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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Third Quarter July-September 2005

Market & Investment Update

The Third Quarter of 2005 was an eventful one for both the market and our nation. Let's review a few of the quarter highlights.

First, we witnessed two major hurricanes that targeted and devastated one of our nation's largest cities and, in the short-term, crippled our oil-refining capability.

Second, we had record-high energy prices, particularly crude oil and the price of gasoline at the pump.

Third, in midst of all of this, the Federal Reserve decided to raise interest rates for the 11th consecutive time.

All of this on the surface seems as if it would translate into a very bad time for the markets. But, as if to defy convention out of sheer pride, the stock market performed very well during the quarter. Those stock investors, who didn't panic and were invested during this quarter, should

have done well. Quarters like this one remind us all of the importance of having a sound investment plan and strategy that we can confidently follow — even during periods of great uncertainty.

Wall & Company managed program "net-after fee" results for 2005 Third Quarter and Year-To-Date are shown below:

	<u>DGPVA</u>	<u>WGO</u>	<u>WGOII</u>	<u>BBH-Stock</u>	<u>BBH-Bond</u>	<u>BAP</u>
3rd Qtr	7.21%	3.54%	6.85%	9.84%	-.79%	.61%
Y.T.D.	7.01	-.12	6.68	13.02	-.95	3.45

Disclosure: Past performance does not guarantee future results. Any investment has the potential for loss as well as gain. See Wall & Company Form Adv Part II for investment program details.

Bad Math and Bad Investment Advice

People who should know better make some amazingly foolish assumptions when it comes to investing. The problem is that they spread those assumptions as fact without looking at reality.

For example, *If you invest for a long enough time, the good and bad returns tend to "even out" or "cancel each other out," and hence time diversifies a portfolio reducing risk.*

This argument sounds reasonable. After all from 1990 to 2004 — a period of 15 years in which total returns for the S&P 500 ranged from +37.4% to -22.1% — the average annual return was 12.4%. An investment of \$1,000 at that rate of return, compounded over 15 years would leave you with \$5,790 at the end of 2004. As the chart shows, however, reality is significantly less. What happened?

The problem with using averages to estimate returns is that you overlook the mathematics of gains and losses. It doesn't take a 22% gain to recover from a 22% loss, it takes 28% because you are starting with a smaller after-loss base. It also matters when losses occur. A 22% loss early in the 15-year period has far less impact on your portfolio than a 22% loss in year 12 when your balance is higher and you have

Year	S&P 500 Total Return	Growth of \$1,000
1990	-3.17%	\$ 968
1991	30.55	1,264
1992	7.67	1,361
1993	9.99	1,497
1994	1.31	1,517
1995	37.43	2,084
1996	23.07	2,565
1997	33.38	3,421
1998	28.58	4,399
1999	21.04	5,325
2000	-9.11	4,840
2001	-11.88	4,265
2002	-22.10	3,322
2003	28.70	4,276
2004	10.88	\$4,741

The returns shown here are historical data and should not be used to predict future market performance. Past performance is not indicative of future returns. The S&P 500 is an index and does not reflect an actual investment account's performance. All investments face the potential for loss as well as the prospect for gain.

less time to recover.

Suppose you looked at a different 15-year period, such as 1965 to 1980. The average return for the period was 8.2%. Compounded annually that would have resulted in the growth of \$1,000 to \$3,275.

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Bad Math and Bad Investment Advice

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But, \$1,000 investment in the stocks of the S&P 500 would actually have grown to just \$2,637 due to the timing of losses and gains. You also have to remember that the S&P 500 is an index and does not include the impact of commissions or trading costs, which would have reduced your return even more.

Looking at the Dow Jones Industrial Average for the same period of 1965 to 1980 shows an average annual return of 1.4% for the 15 years. Compounded annually over the period, the average return shows \$1,000 growing to \$1,238. Based on the actual numbers, an investor would have had just \$994 left at the end of 15 years. Here again, all the cautions of using index values apply, as do the mathematics of losses and gains.

This is the great fallacy of thinking that the longer your time period the less risk you assume. Losses always matter. You can't control the timing of a market downturn, nor can you predict how long it will take to return to break even.

What you can do is use an investment strategy that strives to minimize losses. This means using stop losses in your personal portfolio or working with an investment advisor who appreciates the fact that averages are not reality when it comes to investing. Minimizing losses are essential to successful investing. You can't count on time to bail you out.

