GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

Michael J. Krencicki, MSF, CFP®
July 2007
James M. Knaus, MSM, CFP®

Does The European Union Matter To U.S. Investors?

You may not have noticed that the European Union is marking its 50th anniversary this year, and it probably doesn't seem like a big deal in any case. But for investors, the EU's metamorphosis from its original six-member country club to a confederation of 25 nations has growing significance. EU member countries, now with a population of close to half a billion people, are committed to creating a barrier-free trade zone and greater economic efficiencies, with the ultimate goal of operating under one official currency, the euro. Already, the EU is one of the world's three major trading blocks, rivaling those of the United States and China/Japan, says Campbell Harvey, an international business professor at Duke University's Fuqua School of Business. "Does this matter to U.S. investors? Yes, absolutely," Harvey says.

Geographic expansion of the EU, which recently added several central and eastern European members, is translating into financial opportunity and market clout. Last year, the gross domestic product for the eurozone, made up of the countries that have adopted the euro, rose 2.7%, while shares in European companies had a fourth consecutive year of gains, as increasing numbers of U.S. portfolio managers and individual investors take notice. "U.S. investors have tended to dismiss Old Europe as a place where nothing exciting is happening compared with the hype about China or India," says Dan Lefkovitz, a senior mutual fund analyst at Chicago-based Morningstar. "But that means overlooking many of the world's best companies. Western European companies have benefited from deregulation, increasing consumer demand, and other economic reforms, and the European stock markets have been some of the world's best performers in recent years."

The Dow Jones Stoxx 600 Index, which tracks Europe's 600 largest publicly traded companies, was up 17.8% in 2006, Britain's FTSE 100, which tracks 100 companies with the largest capitalization on the London Exchange, gained 10.7%, Germany's DAX 30 index of blue-chip stocks rose 22%, and the French CAC 40 index of the largest stocks on the Paris Bourse climbed 17.5%.* U.S. investors nearly doubled their allocation to European stock mutual funds, to about $6 billion last year, according to Boston fund consultant Financial Research Corp. And U.S. mutual funds devoted to international investing now have about two-thirds of their assets in European countries, says Lefkovitz, with many portfolio managers attracted by the relatively modest valuations of companies there. Whereas U.S. shares trade at an average of 16 to 17 times 2006 earnings, price-to-earnings ratios for Big European companies are in the 13 to 14 range, according to Standard & Poor's in New York.

Economic expansion, as well as a wave of merger and acquisition activity, has bolstered European companies' profits, says Lefkovitz, as has a U.S. dollar that has lost value against the euro. Yet the euro's rise, likely to continue, could ultimately have negative ramifications for European companies that have earnings in dollars, says David Wyss, chief economist at Standard & Poor's.

That's one reason Wyss and others expect eurozone growth to slow to about 2% this year. Climbing interest rates pose another challenge. "The biggest problems

(Continued on page 4)

Personal Note From Global Wealth Advisors

The articles we selected for this quarter illustrate the wide range of services we are dedicated to provide our clients. One topic that has captured the attention of investment advisors across the country is the *sustainable withdrawal rate.* That is, how much can you safely withdraw from your investments each year, without running out of money?

There are myriad approaches being developed, some more viable than others. Our cautionary note is to beware of the indiscriminate use of annuities in your retirement planning. While annuities may possess some unique attributes, the owner/annuitant often must sacrifice flexibility. Our preference is to examine all legitimate alternatives, and to select the investment vehicles that clearly satisfy client objectives. For more, see the balanced view in the full article.

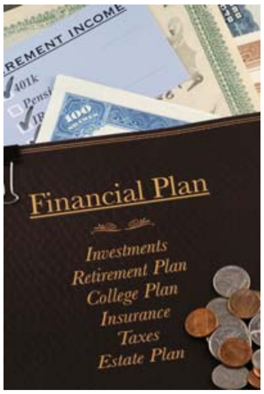
Next, as part of our ongoing investment management process, we continually scrutinize the changing global markets for opportunities. Over the next few months, you may observe some investment changes where we have found ways to increase the projected return, reduce the risk level assumed or lower the internal expenses.

As always, feel free to contact us at any time. We appreciate your continued confidence.

Jim Knaus Mike Krencicki

Transfer The Risk Of Outliving Your Money

How much of your retirement nest egg can you afford to spend each year without running the risk of outliving your savings? Despite considerable ongoing research to identify a maximum safe withdrawal rate, there's no consensus, and most estimates are discouragingly low, often less than 5%. That means if you've saved $1 million, for example, you'll have to live on $50,000 a year or less (not including Social Security).



