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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

Fourth Quarter October-December 2006

The Market & Investment Update

Despite a summer correction and choppy market leadership, 2006 turned out to be a very profitable year in the stock market and as such, all our equity programs sailed ahead! The average U.S. diversified stock mutual fund returned 12% in 2006, double the gains of 2005. But again, for the fourth-straight year, International funds were the place to be. International stock funds gained 24% on average, double the domestic average return.

As always, attempts at forecasting added little or no value and as expected the markets confounded the pundits during 2006. At the beginning of last year when stocks were stagnating and the market appeared directionless, most stock "experts" expected mediocre returns. A pervasive forecast back then called for the end of small-cap leadership and a rota-

tion from value to growth. In fact, value funds had a bang up year and small-caps held their own. Luckily, most of our investors follow Wall & Company's disciplined investment approach which alleviates the need to forecast. We simply align our client's portfolios with what's delivering results.

Wall & Company managed programs "net-after-fee" model results ending 12/31/06 are shown below:

	DGPVA	WGO	WGOII	BBH-Stock	BBH-Bond	BAP
4th Qtr	10.69%	8.75%	9.45%	9.74%	2.57%	3.56%
Y.T.D.	24.40%	19.39%	21.81%	19.42%	6.58%	9.59%

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 request a copy of the Wall & Company Form ADV Part II for more investment program details.

Choose Your Weapon

The Importance of Committing to an Investment Approach

Every so often we come across an article with a message so right on target that we want to pass it on intact to our clients. The author of Choose Your Weapon, Roger Schreiner, has graciously given us permission to share his thoughts with you. We hope you will find his views of value.

By Roger J. Schreiner

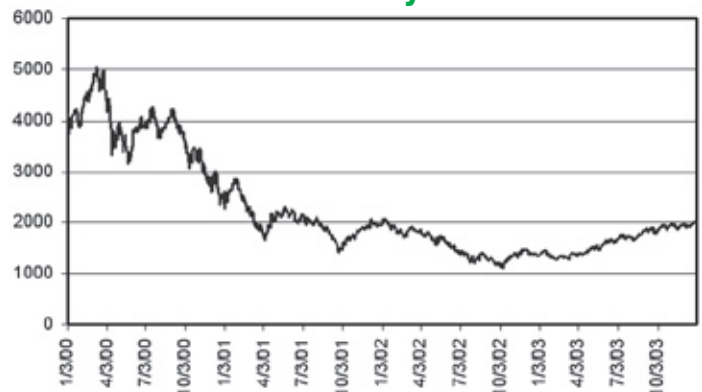
Investors will never forget the bull market that started in the mid-'80s and blasted right through the '90s. During that period many investors adopted a passive investment approach and were making more money than they ever expected. Of course, that ended in the second quarter of 2000, when the markets reeled off three years of double-digit losses. For many passive investors the losses were too much to endure. Technology-heavy portfolios lost 70% or 80% of their value. Hundreds of dot-com companies closed their doors and investors threw in the towel.

Then, out of the blue, came one of the biggest

bear market rallies of all time. The NASDAQ rallied over 60%, while the S&P gained nearly 40% in just fifteen months. What should have been great news to passive investors turned out to be a non-event, because they had given up on their approach. They pulled their assets out of the market in 2001 and 2002 to stop the bleeding and were not there to participate in the recovery. In 2003, the party on Wall Street was a small one.

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NASDAQ Daily Prices



Few investors ever make a *conscious decision* as to whether to take an “active” or “passive” approach to investing. It is frustrating to see investors shift between active and passive approaches. Those who waffle back and forth seem to do it exactly at the wrong time, and their results are nothing short of dismal. So, whether you choose to be passive or active, it is imperative that you stick with your decision and give it a chance to perform over the long term.

The popular perception is that active management is speculative and passive management is conservative, but that’s a myth. We believe the opposite is true. In fact, there is no compelling evidence that owning stocks for long periods of time is the best way to achieve success. The golden rule, whether you are “active” or “passive,” is the same: “Don’t lose so much money that you have to abandon your investment approach altogether.”

While we are much more comfortable with an active approach, we have to admit that passive investing may work for those who have the mental toughness to weather the storms. However, you have to ask yourself if passive investing, which by definition accepts losses of any magnitude, is really appropri-

ate for you. So again, the key to investment success — whether you choose an active approach or a passive one — is sticking with it!

