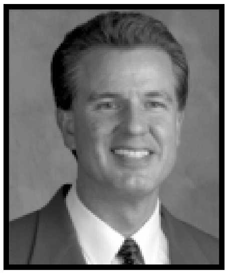

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SeniorFinances

Comprehensive financial advice for the mature investor

Third Quarter, July-September, 2003

Peter Bernstein's Shocking Words

Peter Bernstein is among the most respected figures on Wall Street. Founder and President of Peter L. Bernstein, Inc. — established in 1973 as economic consultants to institutional investors and corporations around the world; first editor of the *Journal of Portfolio Management*: economics professor on the Graduate Faculty of the New School for Social Research in New York; author of Against the Gods: The remarkable story of risk, he's known for advocating that investors stick to a strict asset allocation policy.

But Bernstein has a new claim to fame. At a conference for institutional money managers this year, Peter Bernstein expressed doubt that investors will be able to achieve respectable returns with a static portfolio.

"What if we can no longer be so confident that stocks are necessarily the best place to be in the long run," the *Wall Street Journal* quotes Bernstein saying. "What if moving around more frequently is now a necessity rather than a matter of choice? I am talking about market timing – dirty words."

"If we don't know what the future holds, why lock ourselves into a position for the indefinite future?"

Bernstein's comments may have been shocking words to Wall Street, but to investment advisors who have long advocated active investment management, they are common sense.

"Those Dirty Words: Market Timing. Prominent Strategist Bernstein Hints It's, Ahem, Time to 'Time'; Dismissing Conventional Wisdom," Tom Lauricella, *The Wall Street Journal*, August 27, 2003, page C1.

New IRA Rules Meant to Simplify but Costs of Mistakes Could Be Higher Than Ever

On January 1, 2002, new IRA distributions rules went into effect. The good part is that the rules allow you to take smaller mandatory distributions (and pay less tax during your lifetime) and spread your IRA over two more generations. But the new law also places the burden of taking the right actions on your heirs, which may be an unsettling thought. (You may be like the many retirees who have told me that they do not find their heirs' financial judgment to be exemplary, to put it nicely).

As to your own distributions, most everyone is forced to use the same IRS tables, so your bank or securities firm will hopefully calculate this for you. That part is easy. The other issue is to change your beneficiaries. The new law allows the beneficiaries of your plan, until December 31 of the year after your death, to decide on the distribution among those beneficiaries you have named.

Let's take an example. Say you name your three sons as equal beneficiaries. One is very financially successful and does not need any inheritance. The second has a good heart, is raising three foster children, and does not have much income. The third son passes away due to illness. In light of this hypothetical scenario, would you still want to divide the IRA equally? Maybe now, you would have wanted to give 2/3 of the funds to the son with foster children and the other 1/3 to the surviving grandchildren of the deceased father. But this cannot be done because you did not name your grandchildren as potential

continued on page 2

New IRA Rules Meant to Simplify but Costs of Mistakes Could Be Higher Than Ever

(continued from page 1)

beneficiaries! If you had, your IRA could have been divided based on need. So please add all possible beneficiaries to your beneficiary designation form if you would like the funds to be distributed based on beneficiary situations at the time of distributions.

What happens when you leave your IRA to heirs? There are a number of ways they can really mess it up. For example:

They need to know that they should not take the money out all at once (they will need to pay taxes on all of it). Rather, they are entitled to spread out the distributions over their lifetime and pay a little tax each year.

They need to know that your IRA should be divided up into a separate IRAs for each beneficiary before distributions start. Failure to do so will force all beneficiaries to withdraw their portion as quickly as the beneficiary who by law must withdraw his or her portion the fastest. For example, if you had a 60 year-old son and a 45 year-old son, the 45 year-old would be forced to take out his money as fast as his older brother, even though his life expectancy is longer than his brother's. The rule is: Every beneficiary gets to use their own distribution schedule if they get separate IRAs.

They need to know that if estate tax was paid on your IRA, they can take a credit against the income taxes they must pay.

To get a more detailed description of steps you should take and printed instructions for your beneficiaries to keep, check the box on the coupon for a guide to IRA owners and beneficiaries.

New Ruling May Help Retirement Plan Beneficiaries

Tax laws passed in April 2002 make planning for your IRA's non-spouse beneficiaries relatively easy. For instance if your child is the beneficiary, he or she can minimize the income tax impact by stretching out distributions for the duration of his or her life expectancy by using tables in IRS Publication 590. But if you have a 401(k) or Keogh plan instead of an IRA, the cost to your non-spousal heirs can be huge.

Depending on your retirement plan's provisions, your non-spouse beneficiaries might have to remove everything from the plan as early as December 31st of the year after the year of your death. Therefore, they would have to pay income tax on all of the plan's assets at once and possibly lose decades of tax-deferred growth. Then to make bad matters worse, the impact of the additional income could push them into the highest possible tax rate of 35%.

On November 1, 2002, the IRS released to the public a private-letter ruling (PLR) that for the first time allowed a retirement plan to buy an annuity as a way to stretch out distributions and the resulting income tax over a non-spouse beneficiary's lifetime.[1] A private-letter ruling is a response to a specific taxpayer's question and is not law. Nevertheless, it is a clue of the IRS's thoughts and could be used to argue a case to a plan's trustees.

1 http://www.irs.gov/pub/irs-wd/0244023.pdf
2 http://www.kiplinger.com/columns/fitness/archive/2002/ff021111.htm

If you find yourself in this predicament, you could get your own PLR and spend $5,000 to $10,000 for legal and accounting fees.[2] However, you may want to try to take some steps to avoid the problem in the first place.

