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SENIOR FINANCES

COMPREHENSIVE FINANCIAL ADVICE FOR THE MATURE INVESTOR

First Quarter, January-March, 2003

Bet Against America Long-Term and You Will Lose

Today I'm not writing to offer any investment advice. Today I'm writing to offer hope. We have entered into an internationally unpopular war, and there will be some who will question our reasons for doing so. But the time for questioning is over. The time has come to do what must be done and look to our future.

The Dow went from a high of 12,000 (March 1999) to below 8,020 (July 2002). The NASDAQ dropped even more, from its high of 5,000 (March 2000) to below 1,114 (October 2002). Some once-solid tech companies like EMC and Cisco saw drops of as much as 80% from their peak values. Weaker companies lost 90% or more and, in many cases, were completely destroyed.

Like investors everywhere, our clients have felt the crushing weight of the last two years. Many people are worried and many people are asking if now is the time to flee to cash. If a war in the Gulf and record drops in the market sound familiar, that's because it all happened before back in 1990. One of the largest increases in history followed. Since the Dow's low point

in July, we have already seen encouraging growth in the markets, and several signs of a rebounding economy.

The Iraqi dictator will do what he can to destroy our economy. But one thing he doesn't understand is the nature of our resolve and the spirit of free people everywhere.

After the tragic events of 9/11, the world came together in a way few people have ever seen. Around the world, from Australia to Mexico, people held candlelight vigils and pledged their support of America in its time of need. Here and abroad, people contributed however they could. The stock markets were faced with adversity, but we didn't blink. Thousands of financial professionals, American flags and photos of loved ones in hand, walked to work on the following Monday. They rang Wall Street's opening bell, as we have again and again for more than 100 years.

Sincerely,

Warren Wall

Strategies for a Secular Bear Market

While we believe the long-term trend of the market is up, active management focuses on short-term trends to determine asset classes with the greatest potential for appreciation, and when it appears best to be in or out of the asset classes. That means looking at the financial market in the context of historical patterns and trends and seeing how those trends might apply to today's market.

Bear markets are typically classified as one of two basic types – Secular or Cyclical. While there's no set definition of what constitutes a secular bear market, it is generally a long period (10-20 years) of below average returns. The last such market in the U.S. is

considered to be the period from 1966 to 1982. Japan has been struggling through a secular bear market since 1990. A cyclical bear market is a much shorter period of below average returns that takes place in the midst of a long-term (secular) bull market.

Only hindsight will answer the question of whether the U.S. is currently in a secular or cyclical bear market. If this is just a cyclical bear, the market may pick back up in 2003 as many analysts anticipate.

If, however, we are in the midst of a secular bear market, our strategies need to be based on more conservative assumptions.

(continued on page 2)

Strategies for a Secular Bear Market

(Continued from page 1)

Throughout every bear market in history there have been opportunities to profit. Sometimes those opportunities occurred in sudden market rallies. Other times, gains were there to be made in specific sectors of the market. Which leads to the following strategies for bear markets, both secular and cyclical:

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Employee Spotlight!

Kelly Mullin, Service Team Manager



As a registered Service Assistant, Kelly is our go-to person for resolving client service issues and problems. She manages the service team workload, handles the coordination of multiple projects and assists with the trading of Wall & Company's Dynamic Asset Allocation Programs. Kelly is a graduate of Western Carolina University. She has recently moved into her new home and is looking forward to starting some home improvement projects. She enjoys yoga, cooking and playing with her cat, Mr. Beans.

New at Wall & Company...

Congratulations to Wall & Company partner, Chuck Pittman and his wife Amie. They are expecting their first child in November.

CLIENTS OF
THE QUARTER

Peter & Carolyn Davis

CONGRATULATIONS!

They will receive a dinner certificate
at a local fine dining establishment!



(1) Reassess your return expectations.

Too many retirement plans are based on expectations that annual returns will mirror those of the 1990s. If slow growth expectations for the market are correct, returns for the next ten years could be more in the range of 3-6%. Rethink how much you are saving and how much you will be able to withdraw from your retirement funds based on more conservative earnings estimates.

(2) Use active management.

The most important aspect of active management is to limit losses. Decide how much you are willing to lose and get out when the value of your investment declines to that point. The risk of this approach is that the investment will recover and begin to move back up forcing you to buy in at a higher point than you sold. But without the discipline of an established "stop loss," the risk is much higher that you will ride an investment down hoping for a rebound only to sell when the value of the investment hits bottom and the pain is the greatest.

(3) Diversify your assets and how those assets are managed.