The Passive Perspective

In researching this topic, I came across a number of articles that summarized what most financial institutions believe are the keys to investment success. The common thread among most institutions that endorse passive investing is the belief that:

- Successful investing is accomplished by following time-tested methods of broad diversification and staying fully invested over the long term in order to capture the average return of the markets.
- Diversification among many assets is always better than concentrating in just a few.
- “Asset allocation” and “stock selection” are the keys to superior performance. (Somewhat in contradiction of the statement above.)
- Historical averages are a good indication of future returns.
- To increase your return you need to increase your risk.
- If you become disappointed with your passive approach during steep market declines, stay focused on the long term because the historical averages will eventually pay off.

This prompted me to make my own list of beliefs to see what makes our active approach different. Some of the ideas presented in our active perspective (below) are also valued in a passive approach. We present them all here so you’ll understand that we value them too.

So here goes, a candid look at why we choose active management here at Schreiner Capital.

The Active Perspective

The best strategies are actively managed.

Actively managed disciplines that rely on probabilities can produce better returns than broad-based passive allocations that rely solely on the markets going higher. Mechanical strategies that utilize non-emotional, quantitative methods can earn more consistent returns. Actively managed portfolios are a safer and more sensible solution for most conservative investors.

Changing environments require the flexibility to adapt.

The best way to navigate the stock market is to move with it. If you’re standing still, eventually you get run over. The penalty for taking a passive approach to investing is (at best) taking unnecessary risk, and (at worst) experiencing a devastating loss. As prudent

EMPLOYEE SPOTLIGHT



Ann Lamb Joins Wall & Co. as Client Service Manager

Ann Lamb brings a unique background to her new position as Wall & Co. Client Service Manager. In addition to working with a major investment firm and holding Series 7, Series 66 and insurance licenses, Ann has an extensive general business background including that of a small business owner through her former business, Ann Lamb Photography.

Ann has served as a photography instructor and interim head of the photography department of Catawba Valley Community College, her alma mater, and operations manager for Blue Heaven Farm, a private horse farm. She received her associate’s degree in applied science of photographic technology with a 4.0 GPA from Catawba Valley Community College. You may be familiar with her photography in the 2006 NC Arboretum calendar, which she co-produced and photographed.

Ann’s attention to detail, knowledge of the investment industry and understanding of the practicalities of business are definite assets in her new position. We hope you will take a moment to visit with Ann when you stop by our offices.

managers we make non-emotional decisions based not only on probability, but also on the consequences of experiencing something unexpected.

Good managers have a plan for both bull and bear markets.

If your plan doesn't include an "exit strategy" for the stocks, then it isn't a bona fide plan. Every major market in the world experienced a decline of 70% to 90% during the last century. Our stock market, and others around the world, will likely experience similar declines in the future.

There is no such thing as a good (or bad) stock.

A stock will perform well for a while, then it will not. Stocks constantly cycle in and out of favor; they become overvalued, then undervalued. There has never been a perpetually good stock. There are no consistent outperformers over the long term. The fact is, every unmanaged asset underperforms roughly half the time.

Exceptional performance requires concentrated exposure.

We manage our clients' assets using quantitative strategies that are designed to concentrate assets in favorable market segments when the odds are favorable. However, when opportunities are limited or the odds are unfavorable, we seek the shelter of money market funds to reduce exposure.

It takes time for good process to succeed.

You shouldn't judge the results of an investment process in a few months or in a few trades. It is best to evaluate the process over a complete up and down cycle. Some of the very best investment strategies underperform the market while it is rising, and outperform while it is falling. That's because good strategies emphasize asset preservation over growth.

More risk doesn't always mean higher returns.

Over the long term, avoiding volatility and exposure can actually enhance returns. We are at odds with the popular premise that "investors maximize their returns by accepting greater risk." High-risk strategies (given enough time) often result in serious

loss. Most fortunes are built by consistent application of a process grounded in sound risk management.

What "everyone knows" is probably not worth knowing.

There is no reward for discovering something that others already know. There is comfort in the crowd — which makes it difficult to shun — but success is often found when you're all alone. If you are doing what's popular, or if you are doing what most investors are doing, you're going to perform poorly in the long run. The most successful investors avoid what is popular and do something different from the majority.

The key to long-term investment success is avoiding significant loss.

