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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Second Quarter - March-June, 2004

Will the Election Year Cycle Play Out Once Again?

Among a series of cycles that seem to reoccur time after time is the Presidential Cycle. According to the theory, the stock market goes up for the last two years of the Presidential term and then falls for two years. The rationale is that prior to an election, the party in control pumps money into the economy to make conditions look good. After the election, the artificial stimulus goes away and the market falls in response.

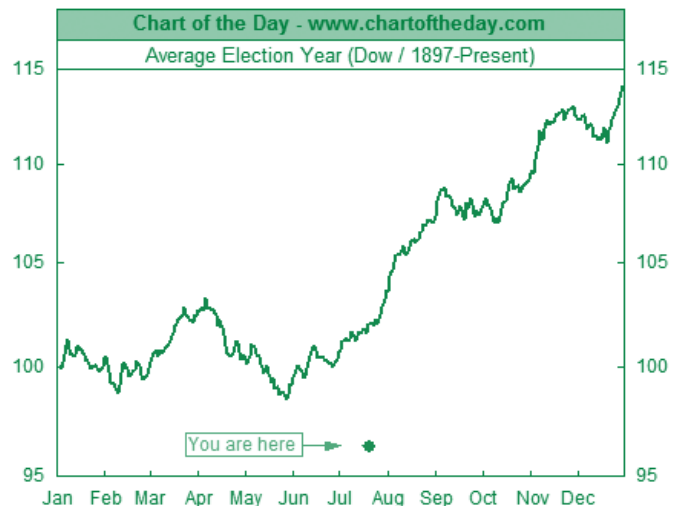
While the fourth year of the cycle – the election year – is typically an up year, it often starts on an uncertain note and the rally doesn't really get underway until mid-year. The chart below is from Chart of the Day – www.chartoftheday.com – and shows how the Dow Jones Industrial Average has performed in the average election year from 1897 to the present.

The uncertain start of the election year has certainly been true for 2004. It remains to be seen if the trend for the second half plays out as it has in the past. But while prior years would indicate a rosy scenario for the next five months, investors need to remember that past performance is not indicative of future returns. History never repeats itself exactly and mixed in with the averages are down years.

There are a number of factors that could negatively impact the financial markets prior to the election,

from terrorism to inflation and interest rate increases. Looking to the past gives us ideas of how the future might unfold, but what really matters is the day-to-day action of the financial markets.

That's why continuous review of the financial markets and your portfolio positions is essential to manage risk and minimize drawdowns. Uncertainty gives the market the potential for rallies that build portfolio value, but unexpected declines can also occur. Our objective is to help you take advantage of the rallies and limit the impact of declines on your portfolio.



Might You Live to 100?

Live to 100. Sounds great. But what are the downsides? "How can there be downsides?" you may ask. After all, you'd have more time to golf, go fishing, and spend with the grandkids. Well, the risk may be that if you hadn't planned to live that long you could end up running out of money.

So how long of a retirement should you plan for?

According to the IRS, a 70-year-old person is expected to live for 17 more years to age 87. However, this is an average. Half of the 70-year-olds will live longer and half will not. Therefore, a 70-year-old individual who is basing his or her retirement plan and spending habits on living to 87 is rolling the dice. Furthermore, when you consider that there are more

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Are There \$\$ Hiding in Your Life Insurance Policy?

Are you asset-rich but cash-poor? Over the years did you put money into investments to protect yourself and your dependents? However, now could you use those dollars to supplement your income? For instance have you recently looked at an old life insurance policy and considered surrendering it or just letting it lapse? Maybe you don't need the coverage any longer and see no need in continuing to pay the premiums. But rather than just taking the cash surrender value, a life settlement might offer a greater payout.

Companies that purchase life insurance policies often pay policyholders more than the cash value within the policy. The amount of the life settlement is determined by the policy's face amount, premiums required until the policy matures, policy loans, insurance company's rating, and the insured's age, health, and life expectancy.

For a hypothetical example of how this could work, consider Bill, age 75. Years ago Bill had purchased a \$300,000 universal life insurance policy on his life to protect his dependents. But that need changed last year when Bill's wife died. Bill is in good health; nevertheless his biggest concern is long-term care, and he doesn't want to be a burden on his children. He knows he should invest in a long-term care insurance policy, but the \$3,000 annual premium would cut into his travel budget, therefore he put off buying the coverage.

