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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Third Quarter July-September 2006

Market & Investment Update

During the third quarter of 2006, both stock and bond prices moved steadily higher throughout the quarter. The Dow 30 Industrials reached a new high on October 4th, finally recovering virtually all of the losses from the bear market that began in 2000; however, the NASDAQ 100 is still off the old high by more than 50%.

In this environment along with soft interest rates, the markets drifted higher throughout the summer months. The gains over the summer have come without any significant adjustments.

The equity markets are now approaching the seasonally strong period that traditionally runs from November through April. However, it would not be surprising to see a correction pull prices back sometime during the next few weeks. If this happens, the equity markets should set up for further gains before the

end of this year and into 2007. This possibility would be even stronger if energy prices and interest rates remain relatively stable over the next few months.

All but one of Wall & Company's investment programs were up during the Third Quarter. Although our equity and bond programs under-performed performance benchmarks this quarter, all of them continue to out-perform year-to-date.

Wall & Company managed programs "net-after-fee" model results ending 9/29/06 are shown below:

	DGPVA	WGO	WGOII	BBH-Stock	BBH-Bond	BAP
3rd Qtr %	.21%	.13%	-.44%	1.03%	2.28%	1.35%
Y.T.D	12.38%	9.79%	11.29%	8.82%	3.92%	5.82%

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.

Common Investment Myths

Market volatility and uncertainty often prompt a review of expectations of Wall & Company's tactical investment approach. It is important to keep in mind that our tactical approach — moving in and out of mutual funds and stocks that are showing leadership, and then shifting into the safety of money market accounts during high risk periods, does have down periods. I aim to debunk some common myths about our tactical investment approach because when you have realistic expectations, you're more likely to stay the course and profit from following this disciplined approach.

Myth 1: The tactical investment strategy always moves with the market.

Our tactical equity approach follows the funds and stocks that are performing best in the current market, but sometimes we zig while the market zags. This means sometimes we gain more than the market and sometimes we lose more than the market. This ability to move independently is essential to generating long-term out performance. In other words, we can end up beating our performance benchmarks

because when we outperform, we do so by a larger measure than when we under perform.

Myth 2: Tactical investing won't have down periods:

Wall & Company's Global Growth Program (WGOII) was ranked by Money Manager Review as the best risk-adjusted performer over a 5-year period ending 12/31/05. But, within those 5 years, there were several up and down periods. Our tactical equity programs, like most equity strategies, will have gains and losses. But, over the longer-term, this tactical investment approach has led us to higher risk adjusted returns.

Myth 3: Tactical investing reacts immediately to short-term market moves:

The underlying strategy within most of our tactical equity programs has a built-in lag since it involves four separate time periods. The process, as originated by our sub-advisor DAL Investment Company LLC, is to identify the best funds and stocks to pur-

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Balancing Risk for Older Investors

Traditional wisdom says that as you get older and enter retirement, you should reduce your equity positions and increase assets invested in lower risk investments, such as bonds. One formula you may have encountered is to keep the percentage of stocks in your portfolio equal to 100 minus your age.

The rationale for a more conservative investment stance as you grow older is the concern that should your portfolio lose value, you won't be able to make up the loss through work earnings or have the time for a market recovery to return your portfolio to breakeven.

But there's another risk you have to consider when allocating your portfolio—the risk of running out of money.

Retirement planning always has to work with two major unknowns: How long will you live and what will happen with inflation during those years?

Today's average 65-year-old man is going to be around for another 13 years with a top life expectancy around 104 years of age. Women are out-living men by an average of five years. Taking a look at your parents and factors that impacted their health can give you an idea of where your lifespan might line up with the average.

When you are talking investments, 13 to 20 years is typically considered a long-term investment horizon, suitable for equities.

Over the past 40 years, inflation has ranged from 13.3% to 1.1%, with an average of 4.6% annually. While the Federal Reserve is focused on controlling inflation, there's a new factor that may take control out of U.S. hands. In recent history, the U.S. economy has dominated world consumption. That's changing. There's tremendous competition for energy, resources and goods from emerging countries throughout the world from China and India to the African and South American nations. Competition is pushing up costs for finished products, raw materials and energy.

All of which leads to a new directive in portfolio allocation for retirees. Increasingly, the recommendation is that regardless of age at least 50% of retirees' portfolios be allocated to equities. The exception would be individuals with sufficient assets that there is little risk of outliving their retirement funds.

