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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

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What History Tells Us to Expect in 2004

Recent surveys of investor expectations show overall investors are still optimistic about future market returns despite the recent bear market. Forty percent believe that a reasonable average long-term return from a broadly diversified mutual fund will be 10%. Six percent of those surveyed thought that 20% or more was a reasonable expectation, and 15% thought that 15% was reasonable. That adds up to 61% who think the markets will give them 10% or more over the long term.

Are they right? Only time will tell. But near term, it may pay to have much more conservative expectations and to build risk management into any investment strategy.

John Templeton, one of the greatest investors of our time and founder of the Templeton fund family, is

among those still in the bearish camp. He says, "It would be unlikely that the bear market is over when the American stock market is only down about 30%; when in the biggest boom ever, it had been up 10 times over where it had been years earlier... Following such a large increase, a 30% decrease is small."

The most common phrase in any financial ad or brochure is undoubtedly a variation of "*Past performance is not predictive of future values.*" But when it comes to trying to anticipate the future, we have no better guide than to look at the past and how the market has played out in similar times. This provides a framework in which one attempts to understand what could happen in the near future. And, while

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Problems with Proposed Mutual Fund Reform Solutions

Since New York Attorney General Eliot Spitzer's first release of charges filed against hedge fund Canary Capital for improper mutual fund trading in September 2003, new revelations of mutual fund misdoings seem to hit the newspapers daily. The issues have revolved around three key problems:

- Late trading - Buying or selling mutual fund shares after the official 4:00 p.m. close of the stock market — an outright illegal act.
- Overnight arbitrage, particularly in international funds - this has involved quickly trading in and out of mutual fund shares in an attempt to make a fast profit based on pricing discrepancies. While legal, it has been under attack by fund companies who maintain it hurts returns for long-term investors.
- Individual violations - Wrongful behavior or criminal acts by individuals inside and outside the mutual fund industry.

A number of regulatory solutions have been proposed to prevent these issues in the future; how-

ever, some of the early concepts have the potential to hurt the innocent without resolving the issues. The two areas of greatest concern are (1) a proposed 4 p.m. hard close on all mutual fund transactions and (2) mandatory redemption fees of a minimum of 2% on transactions occurring within a minimum of five days.

Hard 4 p.m. close

The hard 4 p.m. close proposed by the Securities and Exchange Commission would require that all buy and sell orders reach the mutual fund, its transfer agent or securities clearing agency by 4 p.m. market close or else receive next day pricing. To meet this deadline, financial intermediaries, such as brokerage firms, trust companies, retirement plan administrators and others which handle 85-90% of all mutual fund transactions would need to establish an earlier cutoff for investors, possibly 12 noon eastern time. Investors on the West Coast would have an early morning cutoff.

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Welcome to Kelly's Korner!

Every quarter I will cover some of the most often asked questions or problems that we receive on the Service Team and the solutions we have for them.

This quarter we want to address the questions associated with reading the customer statements from Southwest Securities (SWS) and the Wall and Company Quarterly Performance Reports. In addition we want to cover how to access your accounts via the Wall and Company Website.

We will be holding two Client Seminars covering these topics:

Tuesday February 17th at 4pm and
Thursday February 19th at 11am.

They will be held in the conference room located on the 3rd floor of our office building. If you are interested please RSVP to our office at 828-651-9617. Space is limited so please make your reservations as soon as possible to avoid being left out!

Hope to see you there!

Kelly



New at Wall & Company

Our new Service Receptionist is Amy LeClare. Amy moved to Asheville in August 2002 when her husband, Robert, accepted a position with a local company. She was previously employed as an Administrative Assistant at BETA Systems in Brookfield, WI.

Amy has been busy getting settled in her new home and helping her children, Sarah, 17, and Joseph, 14, adjust to their new environment. Amy enjoys reading and hanging out with her family.

