GLOBAL
WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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Court Ruling Hurts Brokers, But Is A Win For Fiduciaries

We're happy to report that the legal dispute between the Financial Planning Association and the Securities and Exchange Commission is over, and it's a victory for our firm and consumers. The U.S. Court of Appeals for the District of Columbia Circuit struck down a rule providing stockbrokers with an exemption from the Investment Advisers Act of 1940.

The FPA, the professional association for financial planners, won a huge victory on behalf of consumers and set straight a misguided effort by the SEC. The decision reaffirms an important distinction between stockbrokers, whose primary job is to sell investments, and financial advisors who provide broader services and serve as fiduciaries, legally bound to put your interests above their own.

Until late last century, most investors bought and sold securities through full-service brokerage firms whose brokers earned commissions on each transaction. Brokers, though they might steer customers to particular stocks or bonds, were exempt from the Investment Advisers Act because they were primarily in the business of selling securities, not giving advice. The brokers were required to recommend investments that were "suitable" for their customers but didn't have to register as investment advisors and act as fiduciaries.

Meanwhile, though, a growing number of financial planners and advisors began providing services to clients in a different way. To avoid the conflicts of interest that often arise when accepting commissions, these advisors instead charged fees for their advice. This approach, they said, aligned advisors' and clients' interests. These advisors operated as Registered Investment Advisors, or RIAs, and owed clients a fiduciary responsibility.

This alternative model proved popular with the public. In the 1990s, brokerage firms began offering their own "fee-based" programs. But that begged a question: were brokers who provided fee-based advice in fact still acting as brokers who were exempt from the Investment Adviser Act? Or should they be required to register as investment advisors? So the big securities firms asked the SEC for a new, broader exemption from the Act.

That's when the trouble started. In 1999, the SEC proposed a new exemption for the fee-based programs. After several years of public comment and revisions to what became known as the Merrill Lynch rule, the SEC in April 2005 adopted a final version. The new rule attempted to distinguish between brokers and advisors based on the services they provided. Those whose primary role was to recommend investments, even in a fee-based program, would be exempt from registering as investment advisors—because, essentially, they were doing what they'd always done. The fee-based accounts, the SEC said, were just a new version of the old full-service accounts. Now, as earlier, investors expected and received guidance from brokers; the only change was in how they paid for it.

> *The U.S. Court Of Appeals ruling is a victory for our firm and consumers*

Other brokerage firm advisors, who had discretion over client assets and provided comprehensive financial planning

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A Personal Note From Global Wealth Advisors

The year 2008 will provide a host of important events that continue to affect the global markets. The more obvious items include our presidential election, the war in Iraq, commodity prices, and economic difficulties worldwide.

Short-term volatility in equity markets is normal and to be expected. That is why equities offer higher rates of return than fixed-income investments. Over the long term, this volatility provides opportunities to "buy low" through purchases and reinvestments. As long as your goals and objectives haven't changed, it is a time to stay the course.

All of that leads us to our continuing responsibility to our clients. As fiduciaries, we adhere to the principle that our clients' needs come first and foremost. We reaffirm that commitment and suggest that our lead article reinforces your wisdom in choosing us as your financial advisor.

The other articles in this issue present our customary variety of topics that relate to your planning needs. Call on us at any time to discuss your objectives. We can advise you competently and objectively regarding your investment, retirement, tax, estate planning, and insurance needs.

Thanks again for your continued confidence. We also appreciate your client referrals, as always.

Jim Knaus Mike Krencicki

Part-Time Job Hunting Tips for Retirees

Retirement isn't what it used to be. Longer life expectancies and the ever-rising cost of living—to say nothing of prime-of-life retirees' skyrocketing expectations—have made life after work a much more expensive proposition. Yet many who are approaching their golden years don't have sufficient savings to pay for three decades of total leisure. In a 2007 Gallup Poll survey, "This Is Not Your Father's Retirement," 75% of not-yet-retired adults indicated they planned to rely on income from a part-time job during retirement, and 21% said that part-time work will be a major source of income. That's far different from the situation today, in which just 3% of retirees depend on income from a job.

