



Warren Wall
CFP, CSA, MBA, Publisher

SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Fourth Quarter October-December 2005

Market & Investment Update

The 2005 stock market ended the year on a flat note. The S&P 500 Index (without dividends) was up only + 3%; the Dow Jones Index (without dividends) was down -.60% and the NASDAQ Index posted gains of only +1.40%. After a volatile year and meager returns to show for it, investors are hoping 2006 will be a more profitable year. Some of our favorite market forecasters suggest the following could happen in 2006:

Hope No. 1: The Federal Reserve stops raising interest rates.

Hope No. 2: Undervalued US Large-Cap growth stocks begin to move up in value.

Hope No. 3: Energy costs and inflation decrease.

Hope No. 4: The housing market slowly deflates.

Regardless of these market predictions for 2006, rest assured that we will continue to closely monitor and react to the stock and bond market trends with the twin goals of protecting our clients' investments during down market periods and capturing gains when the market goes up.

Wall & Company managed programs "net-after-fee" model results ending 12/30/05 are shown below:

	<u>DGPVA</u>	<u>WGO</u>	<u>WGOII</u>	<u>BBH-Stock</u>	<u>BBH-Bond</u>	<u>BAP</u>
4th Qtr	2.97%	.44%	.60%	4.43%	-.34%	.09%
Y.T.D.	10.18%	.32%	7.32%	18.02%	-1.29%	3.54%

Disclosure: Past performance does not guarantee future results. Any investment has the potential for loss as well as gain. See Performance Report Disclosures on page 4 of this newsletter and the Wall & Company Form Adv Part II for investment program details.

"Fund of Funds" Portfolios Offer One Stop Shopping for Mutual Fund Investors

Do you own a hodgepodge of mutual funds that you purchased over the years? And when you get the regular statements, do you just drop them in a drawer because you don't have the time or inclination to deal with them? Some companies offer a "fund of funds" targeted to investors who want an efficient way to manage their mutual fund portfolios. While the fund of funds concept is not new, these products are attracting the interest of a new generation of investors.

Quite simply, a fund of funds is a mutual fund that invests in the shares of other funds. A fund of funds offers the convenience of a single investment providing both diversification and asset allocation. Although diversification does not guarantee against the risk of investment loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

A fund of funds will have its own investment objective, such as income or growth of capital, and can be either actively or passively managed. A passively managed fund of funds will often stick to a fixed portfolio allocation, such as 60% in stock funds and 40% in bond funds. On the other hand, an actively managed fund of funds will adjust its asset allocation

periodically depending on changes in the market or economic environment.

An actively managed fund of funds will routinely change the funds in the underlying portfolio, either by adjusting each fund's portfolio allocation or by buying and selling funds in the portfolio. Decisions to change the funds' portfolio allocation are based on the fund manager's evaluation of current investment conditions. An actively managed fund of funds brings an additional level of professional expertise to fund shareholders, calling on the investment manager not only to research the funds for the underlying portfolio but also to monitor the markets and make changes to the portfolio based upon current investment conditions.

For example, if a manager believes that certain stocks are priced too high and are due for a correction, he may adjust the fund's asset allocation to invest less in stock funds and more in lower risk bond funds. Similarly, if the manager sees opportunities for potential gains in a particular area of the market or possible trouble in another, the manager may sell funds with significant holdings in the troubled sector and buy funds geared more toward the sector where

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Convert to a Roth IRA After Retirement?

Should you convert a traditional IRA to a Roth IRA after retirement?

A Roth IRA can be a good savings vehicle for those still working, thanks to the tax-free treatment of qualified earnings. A Roth IRA conversion can also benefit a retired investor. Because there are no minimum distribution requirements, Roth IRA assets can be invested for a longer period and thus have more time to work for you. For a recent retiree, that could mean your assets could potentially have 10 or 20 years to grow on a tax-free basis.