Steve Jones has joined Wall & Company to oversee new client acquisition. Steve is a Registered Representative in financial services and insurance. His educational background includes a Master of Public Affairs Degree from WCU. Steve enjoys movies, reading and tennis.

We would like to welcome Amy and Steve to Wall & Co. and encourage you to say hello to them when you stop by our offices.

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 History Tells Us to Expect in 2004

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history tends to rhyme rather than repeat, certain themes and trends have played out over and over.

Many believe that financial markets should go up during the presidential election year, as the political party holding the presidency does whatever it takes to keep investors happy and its grip on the presidency. In reality, according to the "Presidential Cycle," a pattern that has shown some consistency, the stock market typically performs better in the years prior to election years. The third year is historically the best of the four-year cycle. This appears to be the case in 2003. Election years are often times of uncertainty, reflected by little growth in the market.

Another indicator is the economic cycle. According to Mark Hulbert, editor of *Hulbert Financial Digest*, since 1897 the Dow has risen an average of 22% over the 12 months following the end of a recession, then fell to returns between 2 and 3% for the next two years. Since economists have pegged November of 2001 as the end of our current recession, the market should have risen dramatically in 2002 and then slowed. If the reaction was delayed by factors such as September 11, 2001, then the gain in 2003 might have been the post-recession run-up in stocks.

So what's an investor to do? Realizing that past performance is not predictive of future values, it still seems reasonable to expect the long-term trend of the market to continue to be up. As we saw during 2000-2002, however, there can be extensive periods of painful market declines. Therefore, for most of the investing public, there needs to be a plan that limits losses and keeps us willing to stay committed to equities for the longhaul. That's where active management comes in!

Active investment management is an approach for investing during periods of uncertainty. As long as indicators show the market trend is up, assets are positioned in equities and asset classes that appear to have the greatest potential for appreciation. But when the tide appears to be turning, the active manager quickly moves to a defensive position. Where the market is headed over the next three, six or twelve months is not as important as where the trend is right here and now.

While there is no perfect investment strategy and investors can lose money as well as profit, by knowing a system is in place to control risk, active managers are more willing to be invested during uncertain periods. That creates the ability to potentially profit from upturns in the midst of bear markets and limit losses during bull market corrections.

Problems with Proposed Mutual Fund Reform Solutions

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This means the average investor would not be able to buy or sell after the cutoff, but institutional investors and insiders who trade directly with the mutual fund would still have some four hours to react to afternoon news — news such as Federal Reserve policy statements and rate changes which occur at 2:00 p.m. These investors would have a tremendous advantage over the vast majority of individual investors when market moving news happens.

Mandatory and Higher Redemption Fees

The second proposed solution of allowing mutual funds to increase redemption fees and mandating holding periods again threatens to penalize individual investors without solving the problem. Currently mutual funds can impose redemption fees up to 2% for whatever time period they choose. In response to the recent mutual fund scandal, many funds have imposed new redemption fees for periods ranging from 30-120 days, far in excess of what would be considered necessary to stop overnight price arbitrage.

Institutions, wealthy investors, professional money managers, and other investors have the tools and ability to manage portfolio risk outside of the mutual fund framework. Redemption fees will have little impact upon them. But for the vast majority of Americans who have come to depend on mutual funds for retirement savings and building financial security, the rules will have changed. The decision to liquidate fund assets to meet an unforeseen emergency, take advantage of a better investment opportunity, limit damage from collapsing market values and even poor performance by the fund manager, could easily cost a fund investor hundreds and even thousands of dollars in redemption fee penalties.

Mutual funds have amply demonstrated over the past three years that they cannot protect investors against down markets. Redemption fees would discourage investors from acting to protect their investments while at the same time, according to academic studies, fail to stop profitable overnight arbitrage trading. The answer is fair value pricing, not indiscriminant redemption fees.