Bill's life insurance policy had \$15,000 of cash value. A life-settlement company offered him a \$75,000 lump sum payment and Bill accepted. He is now no longer responsible for the \$4,000 annual, minimum life insurance policy premium. This gave him the cash flow to buy a long-term care plan. Bill then put part of the \$75,000 in short-term investments to build up his cash reserves and the balance into a fixed annuity to provide for his future and pass to the grandchildren.

Bill and his children realized that the life-settlement company will receive the \$300,000 when he dies. The peace-of-mind, however, that came from the drop in expenses, an increase in liquidity, and knowing that Bill would have proper care in the event of an illness or injury was worth the exchange.

If you believe that you no longer need a cash-value policy because your family or financial situation has changed, return the enclosed coupon so that we can meet and determine whether or not we can find extra money in that policy for you.

Note: Fees, taxes, and other charges may apply when selling a life insurance policy.

Might You Live to 100?

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than 70,000 U.S. centenarians who represent the fastest-growing segment of our population, there is reason to take notice.

However, planning too conservatively could be detrimental as well. After all, you don't want to cut your standard of living down to the point that you'll be miserable. And of course, you always have the option to make adjustments in your spending as time goes on.

All of this comes down to two simple facts: You can control how long your money will last, but you only have a limited ability to predict how long you will live. So what can you do to reduce the risk of running out of money too soon?

The first step is to understand exactly what your assets are and what they are worth. The next step is determining whether you are taking full advantage of the earning power of those assets. Changing how your investments are structured, where they are invested and how you make withdrawals can impact how long your money lasts. For a no-obligation review, please check off and 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!

What to Do if Your IRA is the Bulk of Your Estate

Conscientious savings habits as well as 401(k) and other employer-sponsored plan rollovers have made IRAs the bulk of many retirees' estates. Furthermore, the tax-deferred status of IRAs frequently allows these assets to grow more rapidly than other funds you might own. This can cause a big problem for non-spouse beneficiaries who may have to use a large portion of the accounts to pay taxes.



Everything that you own is included in your taxable estate. Hence if you die in 2004 and your estate exceeds \$1,500,000, federal estate tax up to 48% must be paid on the excess. Then to make bad matters worse, your heirs will have to pay income tax based on their tax bracket (up to 35%) on the inherited accounts. There are several strategies that you may want to consider to reduce the size of your taxable estate yet maintain the amount you leave to your heirs.

You could roll your IRA to a Roth IRA. The income tax that you would pay on the funds transferred will

reduce your taxable estate. In addition, your beneficiaries will receive the accounts income tax free.

Do you have a favorite charity? Charitable gifts from your IRA could give you an immediate tax deduction. But you will also get an immediate tax bill. A better alternative may be to name the charity as the beneficiary of your IRA or plan for the funds to go into a charitable trust after your death. Your estate will be able to deduct the value of the gift for estate tax purposes, you will avoid the income tax, and your beneficiaries could receive a life-time income.

How about paying someone else to come up with the necessary money for income and estate taxes? Life insurance proceeds can be structured so that they are income and estate tax free, and they can be used to keep the bulk of your IRA for your heirs.

I can help you come up with a tax-efficient strategy to make sure your beneficiaries receive as much as possible. All you have to do is check off and return the enclosed coupon or call my office to schedule an appointment.

Don't Count on the Death of the Death Tax

Over the years, the death tax has been a tug and war battle. One group of politicians wants to keep the tax to "soak the rich" and another one fights to abolish it because of the hardship it places on certain people. Regardless of where you stand on this issue, one thing is certain: Even if the federal estate tax is permanently repealed, a tax in one form or another will replace it. And if you do not remain flexible and take the steps needed, you or your heirs will pay.

The death tax brings in about \$24 billion each year for the federal government. Not very much when you consider that we're looking a \$500 billion deficit this year. But when it is phased out by 2010, more money could actually flow in the IRS coffers. That's because the step-up in basis for inherited property is phasing out as well.

The way that the capital gains tax on inherited property works now is that your heirs receive your assets at the value on your date of death. If they sell the assets for that amount, they avoid the tax. Any appreciation above the date-of-death value is taxable.

Under the phase out legislation, estates would escape the death tax but heirs could owe capital gains tax based on your original purchase price when they sell the property. This could encourage people to sell assets during their lifetime, pay the capital gains tax, and reinvest the proceeds. Therefore, tax revenue would be generated sooner.