However, you must weigh the benefit of tax-free treatment against the costs of the conversion (in terms of the federal income taxes paid on the converted amount). Furthermore, a Roth IRA conversion generally works best when an investor has a longer investment time horizon.

Generally, you should only consider a post-retirement Roth conversion when you have assets outside your traditional IRA to pay the taxes on the converted amount. If you would end up paying more taxes on the conversion than you would if you left the assets in your traditional IRA for withdrawals later in life, then a Roth IRA conversion might not be in your best interest.

Some rules to consider: You are only eligible to convert a traditional IRA to a Roth if your modified adjusted gross income ("MAGI") is below \$100,000 and you file a joint return with your spouse or you are single. The good news is that the amount of traditional IRA converted is no longer included in your MAGI to determine your eligibility for a Roth conversion.

Another rule you should be aware of: If you convert to a Roth IRA after age 70½, you must take one last required minimum distribution from your traditional IRA for the year in which you make the conversion. The remaining assets in your IRA are then available for conversion to a Roth.

Although distributions from a Roth IRA typically come out tax-free upon retirement, you must satisfy a five-year holding period requirement to achieve this benefit. Please also note that early distributions prior to age 59 ½ can be subject to ordinary income taxes and a 10% income tax penalty.

Please notify our office at (828) 651-9617 if you have any change in your financial situation, your investment objective or wish to change or add limitations to the investments we make on your behalf.

For an updated copy of W. Wall & Company Inc.'s SEC required disclosure document, Form ADV Part II, please call (828) 651-9617.

Who's Working for You at Wall & Company



Louisa Cox, *Client Services and Trade Manager.*

Louisa is a Registered Service Assistant who graduated from Appalachian State University in 2001 with a BSBA in Finance and Banking. Louisa handles client questions, inquiries and transactions and is responsible for daily trading. Louisa was recently honored by Wall & Company by receiving the 2005 Team Spirit Award! Go Louisa!

"Fund of Funds" Portfolios

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the opportunity is perceived to exist.

However, one factor that should be considered with all funds of funds, especially the actively managed variety, is the expense ratio. A fund of funds is already subject to the expense ratios of the underlying funds in their portfolios, but it may also include another layer of expenses to cover the management fees and operating costs of the fund of funds itself.

If you would like to learn more about these funds, please check off and return the enclosed coupon.

Mutual funds are investments involving risk and are offered by prospectus only. Investment return and principal value will fluctuate so that upon redemption an investor's shares may be worth more or less than original value. An investor should consider the investment objectives, risks, charges and expenses before investing. The fund prospectus contains this and other information about the investment company. For a copy of our fund of funds prospectus, please contact Mary Beth at (828) 651-9617 or send in the coupon provided. Please read the prospectus carefully prior to investing.

Thank You for Your Referrals

At Wall & Company, protecting your assets and seeing those assets continue to grow in all market conditions is our goal. We welcome the opportunity to serve individuals throughout our communities.

It's easy to refer family members, friends and professional associates to Wall & Company. Call us. Fax us. E-mail us. Write us. We promise to follow up promptly and to extend to your referrals the same concern for their long-term financial security that brought you to Wall & Company.

Again, thank you for your referrals and the confidence you have shown in our firm!

Should You Risk Keeping a Highly Appreciated Investment?

What do you do with an investment that has gone up in value? For some people, the threat of a large tax bill keeps them from selling, even if they know the investment's growth has thrown their portfolio out of balance.

So what is more important: Saving tax dollars or reducing risks in your portfolio? Depending on the investment's value, your other assets, and your time horizon, taking profits and paying taxes now could potentially make more sense than assuming a greater risk of loss down the road.

Here are some questions you should ask if you have a highly appreciated asset or investment that you are considering selling:

Have you held the investment at least one full year?

If you have, then the gain could be subject to the lower capital gain taxes. If not, any profits you realize from its sale will be taxed at your ordinary income tax rate, which in many cases could be higher than your capital gains tax rates.

Will your taxable income decrease in the future?