We encourage you to write to your congressional representatives and urge them to make certain that actions to remedy the mutual fund industry's ills do not penalize individual investors and create an even more uneven playing field. The 4 p.m. close and mandatory redemption fees are poor answers to the problems revealed in the fund industry during the last few months.

Performance Report

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

Fourth Quarter ~ Ending 12/31/03 (Total Returns Net After Maximum Fees)

Wall & Company Management Programs Net after Maximum Management Fees	2003 4th Quarter %	2003 Year End %	3 Year Total Return %
Wallco Bond Allocation Program (BAP) ⁽¹⁾ Start Date 01/02/03	4.51	17.38	36.78
Diversified Growth Program Variable Annuity (DGPVA) Start Date 10/19/00	7.99	13.26	-4.05
World Growth Opportunity (WGO) Start Date 09/03/02	5.65	8.34	n/a
World Growth Opportunity II (WGO II) Start Date 05/14/03	3.18	4.39	n/a
Wallco Bull-Bear Program (WBB) Start Date 05/05/03	7.89	-1.97	n/a
MARKET INDICES			
S & P 500 Composite Index	5.08	26.38	-15.78
Morgan Stanley E.A.F.E. International Index	7.82	39.17	-11.99
Lehman Brothers High Yield Bond Index	5.91	28.97	33.87

(1) Wall & Company, Inc. leases a bond market timing signal from BTS Asset Management. This signal is used in the Wallco Bond Allocation Program.

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 2.95% annually. A performance fee of 1% annually plus 20% of gains has been deducted from the WGO II performance. 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 01/07/04)

Take the Sting Out of Fluctuating Interest Rates

CDs, bonds, and fixed annuities have a common characteristic: interest rate risk. If interest rates go up while you own these investments, your earnings might be less than they could be if the rate of return wasn't fixed (and your money may have less purchasing power due to inflation). However, if you don't lock in fixed returns and instead park your cash in a money market or savings account, you risk losing out in case interest rates decline.

A conservative investor is then left to ask: What are interest rates going to do? Will they go up, down, or stay the same? The experts can't predict exactly what will happen, so how can you?

One strategy to help reduce interest rate risk is to stagger (ladder) the maturity dates of your fixed investments. In the case of fixed annuities, it would mean owning several contracts with different guaranteed rate periods.¹ This way, if interest rates move up, the shorter-term accounts may earn the new, higher

rates (when they mature and are re-invested at current, higher rates). Conversely, if the rates drop, part of your fixed-income portfolio will grow at the higher, older rates.²

The laddering concept is a form of time and interest rate diversification and is designed to enable you to earn an average interest rate that will outpace inflation over a long period of time. And rising prices can be tougher on older investors than it is on younger ones. The Consumer Price Index (CPI) rose an average of 3.3% a year from 1982 to 2000. However, the Consumer Price Index for the Elderly (CPI-E), which follows the expenses for consumers over the age of 62, went up an annual average of 3.5%.³ Therefore, it may be time to rethink your strategies.

I will be glad to show you how to achieve greater diversification and reduce the interest rate risk in your portfolio. Just return the enclosed coupon, and we'll schedule a time to meet.

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 some 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.⁴ 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.⁵

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 lifetime income.

How about paying someone else to come up with the necessary money for income and estate taxes? Assuming you qualify, 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 retirement funds 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

¹ Guaranteed by issuing annuity company. Not government or FDIC insured.

² There may be fees and costs associated with buying and selling fixed annuities, which may affect the overall performance of this strategy.

³ http://www.businessweek.com/magazine/content/01_31/b3743615.htm

⁴ They may, however, receive a deduction for the estate taxes paid.

⁵ Roth IRAs must exist at least five years before earnings can be withdrawn tax-free.

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:

- How can I reduce the tax bite on IRA and retirement plan distributions?
- I want the free guide to properly selecting my IRA beneficiaries.
- I want to know how to establish a Roth IRA.
- I want more information on Wall & Company's active investment management programs.

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 _____