To Recover from a Loss of	You Will Need a Gain of
10%	11%
25%	33%
50%	100%
75%	300%
90%	1000%

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!

Who's Working for You at Wall & Company:



Bruce Dannenberg, MBA, MS, Vice President, Asset Protection Group.

Bruce has been in the insurance, investment and financial planning arena for over 20 years. He holds an MBA from the University of Vermont and an MS degree from Clemson University.

Bruce helps existing clients and works with prospective clients to ensure their assets are protected through innovative insurance strategies. He does this by utilizing life insurance, long-term care insurance, Medicare supplement insurance and annuities.



Lyn Wilson, MBA, Vice President, Private Client Group.

Lyn received her MBA from The Anderson School at UCLA and also completed her Personal Finance Planning Program at UCLA. Lyn works directly with clients on a regular basis, scheduling and conducting annual reviews and devoting quality time to clients when questions arise regarding their investments.

Client Corner: RMD's 2005

If you are 70½ or older on December 31, 2005, the IRS requires that you take a Required Minimum Distribution (RMD) from your IRA accounts. If you are required to take a RMD, you must take it by December 31, 2005. The only exception to this rule is for people that have turned 70½ in 2005; they can wait until April 15, 2006 to take their RMD.

If you do not take your RMD, the IRS can fine you 50% of what you should have taken as a distribution. In order to make sure you do not get fined, please contact the Wall & Company office by **November 15** to take your distribution. This is especially important to clients in the **WGO** and **WGOII** programs, as the mutual funds we use have a 30-day hold on new purchases. For example, if we bought mutual funds in your account on December 1, 2005, you would not be able to take a distribution until January 1, 2006, without incurring the 2% early redemption penalty. We will be sending you a reminder letter the beginning of October. If you have questions or concerns, please contact Louisa Cox, Client Service Manager, at (828) 651-9617.

Insurance That Pays All Your Premiums Back

Imagine if you paid your homeowners insurance all of your life and never made a claim. Eventually, your insurance company sent you a check with a note that said: “Here’s your money back because you never made a claim.”

I don’t know any homeowners insurance companies that will send your money back, but there are long-term care companies that will. It’s called “return of premium” and refunds your premiums if you do not use the insurance. This feature is not available in all States.

Being over 60, you either own long-term care insurance or you have thought about getting it. You might procrastinate getting this important coverage because you may feel that your money will be wasted if you don’t use the insurance (although the same holds true for your car insurance and homeowners insurance, you would never think of not having these policies).



Your solution is the return of premium feature. It’s an optional feature offered by only a few long-term care insurance companies.

The typical feature works like this. At death, the company returns all premiums paid less any amounts paid to you as claims. During your life, you do pay additional premium for this feature but if you don’t use the policy, all premiums paid are returned to your estate.

This is a brief summary of the return of premium feature. If you do not already have long-term care insurance, we will send you a written description of this feature and information on the

companies which offer it. Please check and return the enclosed coupon. If your State does not offer this feature, there are other special features such a restoration of benefits or care management that may be available.

Custodial Care versus Skilled Care

Many people expect Medicare to pay for their long-term care (LTC). Unfortunately, Medicare only pays for medically necessary skilled care, and then only after some stringent conditions are met. The vast majority of people who need LTC may not need skilled care—although they might need someone to look after them and to help them with the activities of daily living (ADL).

Looking at national averages, Medicare only picks up about 15% of all nursing home costs (www.threegenerationsltci.com, Who Pays?, last visited December 7, 2004). However, this is only for people who need skilled care. What about those who need custodial care? And what’s the difference between the two?

First, people who require skilled medical care are often suffering from an illness or injury. On the other hand, folks who need custodial care are usually recovering from an illness or injury, or experiencing problems with performing ADLs that come from advancing age.

Next, skilled care must be given by a medical professional. Custodial care is given by a trained profes-

sional, family member, or other caregiver.

Finally, skilled care is rarely needed following discharge from the hospital. If you break your hip and spend five days in the hospital, you have met part of the Medicare requirement for nursing home care coverage. However, while you may need assistance with ADLs such as dressing, transferring, and bathing, almost anyone can provide this help. And you probably don’t need to be in a nursing home to get the care you need. Thus, Medicare will usually not pay in this case.

This same result can happen if you have a stroke since you may not need skilled care in a nursing home. You may need nursing home assistance, but the care you require is custodial—assistance with ADLs.

Over-reliance on Medicare is a mistake many seniors and their families simply cannot afford to make. For more information on a long-term care plan that could be of help you, please complete and return the enclosed coupon.