If so, you may fall into a lower tax bracket and qualify for a lower tax rate on long-term capital gains later on. Right now, the long-term capital gains tax rate is 15% for taxpayers in the 25% tax bracket or higher. That rate drops to 5% for taxpayers below the 25% tax bracket (which would include married cou-

ples with a taxable income of as much as \$59,400).

When do you expect to need the money from the investment?

Maybe you don't expect to tap this asset for another 5 or 10 years. But doing so could possibly expose your portfolio to a greater degree of risk over the long term.

The capital gain taxes may be a relatively smaller price to pay for the comfort that comes with a properly diversified portfolio. Plus over time, your diversified investments might potentially be able to recover the full amount you paid in capital gain taxes. Although diversification does not guarantee against the risk of loss in a declining market, it can help you to reduce the market volatility risk of your portfolio.

Do you need the investment at all?

If you feel you have sufficient funds to last the remainder of your life, you may never need this investment at all. That being the case, you may consider leaving the investment alone and letting it pass to an heir upon your death. Whoever receives the investment might be able to assume a step-up in cost basis, resulting in a smaller capital gain tax bill.

If you have an investment that has grown significantly but you're not sure what to do with it, call Lyn at (828) 651-9617 or complete the enclosed coupon for a free evaluation and tax analysis.

Annuities Require Careful Tax Planning

One popular benefit of a fixed annuity is that you can let the interest compound in the account each year without paying income taxes. This allows your money to possibly grow faster as compared to fully taxable investments that pay similar, before-tax returns. When you start making withdrawals, the percentage of income that is taxable depends on how you structure the distributions. Your beneficiaries, however, may not have that flexibility and could face a big tax bill on the inheritance.

Assuming your annuity is not held in a tax-qualified account, such as an IRA, your heirs will have to pay income tax on the built-up earnings when you die. Suppose you put \$250,000 into a fixed annuity a number of years ago, and now it is worth \$450,000. If you died today, your beneficiaries would receive the \$450,000. They would then have to pay as much \$70,000 in federal income taxes on the accumulated profit. (Maximum federal income tax rates are currently 35%.) A 10% federal tax penalty may apply to withdrawals taken prior to age 59½.

To help your heirs keep the money you earned, you may want to consider purchasing a life insurance policy on your life for the amount of the estimated tax bill. You could pay the premiums yourself or ask your beneficiaries to buy the policy to protect their future interests. Or you could annuitize your annuity.

Annuitizing your annuity can give you a steady income that you cannot outlive. Part of the income will be a tax-free return of your original investment. The balance will be taxed as ordinary income. However, the \$450,000 will no longer be available to go to your beneficiaries. To replace that money, you could use the regular income that you will receive from the annuity to help pay life insurance premiums on a \$450,000 policy. After you die, your loved ones will receive the entire \$450,000, free of federal income taxes.

Not everyone can qualify for a life insurance policy. Depending on the payout from the annuity, your health and other factors, the payout from the annuity may not cover the full premium payment on the life insurance. For more information, please fill out and return the attached coupon.

PERFORMANCE REPORT

WALLCO DYNAMIC ASSET ALLOCATION ILLUSTRATIONS

Fourth Quarter – Ending 12/30/05 (Total Returns Net After Maximum Fees)

