GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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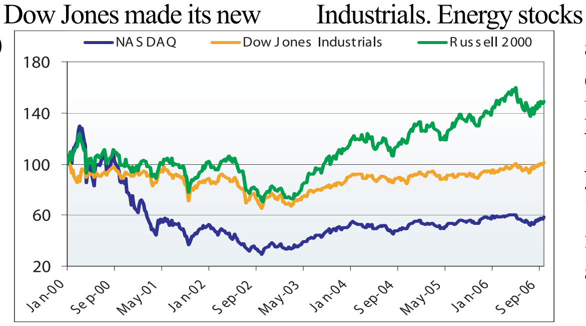
Dow Breaks All-Time High But It May Be Misleading

When the Dow hit a new high, at long last surpassing the record it set in January 2000, the event was more than a reason for investors to celebrate. The early October breakthrough also served as a reminder that the stock market is more than the Dow Jones Industrials or the Standard & Poor's 500. The overall market is made up of thousands of individual stocks, each one providing investors the opportunity to evaluate a company's stock price against its prospects.

In hindsight, many stocks in the Dow Jones Industrial Average on the record-setting day of January 14, 2000, were wildly overpriced. By October 3, 2006, the day the Dow Jones made its new high, 20 of the 30 Dow stocks remained in negative territory compared with their prices almost seven years earlier. Some were not even close to regaining the ground they had lost. For example, Microsoft and Intel are still down 50% and 60%, respectively.



Dow hits new high long after Russell 2000.

Meanwhile, other indices, gauging the progress of other kinds of stocks, have done much better. Though the milestone received little notice, the Russell 2000 index of small company stocks surpassed its 2000 peak in 2004, and it now trades about 25% above its 2000 high.

With growth stocks, particularly those of technology companies, heading for the stratosphere in 1999 and 2000, bargain stocks with more traditional "value" characteristics trailed significantly. Since then, though, value has outpaced growth. The Dow Jones Small Cap Value index gained 13% annually (excluding dividends) from December 1999 through September 2006. So while the Dow Industrials were merely recovering lost ground, small cap value stocks more than doubled.

The Dow Jones Large Cap Value index didn't fare nearly as well—most large caps were richly priced in 1999 and 2000—but even that benchmark beat the Dow with an annualized gain of 3% during the same 81 months ending in September 2006.

Some industry sectors also weathered the shakeout far better than the Dow Industrials. Energy stocks were hardly a hot sector in early 2000. But since the beginning of that year, Morgan Stanley's energy index has appreciated at a 10% compound annual rate, and is up a cumulative 91%. Morgan Stanley's Consumer Staples index managed a 3% annual gain, for a total increase of 22% during that period, also outperforming the flatlining Dow.

Compare the performance of those indices to the Morgan Stanley Information Technology index, which lost 58% during the 81 months from December 1999 through September 2006. That's a 12% annualized loss. The tech-laden Nasdaq Composite, too, has suffered famously, trading recently at less than half its all-time high.

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We're All Living And Investing In A Global World

Thanks in large part to technology, the global economy is now more tightly integrated than it has ever been before. Products and, increasingly, services crisscross the world on the way to their ultimate consumers. China's spectacular industrialization drives aluminum prices in New York, wages in Delhi affect the job market in Dublin, and the price of oil drives everything.

This interconnected world requires new levels of sophistication from all of us, especially when it comes to investing. As international factors play a larger role in the economic realities of even the most U.S. focused companies, the line between "foreign" and "domestic" markets blurs. Even in a traditionally location-dependent sector like real estate, apartment prices in Tokyo and New York (or Latin America and Miami) are now linked by the same parameters of supply and demand. And while many people think they live, work, and play in the United States, they're still competing with an entire world of consumers for jobs, raw materials, and every kind of value-added commodity from drinking water to investment advice.

It's true that investing in foreign securities carries political and currency risk. But what's also true is that investing in U.S. securities is increasingly affected by global political and currency risks. To some degree, we're all global investors.

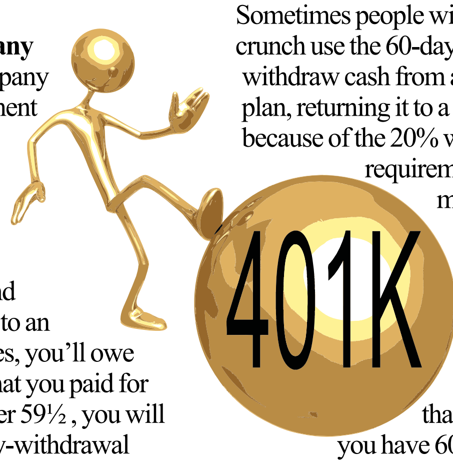
We're aware of the growing influence of foreign economies on U.S. investments and how foreign securities can diversify a portfolio. We just want to be sure you are, too.