In case you are retired and have named a non-spousal beneficiary, you should consider rolling over your retirement plan into an IRA as soon as possible. That way, when you die, he or she will be able to take advantage of the IRA's stretch-out provisions.

If you are still working and have a retirement plan, seek to amend the plan's language to allow it to purchase an annuity for your non-spousal beneficiaries.

And if you are the non-spousal beneficiary of a retirement plan, find out if it permits an annuity.

In case it doesn't, try to have it modified.

There is legislation pending in Congress that would extend the non-spouse beneficiary IRA rollover provisions to qualified retirement plans. I will keep you informed of its progress in future newsletters.

In the meantime, if you would like to learn how to reduce the tax bite on IRA and retirement plan distributions for you or your heirs, please return the enclosed coupon.

How to Help Your Teenage Grandchildren Learn about Investing

Many seniors want to provide financial help for their grandchildren. And isn't spoiling young grandchildren with an overabundance of gifts one of the benefits of being a grandparent? But once they reach their teens, what approach should you take to temper their material demands and teach them how to make correct financial decisions?

If you find that your grandchildren don't know how to balance a checkbook nor understand the concept of interest charged on credit card debt, try not to get too frustrated. Less than one half of high school graduates have had a course in economics, which leaves many of them without the knowledge needed to become informed consumers, investors, and voters.[1] The good news, however, is that teens are becoming more aware of the importance of preparing for the future.

According to the Investment Company Institute, the number of minors who hold Roth IRAs has practically doubled in the past year to nearly 903,000.[2] The flexibility of Roths makes them especially beneficial for working teens since contributions can be withdrawn for college expenses, and up to $10,000 can be used for first-time homebuyers.

According to a survey conducted by Harvard law professor Elizabeth Warren, in 2001 more than 100,000 Gen-Y kids filed for bankruptcy, etching a major black mark on their credit histories, which will make everything from qualifying for a mortgage to a car loan at a favorable interest rate even more difficult.

But what if your grandchildren aren't interested in saving for retirement that may be 40 or 50 years away? You can make the contributions to your grandchildren's Roths as long as they don't exceed the child's actual earned income or the $3,000 maximum allowed contribution.[3] Show your grandchildren how their money will be invested and review the mutual fund's reports. Over time they'll see their accounts grow and sooner or later start to appreciate the benefits of investing.

In case your grandchild has no earned income, you might want to consider hiring him or her to work in the family business or do real work around your home, for example, painting or mowing the lawn. Be sure to keep records of when the work was done, just in case the IRS asks.

Get your grandchildren involved in their financial futures and teach them about long-term savings and how the markets work. If you want help in establishing a Roth IRA (or converting your own IRA to tax free status), check the coupon.

1 http://www.ncee.net/summit/2002SummitExecutiveSummary.pdf
2 *The Wall Street Journal*, October 9, 2002
3 Grows in increments to $5,000 in 2008

CLIENTS OF THE QUARTER

Bobby and Kay Ruff

CONGRATULATIONS!

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

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!

Performance Report

WALLCO DYNAMIC ASSET ALLOCATION PROGRAMS

Third Quarter ~ Ending 09/30/03 (Total Returns Net After Maximum Fees)

Wall & Company Management Programs Net after Maximum Management Fees	**2003 3rd Quarter %**	**2003 YTD %**	**2001-2002 Year End %**
Diversified Growth Program Variable Annuity (DGPVA) Start Date 10/19/00	**-0.61**	**4.88**	**-15.28**
World Growth Opportunity (WGO) Start Date 09/03/02)	**-2.36**	**-2.50**	**2.55**
Wallco Bond Allocation Program (BAP) Start Date 01/02/03	**-2.33**	**12.31**	**16.53** (1)
Wallco Bull-Bear Program (WBB) Start Date 05/05/03	**-4.45**	**-8.04**	**n/a**
World Growth Opportunity II (WGO II) Start Date 05/14/03	**-0.20**	**1.17**	**n/a**
MARKET INDICES			
S & P 500 Composite Index	**2.21**	**13.20**	**-33.36**
Morgan Stanley E.A.F.E. International Index	**8.18**	**18.84**	**-36.76**
Lehman Brothers High Yield Bond Index	**2.77**	**21.77**	**3.80**

(1) Wall & Company, Inc. leases a bond market timing signal from BTS Asset Management. The performance shown from 2001-2002 represents BTS's performance with 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+ Return%)*(1-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: PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. ANY INVESTMENT HAS THE POTENTIAL FOR LOSS AS WELL AS GAIN. (Report created 10/14/03)

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 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.

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****.*

Please send me information on these items mentioned in your newsletter:

- ☐ How can I reduce the tax bite on IRA and retirement plan distributions?
- ☐ I want the free guide to properly selecting my IRA beneficiaries.
- ☐ I want to know how to establish a Roth IRA.
- ☐ I want more information on Wall & Company's active investment management programs.

I would like a copy of these booklets (enclose $1 for each)

- ☐ Avoid Mistakes Buying Long-term Care Insurance.
- ☐ Annuity Owner Opportunities (a must-read if you own an annuity).
- ☐ Mistakes in Selecting Mutual Funds.

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

Name ______________________________

Address ______________________________

City, State, Zip Code ______________________________

Name ______________________________

Address ______________________________

City, State, Zip Code ______________________________