Hypothetical Asset Allocations Programs (Net after Maximum Management Fees)	2005 4th Qtr %	2005 YTD %
Aggressive Growth Allocation 50% World Growth Opportunity (WGO) 50% Better Buy & Hold-Stock (BBH-S)	2.43%	9.17%
Capital Growth Allocation 40% World Growth Opportunity (WGO) 10% Bond Allocation Program (BAP) 40% Better Buy & Hold-Stock (BBH-S) 10% Better Buy & Hold-Bond (BBH-B)	1.93%	7.56%
Balanced Growth Allocation 30% World Growth Opportunity (WGO) 20% Bond Allocation Program (BAP) 30% Better Buy & Hold-Stock (BBH-S) 20% Better Buy & Hold-Bond (BBH-B)	1.41%	5.96%
Conservative Allocation 20% World Growth Opportunity (WGO) 30% Bond Allocation Program (BAP) 20% Better Buy & Hold-Stock (BBH-S) 30% Better Buy & Hold-Bond (BBH-B)	.91%	4.33%
Preservation Allocation 10% World Growth Opportunity (WGO) 40% Bond Allocation Program (BAP) 10% Better Buy & Hold-Stock (BBH-S) 40% Better Buy & Hold-Bond (BBH-B)	.38%	2.73%
MARKET INDICES		
S & P 500 Composite Index (without dividends)	1.59%	3.00%
Lehman Brothers Aggregate Bond Index	.60%	2.43%
US Treasury Bill (3 months)	---	3.13%

IMPORTANT DISCLOSURE INFORMATION W. Wall & Company, Inc. ("WCI") performance results represent the actual results of the four different existing WCI managed model programs (WGO, BBH-S, BBH-B, and BAP) in various hypothetical asset allocations during the corresponding time period. The performance results reflect the reinvestment of dividends and other account earnings, and are net of applicable account transaction and custodial charges, the maximum investment management fee that would have been charged by WCI during the corresponding time period, and the separate fees assessed directly by each unaffiliated mutual fund holding that comprised each portfolio. WCI utilizes its four model account programs to monitor how existing client in these programs may have performed. As of 12/30/05, Wall & Company's BBH-S and BBH-B model accounts were the only customers of the BBH-S and BBH-B investment programs.

Past performance may not be indicative of future results. Therefore, no current or prospective client should assume that future performance will be profitable, or equal either the WCI performance results reflected or any corresponding historical index. The composition/percentage weighting of each corresponding WCI index (i.e. S&P without dividends) is also disclosed. For example, the S&P 500 Composite Index (the "S&P") is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. Standard & Poor's chooses the member companies for the S&P based on market size, liquidity, and industry group representation. Included are the common stocks of industrial, financial, utility, and transportation companies. The historical performance results of the S&P (and those of or all indices) do not reflect the deduction of transaction and custodial charges, nor the deduction of an investment management fee, the incurrence of which would have the effect of decreasing indicated historical performance results. The historical S&P performance results (and those of all other indices) are provided exclusively for comparison purposes only, so as to provide general comparative information to assist an individual client or prospective client in determining whether the performance of a WCI portfolio performance meets, or continues to meet, his/her investment objective(s). A corresponding description of the other comparative indices, including the Lehman Brothers Aggregate Bond Index (i.e., a fixed income index) is available from WCI upon request. It **should not** be assumed that WCI account holdings will correspond directly to any such comparative index. **Please Note:** The WCI hypothetical performance results do not reflect the impact of taxes. WCI's model investment programs generally involve an above-average turnover, which could negatively impact upon any net after-tax gain experienced by an individual client in a taxable account.

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 client's account may have varied substantially from the indicated WCI composite model portfolio performance results. **In addition,** the underlying individual mutual funds which have comprised, and that 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 from WCI upon request.

The hypothetical allocation results have inherent limitations, including: (1) the hypothetical results do not reflect the results of actual trading using client assets, and, (2) for various reasons (including the reasons indicated above), WCI's clients may have experienced investment results during the corresponding time periods that were materially different from those portrayed in the model.

In the event that there has been a change in a client's investment objectives or financial situation, he/she/it is encouraged to advise WCI 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 WFI, 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 other holdings) 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 disclosure statement, a copy of which is available from WCI upon request.

Report created 1/9/06

When a Significant Life Event Occurs, It's Time to Review Your IRA Benefits

Many investors commit a common estate-planning mistake with their IRA assets—a mistake that often becomes apparent only after the account owner dies—when it comes time to transfer the IRA to the heirs. For the intended beneficiaries, this mistake can lead to extended headaches and heartaches and it can also result in a significant tax bill, which ultimately could reduce the portion of the IRA that heirs will receive.