But there is a way to do considerably better, though it comes with its own trade-offs. An insurance product known as an immediate annuity lets you exchange cash for a promised monthly payment that keeps coming as long as your heart keeps beating. A recent quote for a 60-year-old New York male from ImmediateAnnuities.com, an online broker, would convert a $1 million investment into a guaranteed lifetime monthly payment of $6,115. That's considerably more than the monthly draw of $4,167 you'd get at a 5% annual withdrawal rate.

An immediate annuity, in effect, lets you transfer your risk of outliving your money to an insurance company. It's the kind of deal you get from Social Security (and may still get from a corporate pension plan, though there are fewer and fewer of those). In all of these cases, you're promised a relatively generous lifetime payout because the payer—an insurance company, the government, or your employer—knows it won't have to make good on all its promises. Many people will die relatively soon, ending the payer's obligation. That leaves more money for those who live longer.

The most obvious problem with this equation is that you could die early. Suppose that a 60-year-old New Yorker hands over his million and dies a year later. He has received a grand total of $73,380—and his heirs get nothing. To reduce that risk, insurers typically offer a variety of guarantees. For example, the New Yorker could purchase an annuity paying $5,652 a month that also promises at least 20 years of payments, with payouts going to his designated beneficiaries if he dies before that time. Or he could buy a joint policy with his 60-year-old spouse that gives them $5,256 a month for as long as either is alive; to get a 20-year guarantee, they could accept a lower monthly payout of $5,027.

Immediate annuities have other risks beyond the owner's early death. Your money is irrevocably tied up, unavailable even in an emergency. Moreover, the insurance company could go out of business, or interest rates could rise steeply after you've locked in a low rate. One way to spread such risks is to "ladder" your annuities, buying from a few different companies over several years. That way, if an insurer defaults or interest rates change, only part of your savings will be affected—and in any case, you'll likely want only a portion of your nest egg in annuities. In addition, immediate annuities usually don't have inflation protection, and the buying power of your monthly payments can be eroded sharply by inflation. A handful of carriers do offer inflation protection, however.

The potential benefits of immediate annuities are alluring. They turn savings into paycheck-like income, and you could buy an annuity large enough to cover most or all of your fixed expenses. With those costs covered, you might feel comfortable taking slightly more risk with the rest of your portfolio, potentially increasing long-term gains. ●

As Exchange Traded Funds Become More Sophisticated,

In their early incarnations, exchange-traded funds (ETFs) were the soul of simplicity. Like index mutual funds, ETFs typically track market benchmarks, giving self-directed investors a low-cost way to achieve returns in line with the performance of, say, the Standard & Poor's 500 stock index. Yet an ETF built around a broad index is usually more tax efficient and has lower expenses than a similar index mutual fund; moreover, because ETFs trade like stocks, they can be bought or sold whenever markets are open. As more ETFs become available, however, they've become increasingly complex and expensive, making it more difficult to integrate them into a portfolio.

Much of the problem involves so-called specialty ETFs based on newly designed or exotic indices. Typically, an ETF packager will come up with specific screening criteria—to be included in an index, for example, a stock might need to pay dividends or meet certain capitalization requirements. In launching the new fund, the investment company will present the results of "back-testing" showing that such an index would have had an outstanding record during a specified historical period. While in some cases that may continue to be a winning formula, great (and theoretical) past performance could also reflect developments unlikely to be repeated.

Some indices may be too narrow or esoteric to serve as the source of a stable, well-diversified ETF. One private equity ETF, for example, is based on an index with less than three dozen components—a far cry from the hundreds in the S&P or another broad-based, well-established benchmark. And low trading volume of relatively illiquid shares can lead to wide spreads between the bid and asking price of an underlying security in the ETF, and to performance that deviates significantly from the index.

Meanwhile, creating specialty indices and finding component companies can be costly, and annual

Do Investment Benchmarks Matter?

Champagne was flowing on Wall Street in October when the Dow Jones Industrial Average hit a string of record highs. But should you be popping corks? Only if your entire portfolio is invested in the 30 stocks that make up that index, says Russel Kinnel, director of mutual fund research at Morningstar Inc. in Chicago. Even then, considering the Dow took almost seven years to regain ground lost since early 2000, there might not be much to cheer about.