PERFORMANCE REPORT

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

The portfolio allocations below reflect various hypothetical allocations within four different Wall & Company managed programs. Individual client performance could be different than what is illustrated, based on the client's own unique investment allocations. Clients can refer to their individual quarterly performance reports for individual account performance.

Third Quarter – Ending 9/30/05 (Total Returns Net After Maximum Fees)

Wall & Company Asset Allocation Programs (Net after Maximum Management Fees)	2005 3 rd Qtr %	2005 YTD%	5-year compounded % (Ending 12/31/04)*
Aggressive Growth Allocation 50% World Growth Opportunity (WGO) 50% Better Buy & Hold-Stock (BBH-S)	6.69%	6.45%	8.84%
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)	5.34%	5.43%	8.49%
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)	3.97%	4.39%	8.13%
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)	2.62%	2.51%	7.77%
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)	1.25%	1.19%	7.41%
MARKET INDICES			
S & P 500 Composite Index (without dividends)	3.15%	1.39%	-3.78%
Lehman Brothers Aggregate Bond Index	-.67%	1.82%	6.85%
US Treasury Bill (3 months)	---	1.68%	3.31% **

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 firm's maximum advisory fee. 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 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.

*The 5-year compound annual % returns for Wall & Company managed programs are a net-after-fee presentation of mathematical calculations obtained by applying to historical data the mutual fund selection, trading criteria, and methodologies described in the Form ADV Part II. These results are HYPOTHETICAL.

**Represents the 5-year compound annual return of the 6-month Treasury Bill rate.

NOTE: PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. ANY INVESTMENT HAS THE POTENTIAL FOR LOSS AS WELL AS GAIN. (Report created 10/07/05)

Cautions When Investing in Real Estate

By Warren Wall, CFP, CSA

As a general rule, the best time to avoid an investment class is when it is sold as a “can’t lose” proposition. That is certainly the case recently with investment real estate. Real estate has been the bright light in many portfolios, showing double-digit gains while equities have largely gone sideways. But before you decide real estate is the way to go, there are some factors you should consider.

Real estate, unlike equities, has some hefty carrying costs, including property taxes, insurance, maintenance and interest expense if you have financed the property. Your annual rate of appreciation must exceed these combined costs or else your cost basis will increase.

Your home should typically not be considered a part of your investment portfolio because it cannot be liquidated without the need for you to replace it with another roof over your head. While it would be nice to sell your home and end up money ahead, all too often the cost of buying a new home neutralizes that gain.

An exception would be if you own multiple properties and use one for your home with the intent of selling it after two years to take advantage of the tax-free gains on the sale of personal residences of \$250,000 for single taxpayers and \$500,000 for couples.

If you purchase a property with the intent of renting it to offset your carrying costs, you need to consider whether you want to manage the property yourself or pay someone else to worry about tenants. Depending upon the property and the local rental market, your rental income may be insufficient to cover your carrying costs. You need to consider how you will pay ongoing costs should you run into problems with your renter and do not receive payments for a period of months. With renters, the risk of damage to the property must also be considered.

While real estate markets are less likely to see dramatic declines such as the stock market has experienced in recent years, there are no guarantees that prices will always go up. Often when real estate becomes overpriced, values dip, then plateau, leveling out for a period of years until the market is back to more normal levels. During a flat market, your investment goes nowhere, while expenses typically continue to increase.

Among the arguments for real estate continuing to increase is the comparison of the U.S. housing market with Western Europe, where restrictive zoning makes

new construction even more difficult than in most areas of the U.S. According to a recent study by consulting firm ISI, Western Europeans pay seven times their annual salary to purchase an average home providing its occupants with 325 square feet per person. Americans on average pay 3.5 times their annual salary for an average 650 square feet per person.

While that certainly makes U.S. real estate appear a bargain in comparison with Western Europe, Japan shows us another picture of how a real estate market can go sour. Since

1991, residential land prices have declined about 43 percent, and commercial prices about 67 percent.

If you chose to invest in real estate, you need to make certain it represents only a portion of your total portfolio. Remember, real estate is a relatively illiquid asset, which makes it harder to cut your losses when the market turns against you.



“Your home should typically not be considered a part of your investment portfolio because it cannot be liquidated without the need for you to replace it with another roof over your head.”

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 return of premium programs.
- I would like to talk to you regarding minimum distributions from my retirement account.
- I would like more information on Wall & Company's managed investment programs.

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

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