Every asset class goes through its own bull and bear cycles. If you focus just on large cap stocks, you will miss opportunities to profit from other segments of the market. But keep your asset allocation dynamic. Allocations should be adjusted to reflect current market conditions and where opportunities for gains appear most probable.

Just as asset classes go through cycles, so do investment strategies. The results of moving average approaches, relative strength and other tools of the active manager vary depending upon market conditions. There is not one right way to invest, so take advantage of different approaches.

(4) Look for ways to optimize your returns by reducing the drag of taxes.

Take full advantage of tax-deferred accounts by optimizing contributions. Contribution limits have increased for many tax-deferred plans, and individuals age 50 and older can make additional annual catch-up contributions to their retirement plans. Ask us about the new limits and catch up amounts.

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!

Use the Down Market to Your Income & Estate Tax Advantage

A declining stock market and dropping interest rates can sometimes put financial plans on hold. But there may be an opportunity during this current slowdown for investors who expect the economy to recover. If you transfer property now, you may be able to reduce the size of your taxable estate and improve your chances of passing on more tax-free funds to your beneficiaries.

First, the income tax advantage: any stocks that you want to hold long term yet have a loss currently, should be sold so you can take the deduction on your tax return (limitations apply). You can then repurchase these shares in 31 days (if you repurchase sooner, IRS does not allow the deduction). Some people are so emotionally tied to never taking a loss, they miss this tax advantage. The IRS is happy to help you, but you will not get a call on the phone. You must make the sale to capture the tax advantage.

Secondly, if you have an IRA, converting to a Roth IRA is more beneficial when your IRA has dropped in value. By converting to a Roth, you convert a tax deferred account to tax free, but must pay the accumulated income tax on today's value. What better time to make the conversion than when the value is down and your tax will be lower?



As for estate taxes, you can transfer more assets and use less of your \$1 million exemption. Let's hypothetically assume you have 1000 shares of stock that were worth \$1.2 million two years ago. You could have transferred those shares out of your estate, (e.g. to a trust) but would have had to pay gift taxes on the amount over \$1 million. If today those shares have declined in value to \$1 million or less, you can transfer them without tax. Reduced values allow you to transfer more property before estate taxes take effect.

To learn how to make the most of asset values that have declined, or to consolidate IRA accounts, check off on the attached coupon for a consultation.

What Will Become of Your IRAs?

I recently met with a new client, Charles, who brought in files for nine IRAs that he had accumulated over the past 20 years. He wanted me to review and consolidate them into one, easily manageable account. As I went through the files, I discovered that several accounts had different beneficiaries. Three named an ex-spouse, another his deceased father, and others included his children, some whom he had removed from his will. His two most recent accounts specified his estate as the beneficiary.

Charles explained that whenever he opened up a new IRA, he would name whoever was closest to him at that time as the beneficiary. And when he couldn't think of anyone to name, the representative at the bank told him that naming the estate would be the best thing to do because his will would take care of everything. Charles was shocked when I explained what would actually happen to his IRA money when he died. And if you are in a similar position, you may be too.

First of all, your will or trust takes a backseat when it comes to IRAs. **The beneficiary-designation form is the ruling authority.** So if you've named an ex-spouse, a parent, or anyone that you may have even disinherited in your will, that's who'll receive your IRA assets when you die.

The beauty of the IRA beneficiary-designation form is that it allows assets to pass to your heirs without going through probate. And just like life insurance proceeds, all your beneficiaries usually have to do is present a death certificate, fill out a few forms, and their check is in the mail. It doesn't get any easier.

If your beneficiaries have predeceased you, or you didn't name any at all, the assets will become part of your estate. Your heirs will eventually get the money, but they may not be able to take advantage of the Final Regulations that were approved on April 17, 2002. These rules let the beneficiaries of IRAs take smaller withdrawals, therefore stretching out tax payments longer than in the past. In fact, they can stretch the payments out for their lifetimes allowing the bulk of the account continued growth. A 42-year-old inheriting a hypothetical \$300,000 IRA earning a hypothetical 6% annual rate of return would accumulate \$1.2 million by age 66.

We recommend that you consolidate your IRAs into one account (even 457 plans, 403b accounts, 401ks, etc can be consolidated into an IRA). Then have one beneficiary designation form naming the primary and contingent beneficiaries. Keep this form up to date if your desires change in the future or if any of the beneficiaries pass away.