The reason is simple. Bond yields historically have offered minimal return once inflation and taxes

are considered. If your portfolio is not all it should be or inflation moves up, you need to see genuine appreciation in the value of your retirement portfolio. While past performance cannot be considered indicative of future returns, higher rates of appreciation have historically required investing in equities.

Among the 50% equity position should be exposure to international markets and smaller companies where some of the highest rates of appreciation tend to occur.

Does that mean you leave 50% of your portfolio vulnerable to market crashes? No.

Through active management, we have the data and tools today to identify and

invest in the better performing segments of the market and stop losses when a portfolio position turns against us. Twenty years ago, many of our investment strategies would have been prohibitive expensive in terms of data and trading costs. Specialized sector funds and exchange traded funds, reduced transaction costs and better computer systems are just part of the difference.

Find out more about investment strategies that can make a difference in your retirement by calling today. ♦



Thank You for Your Referrals

Every day, we hear stories from investors who have seen their savings substantially eroded by the difficult market conditions that have existed since early 2000. All too often, these individuals were working with advisors who failed to establish safeguards to limit losses in down markets. 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 Worry if Your Fund Never Receives a Top Rating from Morningstar?

Some investors may start to doubt their mutual fund choice if their fund doesn't receive a top rating from Morningstar. Should they?

As you might know, Morningstar rates funds based on performance over the last three, five, and 10 years on a scale ranging from one-star (lowest) to five-star (highest). Ratings are assigned on a curve, with 10% of funds receiving five stars, 22.5% receiving four stars, 35% receiving three stars, 22.5% receiving two stars, and 10% receiving one star.

This information can be an important part of the fund analysis process. However, some investors may want to use the number of stars a fund receives as the sole criteria for gauging a fund's performance. That approach might not be prudent for a number of reasons.

First, not every fund has an equal chance of receiving the highest rating. Risk-adjusted returns (RAR)—on which Morningstar bases its ratings—are calculated over one of four broad categories. These include domestic equity funds, international equity funds, taxable bond funds, and municipal bond funds. But in each RAR category, there are different asset classes, such as small-cap funds and large-cap funds, and at any given time one of those asset classes may be performing better than the others. As

a result, funds in asset classes that are performing well at a given point in time may receive a higher rating than others.

Second, ratings tend to favor newer funds in some cases. When Morningstar calculates overall ratings, ten-year statistics account for 50% of the overall score, five-year statistics account for 30%, and three-year statistics account for 20%. But if only five years of data is available, the five-year period is weighted 60%, and the three-year period 40%. And if only three years of data is available, the three-year statistics alone are used in the overall rating. As a result, older funds that did not perform well in their early years but perform well now could receive fewer stars than their current performance justifies.

Finally, it may go without saying, but past performance does not guarantee future success. This year's winner could be next year's loser—and vice versa.

The moral of the story: although Morningstar ratings can be a very helpful tool for evaluating a fund's performance, no third-party system should take the place of the work that you and your financial advisor do to analyze your specific investment objectives.

If you're concerned about the performance of a mutual fund in your portfolio, please call our office. ♦

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. So for instance, suppose that you had 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, and would have to pay as much \$70,000 in federal income taxes on the accumulated profit. (Maximum federal income tax rates are currently 35%). Please note 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 for the amount of the estimated tax bill. You could pay the premiums yourself, 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 about annuitization or annuities, call the office or send in the enclosed reply coupon. ♦

As federal and state tax rules are subject to frequent changes, you should consult with a qualified tax advisor prior to making any investment purchase decisions.

PERFORMANCE REPORT

WALLCO DYNAMIC ASSET ALLOCATION ILLUSTRATIONS

Third Quarter – Ending 9/29/06 (Total Returns Net After Maximum Fees)

Hypothetical Asset Allocations (Net after Maximum Management Fees)	2006 3rd Qtr %	2006 YTD %	2005 Annual %
Aggressive Growth Allocation 50% World Growth Opportunity (WGO) 50% Better Buy & Hold-Stock (BBH-S)	.58%	9.31%	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)	.83%	8.42%	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)	1.07%	7.53%	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)	1.32%	6.64%	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)	1.57%	5.76%	2.73%
MARKET INDICES			
S & P 500 Composite Index (with dividends)	5.67%	8.54%	4.89%
Lehman Brothers Aggregate Bond Index	3.81%	3.06%	2.43%
US Treasury Bill (3 months)	---	3.56%	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 9/29/06, Wall & Company's BBH-B model account was the only customer of the BBH-B investment program.