There is a simple way to prevent the mistake—update your beneficiary designations after significant life events, and add contingent beneficiaries if you haven't done so already. This is a significant part of the estate planning process.

Many people name beneficiaries when they opened an IRA, but never bother to review or update these designations later in life. Several life events could require a change in beneficiary designations—divorce, re-marriage, the death of a spouse, and the arrival of children or grandchildren. For example, what happens to your IRA should your beneficiary die before you? If you fail

to change your primary beneficiary or named contingent beneficiaries, your IRA assets could wind up in your estate when you die. Then your heirs could ultimately receive a smaller portion of the account value, due to income taxes, final expenses, and creditor claims.



If your primary beneficiary dies before you, updating your primary beneficiary and naming contingent beneficiaries will help you transfer your IRA assets efficiently and avoid probate. Furthermore, your heirs could have the opportunity to stretch out their IRA distribution over their lifetimes. This would potentially allow the account to grow tax-deferred over the lives of two or more beneficiaries and reduce the income tax due. Without valid beneficiary designations, they may have to take mandatory, larger distributions over a shorter period of time after your estate is settled.

If you are not sure whom you have named as beneficiaries for your accounts; or you want to review the estate and income tax liability your heirs might face, please complete the enclosed coupon.

Long-term Care Costs Vary in Different Parts of the Country

How much can you expect to pay for long-term medical care? The national average for a private room in a nursing home was over \$70,000 per year or \$192 per day in 2004. But costs were higher in urban areas, where the average cost often ran 20% more than the same costs in non-urban areas.

Those were some of the findings of a recent cost-of-care survey.¹ The research encompassed data gathered from 87 metropolitan areas in the United States. This included nursing homes, assisted living facilities, and in-home health care agencies. The results revealed wide cost-differences among long-term care providers in different areas of the country. For example, Stamford, CT had an annual average cost of over \$120,000 per year compared to Shreveport, LA that had an annual average of just over \$36,000.

In other findings from the survey, the average cost of a private room in a nursing home in 2004 increased approximately 6% from the average cost

in 2003 of \$66,000 annually or \$185 per day. This annual increase in costs between 2003 and 2004 is approximately double the change in the consumer price index of 2.7%²

Hourly costs for in-home health care aides averaged \$18 per hour in 2004. The highest rate was \$28 per hour in Hartford, CT compared to the lowest costs of \$15 per hour in Alpharetta, GA.

Knowing the costs for long-term care in your area is an important part of planning for your future needs. Not only should you know what you could expect to pay today, but you might want to plan for increases in these costs as well.

If maintaining your financial independence is important to you in case you need long-term medical care, please complete the enclosed coupon for a free proposal from our Insurance Coordinator, Bruce Danenberg at (828) 651-9617.

¹<http://www.metlife.com> (2004)

²<http://minneapolisfed.org/Research/data/us/calc/hist1913.cfm>

Valuable **FREE** Information

For more information on the items mentioned in the newsletter, please complete and mail in this form to Wall & Company at the address shown below or call Mary Beth at **828-651-9617** or toll-free at **888-253-9141**.

Please contact me regarding these items mentioned in your newsletter:

- I would like more information on Long Term Care Insurance.
- I would like to talk to you regarding the use of a Fund-of-Funds.
- I would like more information on Wall & Company's managed investment programs.
- I would like more information on how to convert my annuity to a tax-free benefit.
- I would like more information on how to handle my highly appreciated investments.

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

- Seven Ways Retirees Can Cut Taxes
- IRA Distribution Mistakes and How to Avoid Them
- Avoid Mistakes in Buying Long-Term Care Insurance
- Annuity Owner Opportunities (a must read if you own an annuity)
- Mistakes in Selecting Mutual Funds

Name _____

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

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Name _____

Address _____

City, State, Zip Code _____