And let's not forget about the states and their combined, estimated \$57.9 billion deficit that occurred in 2003. Now they get a federal credit that is scheduled to phase out from 2003 to 2007. This could collectively cost the states \$23 billion in revenues, and some have taken action to defend their interests. Seventeen states and the District of Columbia have "decoupled" relevant parts of their tax code from changes in the federal tax code to keep it as it was prior to the 2001 federal estate tax law amendments.

Now is not the time to become complacent. Now is the time to implement strategies that could possibly save you tax dollars today and your heirs' money in the future. Return the enclosed coupon for a free tax-savings analysis.

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.

Second Quarter ~ Ending 06/30/04 (Total Returns Net After Maximum Fees)

Wall & Company Asset Allocation Programs Net after Maximum Management Fees	2004 2nd Quarter %	2004 YTD %	2003 ⁽¹⁾ Year End %
Aggressive Growth Allocation 100% World Growth Opportunity (WGO)	-6.28	-7.46	8.34
Capital Growth Allocation 80% World Growth Opportunity (WGO) 20% Bond Allocation Program II(BAP II)	-5.43	-5.60	10.15
Balanced Growth Allocation 60% World Growth Opportunity (WGO) 40% Bond Allocation Program II(BAP II)	-4.59	-3.74	11.95
Conservative Allocation 40% World Growth Opportunity (WGO) 60% Bond Allocation Program II(BAP II)	-3.74	-1.88	13.77
Preservation Allocation 20% World Growth Opportunity (WGO) 80% Bond Allocation Program II(BAP II)	-2.90	-.01	15.57
MARKET INDICES			
S & P 500 Composite Index	1.30	2.60	26.38
Lehman Brothers High Yield Bond Index	-.96	1.36	39.17
US Treasury Bill (90 days)	.20	.43	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 charged during that time period. 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 $(1 + \text{Return}\%)^n \times (1 - \text{EstFee}\%) - 1$ 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 07/08/04)

For a Richer Retirement, Invest in Your Health

“If I had known I was going to live this long, I would have taken better care of myself.”

Mickey Mantle

The first wealth is health.

Emerson, 1860

A good friend eats beef with relish, explaining that when he dies, he would rather it be quickly from a heart attack. While there’s a certain logic to his statement, our modern medical system has made death a lengthier experience that it once was. You just can’t count on just keeling over anymore. And the costs of a medical problem can quickly erode your retirement savings even with health insurance.

Medicare covers only short-term and rehabilitative skilled care received in an approved facility. Chronic illnesses and custodial care that require help with the activities of daily living are not covered by Medicare. Medicaid does provide help with medical expenses — but only for the poor. To qualify for assistance, you must already be poor or deliberately impoverish yourself, depleting all non-house assets.

Long-term care protection insurance is one option, but because premiums increase rapidly with age, it is best to purchase such coverage while in your 50s or early 60s.

Another option is to invest in your health by establishing a regular exercise program, seeing your doctor before minor problems become major issues, eating wisely and taking the right supplements and medications for your current state of health.

Above all, don’t neglect making appointments with your doctor on a regular basis, even if you are feeling fine. The current generation of retirees grew up in a period of self-sufficiency, when you toughed it out and didn’t complain about minor issues. But that can all too easily lead to not catching major problems — such as prostate cancer — early when treatments are most effective.



One of the greatest dangers for women as they age comes from calcium loss, which weakens bones. A broken hip all too often leads to more serious complications. In addition to calcium supplements, regular weight bearing exercise helps maintain bone strength. This means setting aside time for walks every day and upper body strengthening activities.

Exercise is equally important for men. In addition to benefiting heart and lung functions and giving you more energy, exercise helps guard men from bone loss as well. It is possible to rebuild muscle strength and endurance at any age, although you definitely want to talk with your doctor before dramatically changing your activity level.

While there are no guarantees you can completely avoid financially debilitating health problems in the future, investing in your health can improve your odds of “dying young as late in life as possible” and you benefit from feeling better today.

Valuable **FREE** Information

Wall & Company

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Please contact me regarding these items mentioned in your newsletter:

- I am interested in learning more about life settlements.
- I would like to see your ideas on how to minimize potential estate taxes on my retirement plan.
- I want to know what my alternatives are with respect to making certain I don't outlive my retirement funds.
- I would like to learn how to be prepared no matter what happens to estate taxes.

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)
- A Structured Investment System That Has Beaten 83% of Mutual Funds
- Mistakes in Selecting Mutual Funds
- Seven Ways Retirees Can Cut Taxes
- IRA Distribution Mistakes
- CD Shoppers' Guide

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.)