Performance Report

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

First Quarter ~ Ending 3/31/03 (Total Returns Net After Maximum Fees)

WALL & COMPANY MANAGEMENT PROGRAMS (Net After Maximum Management Fees)	2003 First Quarter %	2001 - 2002 Total Return%
<ul style="list-style-type: none"> Invesco World Program (IWP) (Start Date 12/01/02) Invesco Growth Program (IGP) (Start Date 10-19-00) Diversified Growth Program Variable Annuity (DGPVA) (Start Date 01-01-01) World Growth Opportunity (WGO) (Start Date 9-03-02) Wallco Bond Allocation Program (BAP) ⁽¹⁾ (Start Date 01-02-03) 	<p>-1.59</p> <p>-2.95</p> <p>-4.13</p> <p>-4.20</p> <p>5.61</p>	<p>-2.15</p> <p>-16.85</p> <p>-15.28</p> <p>2.55</p> <p>16.53</p>
<p>MARKET INDICES</p> <ul style="list-style-type: none"> S & P 500 Composite Index Morgan Stanley E.A.F.E. Intn'l. Index Lehman Brothers Aggregate Bond Index 	<p>-3.59</p> <p>-8.01</p> <p>7.61</p>	<p>-33.36</p> <p>-36.76</p> <p>19.57</p>

(1) Wall & Company, Inc. leases a bond market timing signal from BTS Asset Management. The performance shown from 2001-2002 represents BTS's performance timing 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 4% annually through 3/31/02. Effective 4/1/02, the maximum advisory fee was lowered to 2.95% annually. 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: International Program closed 12/01/02.

NOTE: PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. ANY INVESTMENT HAS THE POTENTIAL FOR LOSS AS WELL AS GAIN. (Report created 04/01/03)

For 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**.

1. I'm interested in learning more about investment strategies that can potentially do well in both good markets and bad. Please call me at _____ to arrange a free consultation to discuss the possibilities.
2. Please send me information about earning a higher rate on my safe money.
3. Please contact me regarding qualified Estate Planning attorneys.
4. Please send me information on Wall & Co.'s Dynamic Asset Allocation Programs.
5. Please send me a copy of "Avoid Mistakes in Buying Long-Term Care Insurance."
6. Please send me Wall & Company's updated disclosure Form ADV, Parts I & II.

Do you know anyone who might like to receive our newsletter and be invited to our next workshop? Please list complete names and address below. Thank you for your referrals!

Privacy Policy of Wall & Company Securities, Inc. and W. Wall & Company, Inc.

Your privacy is important to us, and maintaining your trust and confidence is one of our highest priorities. We respect your right to keep your personal information confidential and understand your desire to avoid unwanted solicitations. A recent law change requires us to disclose our Privacy Policy to you - - which we are more than happy to do. We hope that you will now have a better understanding of what we do with the information you provide us, and how we keep it private and secure.

A. Types of Information We Collect

We collect certain personal information about you – but only when that you provide that information, or authorize us to obtain it. We use that information to provide you with appropriate financial planning services and products. Examples of sources from which we collect information include:

- Interviews and phone calls with you.
- Letters or e-mails from you.
- Tax return or financial planning organizers.
- Financial history questionnaires.

B. Parties to Whom We Disclose Information

As a general rule, we do not disclose personal information about our clients or former clients to anyone. However, to the extent permitted by law and any applicable state Code of Professional Conduct, certain non-public information about you may be disclosed in the following situations:

- To comply with a validly issued and enforceable subpoena or summons.
- In the course of a review of our firm's practices under the authorization of a state or national licensing board, or as necessary to properly respond to an inquiry or complaint from such a licensing board or organization.
- In conjunction with a prospective purchase, sale, or merger of all, or part of our firm, provided that we take appropriate precautions so the prospective purchaser or merger partner does not disclose information obtained in the course of the review.
- As a part of any actual or threatened legal proceedings or alternative dispute resolution proceeding either initiated by or against us, provided we disclose only the information necessary to file, pursue, or defend against the lawsuit and take reasonable precautions to ensure that the information disclosed does not become a matter of public record.
- To provide information to affiliates of the firm and non-affiliated third parties who perform services or functions for us in conjunction with our services to you, but only if we have a contractual agreement with the other party, which prohibits them from disclosing or using the information other than for the purposes for which it was disclosed.

C. Confidentiality and Security of Non-public Personal Information

Except as otherwise described in this notice, we restrict access to non-public personal information about you to employees of our firm and other parties who must use that information to provide services to you. Their right to further disclose and use the information is limited by the policies of our firm, applicable law, our Code of Professional Conduct, and nondisclosure agreements, where appropriate. We also maintain physical, electronic, and procedural safeguards in compliance with applicable laws and regulations to guard your personal information from unauthorized access, alteration, or premature destruction.

Thank you for allowing us to serve your financial planning needs. We value your business and are committed to protecting your privacy. We hope you view our firm as your most trusted advisor and we will work to continue earning your trust. Please call us if you have any questions or if we can be of further service.