The real trouble with headline-grabbing market benchmarks is they say very little about how your own portfolio is doing and even less about whether your financial plan is on track to meet your personal goals. For that, you need a personalized set of benchmarks based on your goals, risk tolerance, and time horizon. And because no two financial plans look exactly the same, no cookie-cutter benchmarks can help you track your individual progress.

"You have to set your own expectations and goals," Kinnel says. To monitor your investments effectively, you have to know why you chose a particular investment and what you hope to accomplish.

Part of the problem is that the performance of different stock market segments may vary widely, and year-by-year gains and losses are unlikely to form a consistent pattern. For example, consider the wide differences between the Standard & Poor's 500, one of the best benchmarks for large-cap stocks, and the Russell 2000, which tracks the small-cap sector. Through October 2006, the S&P 500 posted a 12-month return of 17.73%, while during the same period the Russell racked up 9.2% in gains. Yet during the past five years, the S&P has an annualized return of 6.62%, less than half of the 13.78% yearly advance of the small-cap index, according to Morningstar.

Your own portfolio is likely to exhibit the same kind of variability, making it all the more important to remember you're in this for the long haul. "You can't say my goal is to have my portfolio return 7% a year and then panic because one year it didn't make that," Kinnel says. "You have to have a long-term perspective, keeping focused on your long-term goals."

Moreover, total returns are only part of the equation. There's also the matter of how much risk you are willing to assume to reach target returns. Every asset class has its own risk-return profile based on historical returns and volatility. And because different asset classes tend to outperform during different market cycles, it is important to hold a variety of investments that balance out your own risk-return profile over the long term.

For example, looking at the past five years, ending December 31, 2006, large-cap value stocks posted an average annualized return of 8.95%, according to Morningstar Inc. Small cap growth stocks posted almost identical results, up 8.27% over the same period, but achieved those returns with significantly more volatility and more risk to investors. Morningstar measures volatility according to the variability (standard deviation) of returns of an asset class. The standard deviation for large-cap value over the past five years was 19.12% compared to 27.53% for small cap growth.

Volatility can have a tremendous impact on long-term performance. For example, if a $100 stock drops 25% to $75, it must climb 33% just to get back to its starting point. If the same stock drops 10%, it needs only an 11% gain to break even.

A diversified portfolio, done properly, dampens volatility by incorporating a variety of assets, and may post positive returns even when indices such as the Dow and S&P 500 are struggling. But diversification also makes it difficult to track individual progress against a public benchmark.

"It's helpful to know what the market has done to put your portfolio in context," Kinnel says. "If the S&P 500 has gone up 20% and your large blend fund was up only 10%, you might want to take a look at why it didn't meet that benchmark."

But the answer could be that the S&P carried more risk than your fund—and more risk than you're comfortable taking on. A more important question is whether you're on track to achieve individual goals.

To help you understand your portfolio's returns, and the role of your investments in meeting your financial objectives, we can provide a comprehensive portfolio analysis that measures your progress against personal investment goals. The individualized benchmarks we establish will be much more meaningful than what happens to the Dow. ●

Rates of return for indexes noted in this article are not the returns of actual portfolios. An investment in those categories or classes of investments will not return exactly the same as the return on the category benchmark, and the past performance is not an indication of your future returns.

Managing Them Requires More Care

expense ratios for some new ETFs are 70 basis points (0.7%) or more, compared with less than 10 basis points for many broad-market ETFs. And ETFs bring another cost—trading commissions. The smaller your investment in a particular ETF—and by their nature, specialty ETFs should make up only a sliver of your overall portfolio—the more significant trading costs become.

These caveats don't mean a particular specialty ETF doesn't deserve a place in your portfolio. Depending on your goals, risk tolerance, and timetable, using an ETF to invest in, say, private equity might be appropriate. Money is flooding into private companies, and because private equity tends not to track the performance of public markets, adding this asset class to a portfolio could enhance diversification. But making a call on a specialty ETF means considering many factors about the fund and your portfolio.

It's wise to understand an ETF's investment objectives, risks, and expenses before you invest, and to read the fund's prospectus. We're here to help you make sense of all this, provide you prospectuses and give you any information you need to understand these increasingly complex instruments plus our recommendations about how to use them in your portfolio. ●

Accumulating More Frequent Flier Miles

These days, you don't have to be a frequent flier to earn frequent flier miles. Most miles, in fact, are earned on credit card purchases rather than through airline flights. But there are many kinds of cards, from those issued by banks and credit card companies to those affiliated with airlines or hotels, and choosing the right one can be tricky. "If the choices were clear-cut, there wouldn't be as many cards as there are," says Tim Winship, co-author of *Mileage Pro: The Insider's Guide to Frequent Flyer Programs.*

Winship favors concentrating your miles in a single program, and he suggests choosing a card affiliated with the airline you use most often. If you decide to participate in several programs, you may be best served by an American Express or Diners Club card, Winship says, because both allow you to transfer earned points to a variety of airline programs. If you tend to rack up a lot of credit card purchases, a bank card could help you accrue points redeemable for free tickets, and bank card fees are among the lowest fees, Winship says.

