going about your everyday affairs of buying groceries, receiving medical care, or making cellular phone calls. Once they have this information they can open accounts in your name, use your existing accounts, or even work or get arrested while pretending to be you.

Your liability to banks and credit card companies is generally no more than \$50. The real harm, however, may come when you try to straighten out the mess and repair the damage to your credit ratings. Victims of identity theft have reported spending an average of 175 hours to correct the problem and \$800 in out-of-pocket expenses.

If you discover that you are a victim, immediately file a police report and notify the fraud department of each of the three major credit bureaus:

Equifax: 800-525-6285
Experian: 888-397-3742
Trans Union: 800-680-7289

Call your credit card companies, banks, the **Social Security Administration (800-772-1213)**, the IRS, the passport agency, and all organizations you belong to. You may also want to report the theft to the **ID Theft Clearinghouse (877-438-4338 or www.consumer.gov/idtheft)**. This division of the Federal Trade Commission has counselors who will take your complaint and tell you how to deal with the problems that you might confront.

There are some ways you can reduce the chance of a thief getting your personal information or cut down on the damage if the crime has already occurred. Your Social Security number is all that many thieves need to assume your identity. Don't carry the card with you or casually give out the number to sales clerks or other strangers.

But if you have Medicare, your ID card includes your name and Social Security number. Consider making a copy of the original Medicare or health insurance card, black out your Social Security number, and carry that copy with you. Just make sure that you and someone you trust knows where to find the original card.

Beware of what you throw in the trash. Carefully go through your junk mail and look for anything that includes your name, address, phone number, and other personal information. Consider purchasing a shredder to properly destroy all sensitive information so that dumpster divers will have a difficult time piecing together anything about you. Look into picking up your mail from a P.O. Box. This would eliminate how some identity theft is done—by the thief pulling mail out of the box in front of your house.

According to the FTC, an average of 12.3 months elapses between the time of initial misuse of the victim's identity and when the victim first discovers the crime. Check your credit record annually. Order reports from the three major credit bureaus and make sure all the information is correct. Also, follow up with creditors if your bills do not arrive on time. A missing credit card bill could mean an identity thief has taken over your credit card account and changed your billing address to cover his or her tracks.

Nothing is 100% foolproof. A determined thief can accomplish anything if given enough time. But if you make his or her job more difficult, the odds will be in your favor against becoming an identity-theft victim.

If any of your financial information has been compromised, contact us and we can explain how to protect your investment accounts.