Avoiding Mistakes On IRA Rollovers

When you change jobs, you can make a tax-free rollover of your 401(k) to an IRA. Often, that's a good idea. IRAs generally offer broader investment choices than you get in a 401(k). Moreover, if you switch jobs several times during your career, your retirement savings will be easier to manage if you consolidate the money in one place.

Yet while a rollover often makes sense, rules governing such transfers are complicated and unyielding. Make a mistake and you could pay penalties and taxes and negate the benefits of moving to the IRA in the first place. Consider these pitfalls:

Failing to do a direct rollover. It's your last week at work, and when your personnel department asks what to do with your 401(k) balance, you request a check. As long as you redeposit the account's full value in an IRA within 60 days, you won't owe income tax or a 10% penalty for withdrawing retirement money before age 59½. (If you're at least 55 when you leave your job, you can keep the money without penalty.) However, your employer must withhold 20% on the amount of your check—and if you have, say, $500,000 in your 401(k), that means your check will be for just $400,000. Yet to avoid taxes and penalties, you'll have to deposit the full $500,000 in your rollover IRA. Where will the extra money come from? Unless you have that much sitting in a bank account, you may have to sell investments in a taxable account to raise the cash, and that could generate capital gains taxes. Assuming you do meet the 60-day deadline, you'll eventually get back much of the $100,000 your employer withheld, but not until the following year, after you've filed your federal taxes. (Whether you get the full amount depends on your overall tax situation for the year.) A better way: You could direct your company plan to roll over the money directly to your IRA and avoid this problem.



Rolling over company stock. Stock in your company that's held in your retirement plan is often eligible for special treatment when you leave a job. So moving the shares to a taxable account may be better than cashing out and rolling over the proceeds to an IRA. If you take the shares, you'll owe regular income tax on what you paid for them. And if you are under 59½ , you will also owe a 10% IRS early-withdrawal penalty. Assuming you are over 59½, in the 35% tax bracket, and that your original cost for the stock was $100,000, you'll owe $35,000 if you withdraw the shares and place them in a taxable account. But suppose the shares are now worth $200,000. That, as well as any further appreciation, could be taxed at the more favorable long-term capital gains rate of 15%—and only after you sell the stock. So your tax on the appreciation would be just $15,000. And if you never sell, your heirs get a step-up in basis on any appreciation in the stock that occurred after the transfer to the taxable account. If you roll over your shares to an IRA, however, their full value will eventually be taxed as income. So your total bill on the IRA withdrawal, again assuming a 35% rate, would be $70,000 instead of $50,000.

Borrowing from the wrong account. Sometimes people with a temporary cash crunch use the 60-day rollover window to withdraw cash from a former employer's plan, returning it to a rollover IRA. Yet because of the 20% withholding requirement, this strategy may only exacerbate problems. A better idea is to take the money from a rollover IRA you've already established (rather than a 401(k)). Here, too, you have 60 days to return the money without penalty, but there's no withholding. You're allowed to make such a transaction once a year.

In these and many other rollover-related transactions—including, for example, the nightmare scenario of splitting a rollover in a divorce settlement—it's all too easy to get it wrong. If you're considering a rollover, we can help you avoid mistakes and chart a course that fits your financial situation. ●

The Most Common Mistakes That Retirees Make—

Retirement should be the best time of your life, your reward for decades of hard work, diligent saving, and wise investing. But whatever your version of sailing into the sunset, it's not going to happen if you commit these common but potentially disastrous financial blunders.

Withdrawing too much too soon. At age 65, the average life expectancy is about 20 years, and you could easily live into your 90s. So you need a level of retirement income you can sustain indefinitely. Experts differ on what percentage of your savings it's safe to withdraw each year, with estimates ranging from 3% to even 6%. But it's smart to be conservative, especially during the initial years of retirement, when a market downturn could put you in a hole.

Failing to take care of the basics. Another way to ease retirement worries is to secure enough "guaranteed" income to cover essential living expenses. Though Social Security and a company pension, if you have one, could help, you might also consider converting part of your nest egg into an annuity. Annuities are insurance products, and you could think of exchanging cash for the promise of lifelong payments as insuring part of your retirement income. Though annuities have often been justly criticized for high fees and restrictive rules, some of today's improved versions offer lower costs, guaranteed death benefits, and flexible payout options.