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, Lehman Bond, or MSCI) 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 WCI, 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 10/5/06**

Don't Get a Revocable Living Trust for the Wrong Reason

A revocable living trust (RLT) can be a useful tool to help you reduce estate settlement costs and to retain control over your assets while you are living. However, the benefits of the RLT will vary from person to person. In other words, they are not for everyone.

A RLT allows you to transfer your property to a trustee with instructions to hold the assets as specified within the trust for the benefit of the beneficiaries. The trust agreement often covers three important time periods.

The first part covers the time that you are alive and competent. In most cases, you would be the sole beneficiary and sole trustee. You'll have complete control over the property, including the authority to remove all of the trust's assets and the ability to revoke the trust at any time, for any reason.

Part two stipulates that if you become incapacitated, a successor trustee that you have named in the trust will take over to manage the assets for you. You will, however, remain the sole beneficiary. This section will eliminate the need for your family to go to court to seek guardianship over your finances in the event you are unable to manage those funds on your own.

Finally, the third part directs the disposition of the trust's assets after you die.

A RLT, in itself, will not completely eliminate estate taxes for taxpayers with estates in excess of \$2 million (\$4 million if married). Yet it can help you to reduce these taxes by allowing you to make the

most of estate tax exclusions, generation-skipping tax exemptions, and marital deductions. Of course, these tax-savings techniques are also available through a well-designed will.

Assets in a RLT also avoid probate, thereby reducing transfer costs for your heirs. An RLT can also keep your affairs private since they are not a matter of public record. As probate costs can often reduce an estate by as much as 4-10%, significant costs can sometimes be saved by using them. However, if the trust is un-

funded, your assets will still go through probate.

There are also other ways to avoid probate. Joint ownership property can avoid probate as well as any accounts where you have named a beneficiary, such as IRAs, life insurance policies, and annuities.

As previously mentioned, an RLT will not help you save on probate expenses if the trust is not

funded. Bank accounts and funds held with your brokerage firm must be transferred by signing forms at your bank, and by providing them with a copy of the trust agreement. With real estate, you will often have to file new deeds with the government's land records.

RLTs have helped many seniors and their families better manage their finances. But not everyone needs it. So before you spend the money, make sure you know what you hope to accomplish. I work with several local attorneys who specialize in assisting seniors in maintaining control over their finances and reducing estate settlement costs. Please complete the enclosed coupon for their names. ♦

- A "trust" is a legal entity that is able to own property and other assets.
- In a trust, the "grantor" gives up property or "grants" property to the "trustee."
- The trustee is trusted to take care of and use the property for the "benefit" of a third person, the beneficiary.
- Reasons for using a revocable trust include avoid probate, reduce estate taxes, preserve your privacy, and manage your financial affairs.

Common Investment Myths

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chase, based on a 1-month, 3-month, 6-month and 12-month period. The decision to move a client's investment account in or out of the stock market into cash is based on Wall & Company's proprietary intermediate trend following strategy. This investment selection process in combination with monitoring and responding to market trends, helps us filter out the short-term blips and helps us avoid false starts. Significant periods of out performance can last for several months and years when following a disciplined investment approach like this.

Myth 4: Every trade will be profitable:

We know that in tactical investing, not every trade will add value, but as our history shows, tactical investing can bring more gains than losses. As with any equity strategy, there will be uncomfortable periods. But, by continuing to move investments towards leadership as it is confirmed, and moving out of the stock and bond market into the safety of cash during high risk periods, we are in a position to reap the rewards of the next major trend.

In closing, I am obligated to remind you that past performance does not guarantee future results. Any investment or investment approach has the potential for loss as well as gain. ♦

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 (free info - no handling charges):

- Please send names of local attorneys who specialize in assisting seniors in maintaining control over their finances and reducing estate settlement costs.
- Please send information on annuitization of annuities.

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

- 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

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I think these people would like to receive your newsletter and information about Wall & Company.

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Phone (required) _____

Name _____

Address _____

City, State, Zip Code _____

Phone (required) _____