Last year, the Freddie Awards, the frequent traveler's Oscar®, named Alaska Airlines' Mileage Pal as program of the year for the third time in a row, with Southwest Airlines' Rapid Rewards in second place. Winship also likes American's AAdvantage program and United's Mileage Plus. Among affinity credit cards, the Starwood Preferred Guest card issued by American Express, the Citibank AAdvantage MasterCard, and the American Express Blue Key card are his favorites. See www.frequentflier.com for more detailed comparisons among card programs. ●

Which Card's For You?

All frequent flier credit card programs are not created equal. Here's how the card types stack up.

	Airline Cards	Hotel Cards	Multi-program Cards	Bank Cards
Fees	Medium	Low to Medium	High	Low
Strengths	● Miles can be combined with miles from other program partners (airline, hotels, etc.) to quickly reach award thresholds such as free flights and elite status	● Low cost ● Hotel stays are readily available (and worth more than flight rewards, because hotel rates have increased more than airfares)	● Flexibility to convert points to miles programs in selected airline and hotel ● Wide choice of awards ● Points don't expire	● Low cost ● No blackout dates on award travel ● Wide choice of airlines for award travel
Weaknesses	● Points earning and redemption limited to a single program ● Blackout dates and capacity controls limit award availability	● Hotel programs generally offer lower mileage earning rates than other cards; it's generally easier to earn free hotel stays than free flights	● High annual fees ● Fees to convert points to airline miles; no fees for hotel points ● Amex points cannot be converted to American or United miles	● Cannot be combined with airline miles ● Award tickets require 21-day advance booking and cannot exceed a set dollar value ● Miles expire
Recommended Role	● Primary card for frequent flyers who concentrate activity in a single airline program	● Secondary card for frequent flyers, to add free hotel nights to free flights from airline programs	● Primary card for frequent travelers who must participate in multiple airline programs ● Secondary card for frequent flyers who participate in multiple hotel programs	● Primary card for consumers who earn the bulk of their miles using a credit card

Reprinted from Mileage Pro: The Insiders Guide To Frequent Flyer Programs with Permission From OAG Worldwide Inc.

European Union Matter

(Continued from page 1)

involve the EU's core economies—France, Germany, and Italy," says Wyss. The big three share common issues, such as high taxes that support generous welfare benefits and laws that make it costly and time-consuming to lay off workers. "The EU hasn't been an effective forum for working out those problems," says Wyss.

Nor will the addition this year of Romania and Bulgaria, two of the region's poorest countries, do much to spark growth in the EU. Meanwhile, other countries waiting to get in, including Croatia and Cyprus, also won't bring much economic clout. And the latest opinion polls in Turkey, a more significant potential EU entrant, show a majority now opposed to joining Europe's ranks.

The EU faces a wide-ranging political agenda this year. There is a push to deregulate Europe's energy markets and to form a new EU charter after France and Netherlands voted against ratifying a European constitution in 2005. But for investors, there's a bigger issue—whether the euro can become a major global reserve currency that will compete effectively against the U.S. dollar. Though launched in 1999, the euro has faced many hurdles in being widely adopted, Wyss notes. Several EU member nations have had persistently excessive budget deficits, new members have tended to be economically weak, and there have been ongoing questions about the effectiveness of the European Central Bank, which manages the currency and sets monetary policy. Only 12 of 25 EU members use the euro, while the United Kingdom and several others continue to prefer their sovereign currencies, and recent opinion polls in Germany, which has the euro, show most citizens would like to return to the mark. "That's not going to happen," says Wyss, though he expects few other EU members to convert to the euro in the near future.

All of this clearly makes a difference for U.S. investors, who must weigh Europe's prospects against those of other leading international markets. We can help you determine how much of your portfolio might profitably be allocated to Europe, and how such investments may help you achieve your long-term financial goals. ●

***An individual cannot invest directly in an index and return may be worse than that of the index. Past performance is no guarantee of future return. Risks of foreign investment include currency fluctuations, economic, political or social instability.**