Ignoring long-term care. At retirement age, you have an almost even-money chance of eventually spending time in a nursing home, and with the cost of a yearlong stay now well into six figures in some parts of the country, paying for care could do irreparable harm to your

Why A Financial Plan Can Make You Happy

Remember what it felt like to get that first-ever paycheck? What about the first time you made a tidy profit on a well-chosen stock? Chances are you don't get the same kick today. When you've gotten accustomed to success and having money becomes old hat, it may hinder your happiness and satisfaction, say psychologists and economists. A well-thought-out financial plan can help.

"The key to being happy isn't how much you earn," said George Lowenstein, an economist at Carnegie Mellon University. "Happiness comes from gaining control over your finances and figuring out what to do with your money."

Several studies during the past five years confirm that you can't put a price on happiness:

• The same level of personal happiness was experienced by the very wealthy individuals on the Forbes 400 list and by members of Kenya's Maasai tribe, a herding people without electricity or running water, according to a University of Illinois study.*

• In a University of Michigan survey, lottery winners and inheritors of sudden wealth had similar experiences. Within a few months or years, all that extra cash lost its ability to boost overall contentment.*

• In numerous reports, psychologists have found that gains in wealth often leave us feeling we're getting nowhere—because even though we have more, we're not gaining on our peers.

• Six-figure earners are no happier than those who make $50,000, according to a survey by economists at the University of Chicago. For those who were surveyed, once basic needs were met, additional assets didn't result in greater contentment. And greater access to luxuries only fueled the need for more and more and heightened peer competition.

Yet even if money can't buy happiness, few of us would turn down the chance to increase our bottom lines. So exactly what are we seeking? "It's physically impossible for a piece of paper like money to make you happy," writes career coach Pamela York Klainer in her book, *How Much Is Enough? Harness the Power of Your Money Story*. "Instead, what makes people happy is the feeling of security money brings."

How secure your wealth makes you feel depends in part on how you use it. Economists at Harvard University have found that income accounts for only 1% of happiness; health, family, and community rank far higher in helping make us happy. Yet when you combine income with those values, income rises on the scale. That's where a financial plan comes in. Ideally, it will help integrate money with values.

To succeed in providing a road map to happiness, however, a financial plan must do far more than specify asset allocations, explains George Kinder in his book, *The Seven Stages of Money Maturity*. An effective plan should help shape your success according to your short- and long-term goals and personal values. In addition, because it's tailored to your individual needs, a plan can mitigate the extent to which you feel you must measure yourself against your peers.

For example, if you want to travel during retirement and provide your kids with a good education, you can develop a plan structured to maximize college and retirement savings opportunities. Similarly, if you feel strongly about certain causes or institutions in your community, you can put together a carefully structured charitable giving plan. Consider a lottery winner who donates some of his windfall to charity —he or she will likely feel greater long-term satisfaction than someone who uses the entire winnings to finance personal luxuries.

"We're now realizing that we have been too focused on the financial aspects of decision-making rather than the emotional ones," says Stephen Butler, president of Pension Dynamics Corporation, a California-based pension consulting firm. "Understanding emotions may represent a far greater contribution to the well-being of those preparing for, or enjoying, retirement."

Of course, you have worked extraordinarily hard to achieve success and deserve to treat yourself to a spontaneous shopping spree or luxurious vacation every now and then. But when everything happens in the context of a well-considered financial plan, you'll feel better about those special "occasions of consumption," as economists call them—and that can elevate overall contentment and satisfaction.

Come in to talk with us about your hopes and dreams. Together we can create a financial road map to help achieve them so you can enjoy happiness and fulfillment. ●

*The University studies cited in this article used a similar equation to measure happiness: Happiness = reality – expectation. Generally, respondents were asked to rate satisfaction and success in certain aspects of their lives on a numerical scale.

And How You Can Avoid Them

retirement plan. Though premiums would have been lower if you'd signed up at a younger age, it's not too late to shop for a high-quality long-term care insurance policy to safeguard your savings.

Paying for life insurance you don't need. When your family was young, having sufficient life insurance coverage to replace your income was a no-brainer. But now that you've retired, those premiums could be an unnecessary expense. Though you may still need life insurance as part of a business succession strategy or to pay estate taxes, it's important to review your coverage frequently to make sure it fits your current situation.