While some losses are inevitable and are a part of any successful process, significant losses must be avoided, even at the cost of missing out on the upside. Successful investing is a humbling process. It requires doing what's necessary to get your assets aligned with the market and, more importantly, correcting mistakes before they cause heavy losses. In the investment game, it's not so much about being "right"; it's about not being "too wrong."

Among financial institutions there is too much optimism about the stock market.

Much of the optimism of institutions is self-serving, since it encourages

investors to increase their exposure to stocks and to take a passive approach to investing. Remember that the market and its indices are a composite of survivors; stocks that have failed and gone to zero are no longer visible.

The fundamental law of investing is the uncertainty of the future.

When it comes to investing, there are always a greater number of unknowns than knowns. That doesn't mean that you should avoid risk altogether, because uncertainty creates opportunity. Simply investing in the markets doesn't assure financial victory. No matter what your time horizon, markets are not

Thank You for Your Referrals

Everyday, we hear stories from investors who lost money in past Bear markets. 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!

PERFORMANCE REPORT

assured of producing positive returns. The greatest risk is to do nothing.

History is a guide, not a guarantee.

Understanding probabilities can make us better investors, but it is important to recognize that investing has limitless outcomes. History offers a range of outcomes, but it does not include all future possibilities. Play the odds, but always be willing to do what's necessary to avoid financial disaster.

Investors need to free themselves of thinking in terms of “averages.”

The real world is controlled by extremes. Averages mask volatility and can mislead investors into thinking that the journey will be smooth and uneventful.

Diversification is important, but overrated as a means of controlling risk.

There is no way to insulate yourself from risk through diversification alone. You simply cannot diversify your way to prosperity. Unfortunately, during catastrophic events most assets become highly correlated, so diversification does very little to protect your portfolio. The success of a portfolio is not just the result of its holdings, but more likely the result of the quality of the underlying process.

Time in the market does not reduce risk.

The idea that holding an investment long enough will somehow reduce risk is greatly flawed. The risk associated with one's wealth does not decline by extending your time horizon. This has been verified by mathematical calculations. Nobel Laureate Paul Samuelson, Ph.D., probably said it best: “The longer you hold an investment, the greater your chances are of suffering a crash or a series of crashes.” Risk **increases** with time, it does not decrease.

Autopilot investing doesn't work.

Accept the fact that there are no successful “set it and forget it” investments. Most investments marketed to the public are geared for a bull market. One-decision investing — the kind the mutual fund industry has been trying to sell us — doesn't work over the long haul because most investors will bail out when they can't stomach the volatility. Successful investing in the stock market takes more than a single decision to buy a mutual fund or a basket of stocks. It requires making important adjustments as market conditions change.

The stock market is not for everyone.

No matter how much potential the market offers, there are risks that certain individuals just cannot comprehend or accept. Too many investors enter the stock market concerned only with how much they can make and without an understanding that controlling losses is the real key to long-term success.

Similar Objectives – A Different Approach

As you can see from this rather lengthy list of perspectives, there are significant differences between the active and passive approach. The success or failure of your investment portfolio may rest on whether or not your advisor's philosophy is aligned with your philosophy. The financial road is a long one, so it's important that you are on the same path and that you are committed to allowing your plan to work.

Of course I've presented more reasons to choose our active investment process over a passive one. I'm certainly biased in presenting the active argument. It might be more accurate to say I'm passionate about using an active solution! However, I'm sure this narrative won't overwhelm the passive argument — there seems to be no shortage of financial institutions out there promoting their “set it and forget it” approach.

Make a Conscious Decision and Stick With It

As I said in the beginning of this article, what's really important is that you actually choose a path. Jumping back and forth between an actively managed process and a passive buy-and-hold approach is not going to get you where you want to go. Choose an active solution or choose a buy-and-hold approach, but don't vacillate back and forth.

Closing Thoughts

As the author of this article emphasizes the most important decision you can make is deciding which investment approach is best for you and “stick with it”! Jumping back and forth between investment approaches is not going to get you where you want to go. Wall & Company has promoted the benefits of active investment management for many years now. If you find that the author's list of active management benefits matches your perspective, then Wall & Company's investment approach and philosophy is probably a good match for you! ♦

Clients and Guests Welcomed at Open House



It was a pleasure to welcome so many clients to our new office Open House party in December. My staff and I had a wonderful time visiting with many of you. Even mother nature offered a little white stuff (snow flurries) to help give it a real holiday feel.

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 our offices at **828-651-9617** or toll-free at **888-253-9141**.

Please send information on Wall & Company's active investment management programs.

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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