Neglecting your spouse. If you have a company pension, you may need to choose between two payout options—single life and "joint and survivorship." Though the first provides a higher monthly income, payments end at your death, whereas joint and survivorship keeps money coming in throughout your spouse's lifetime. If your spouse also has a pension, or if your combined assets ensure adequate income even without your pension, single life may be fine, but don't gamble with your spouse's retirement future. ●

Retirement Relocation: Five Mistakes

In his introduction to the fifth edition of *Retirement Places Rated*, a 300-page guide to the nation's best (and worst) golden-years destinations, author David Savageau makes a startling suggestion: Maybe you should just stay put. Retiring where you've spent your working life will give you more power, independence, and practical knowledge than you're likely to have anywhere else, Savageau says, and it gives you the one thing you can't take with you when you go: a deep sense of place.

But leaving the old hometown isn't the only mistake retirees make, according to Savageau. For those determined to leave, he offers five missteps to avoid.

Not forming a psychic connection with your destination. Finding an ideal retirement spot can take years of vacations, followed perhaps by buying a second home and spending time there in different seasons until you develop a sense of belonging that appreciates a place's benefits and forgives its liabilities. Many older adults don't take the time for this and either return home after a disappointing stint in Vegas or Florida or move on to another "promising" destination.

Obsessing too much about taxes. If you consider only states that don't tax personal income at all, you're limiting your search to just Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming. But if you look at states that either don't tax retirement income (Hawaii, for example) or that treat it favorably (Colorado and Georgia, among others), suddenly your quest for low-tax retirement will take in more than half the country.

Focusing only on resorts. Sure, Myrtle Beach, Hilton Head, and Palm Springs have their attractions. But their economies are defined almost exclusively by recreation. This can mean several things: higher prices for consumer goods and services; low-wage jobs, and unemployment in the off-season; and higher property-crime rates at the height of the season. Instead, consider locations that balance a recreation economy with an education economy (such college towns as Durango, Colorado, or Las Cruces, New Mexico) or a government economy (state capitals such as Austin, Texas, or Olympia, Washington).

Playing the pioneer. There's nothing wrong with searching for the next Aspen or Santa Fe, but don't expect it to be a little-known haven only you have found. Often, the reason a place is undiscovered is that it isn't a haven at all. Stick with locations that already have a population of newly arrived retired people. They're there for good reasons, and you'll never have to be the new kid on the block.

Avoiding urban areas. Most of us live in cities, and surveys show that most of us want out. Still, there is a small but growing trend toward retiring downtown. Developers are adapting warehouses, hotels, and office buildings into posh condominiums and apartments, and their biggest markets are young singles and older adults. Both groups are there for the culture and excitement. Redevelopment of handsome old masonry buildings is happening in places as diverse as Knoxville, Denver, Houston, Birmingham, Boston, and Chicago. ●

Dow Breaks All-Time

(Continued from page 1)

What should investors make of the widely varying performance of various stock market sectors and indices? Most obvious, of course, is the peril of ignoring diversification, a point driven home by the devastation wreaked upon tech and telecom stocks since 2000. But effective diversification may require more than simply owning a fund tracking a broad stock index. For example, investors in 2000 who held an S&P 500 index fund may have assumed they were investing in a widely diversified equity portfolio. Yet at the time, much of the value of the S&P was in a few mega-cap stocks, then selling at record-high valuations and soon to come plunging back to earth.

Discretion, in addition to diversification, can help investors weather the next stock market storm. Those who understood that even the S&P 500 was more than a little frothy seven years ago—and who resisted the lure of other faddish investments—may have suffered in the short term but have been well rewarded as the markets have straightened themselves out, with the prices of most stocks now once again bearing some relation to underlying fundamentals.

Recognizing an investor's risk tolerance and structuring a portfolio that takes into account that highly personal variable is also helpful. Those who are conservative, either by temperament or because of their financial situation, may need to be particularly careful to stay away from market manias—and to diversify well beyond even such seemingly solid benchmarks as the Dow Industrials, whose slow recovery was all the more painful for those who needed to tap their investments during the interim.

While the Nasdaq was decimated by the demise of many outlandish stocks, the Dow was dragged down by some of the bluest of blue chips. Wal-Mart, Verizon, Hewlett-Packard, and Coke all fell by double-digits, not because their survival was in question, but because their rich valuations left them nowhere to go but down. It's our job to help you stay diversified and avoid vastly overvalued stocks and sectors while keeping the focus where it should be: on fulfilling your financial plan. ●

Data used in this report was provided by independent sources and is for information purposes only. Past performance is no guarantee of future return. The views expressed are an appraisal of the current environment and possible events. Consult your financial advisor before investing.

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