But where will older workers find gainful employment? In many cases, it may be with the same employer they've known for years. According to a recent report by Deloitte & Touche—It's 2008: Do You Know Where Your Talent Is?—there's a labor crunch on the horizon, particularly in the executive suite, as baby boomers prepare to depart *en masse.* Often enough, however, those who are leaving wouldn't mind a little part-time work to finance retirement lifestyles, and some are returning to their old positions, though with more flexibility, fewer hours, and proportionately higher compensation.

A survey by Dartmouth's Tuck School of Business found that 85% of corporations plan to expand recruiting strategies to include temporary professionals (for project-based work) and those who have left the work force. That will represent quite a change from the current situation, in which only one in three employers is open to hiring older employees who want flexible hours or the option to telecommute, among other perks. Yet big companies won't hire just any retiree. In the Tuck survey, six in 10 employers listed updated, fresh skills as a make-or-break attribute for job hunters.

Already, opportunities for seniors are becoming easier to find. Major job boards such as Monster, CareerBuilder, and HotJobs have launched special contract employment sections featuring the kinds of part-time positions many retirees will want. Other sites—Seniors4Hire, Retirementjobs, and AARP—target retirees specifically with full-time, part-time, and contract opportunities covering a broad range of professional skills. Guru.com and Elance.com offer freelance, contract, and temporary opportunities through online marketplaces that not only help place workers but handle invoicing and payment as well. These services even offer consolidated tax reporting to simplify the administration that comes with working part-time during retirement.

Of course, as useful as such online services may be, they'll never be as effective as personal networking. If you're approaching or already in retirement and would like to work part-time, the best place to start is with people you know. It's not at all unusual for would-be retirees, right after saying their good-byes, to get a call asking them to consider a six-month assignment, say, to get a new department up and running. So ask around the company, and contact former colleagues who've moved on to other ventures. Chances are, even if they don't immediately need someone with your skills and experience, they'll know someone who does. ●

A Job With Your Name On It

These sites have postings for part-time, freelance, and contract work as well as full-time employment.

www.monster.com
www.careerbuilder.com
www.hotjobs.yahoo.com
www.seniors4hire.org
www.retirementjobs.com
www.aarp.org
www.retirement-jobs-online.com
www.guru.com
www.elance.com
www.myparttimepro.com
www.dice.com

A Consumer-Directed Health Plan May Sound Like A Panacea,

President Bush is all for them, and many health economists believe health savings accounts and other "consumer-directed" health plans (CDHPs) could help expand health coverage to the uninsured while reining in runaway medical costs. The basic idea is to buy a low-premium, high-deductible policy that protects you from the catastrophic costs of a serious injury or illness but leaves you to pay for much of your everyday care. That, in turn, is supposed to make you a savvier medical consumer who doesn't run to the doctor for every headache or runny nose. Yet the trade-offs of a CDHP may not be to your liking, particularly as you grow older and find yourself needing more frequent and costly medical care.

From a policy perspective, CDHPs seem to be on the right track. According to "Consumer-Directed Health Plan Report—Early Evidence Is Promising," from consultant McKinsey & Company, the number of Americans covered by CDHPs more than doubled during the six months ending March 2005. There may be several reasons, however, not to jump on the bandwagon.

While it's true CDHPs can save you money on insurance premiums, that's less of a selling point for wealthier families than for the population at large. Moreover, what you don't spend on premiums may come out of your pocket as you meet the high deductible. According to a survey conducted by the Commonwealth Fund and the Employee Benefit Research Institute (EBRI) in December 2005, individuals in CDHPs and traditional health plans tend to have similar rates of health care use. But those in CDHPs are significantly more likely to spend a larger share of income on out-of-pocket health expenses than are those in comprehensive health plans. In the survey, 31% of those in CDHPs spent 5% or more of annual income on out-of-pocket costs and premiums,

A Plot Twist In The 0% Capital Gains Rule

One of the biggest tax blockbusters ever is scheduled to debut in 2008: the 0% capital gains rate. Despite advance reviews suggesting it will only benefit individuals in the lowest tax brackets, this marquee tax break could play well with affluent families, too. But a last-second twist in the plot complicates matters for families with older children.

This intriguing tax saga began in 2003. The Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) lowered the maximum tax rate on long-term capital gains from 20% to 15% for taxpayers in most brackets. But for those in the 10% and 15% brackets, the tax rate was pushed even lower, to 5%.

And that's only part of the story. Under JGTRRA, the 5% rate drops to 0% for qualified filers in 2008, and the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) extended the 0% rate through 2010. Thus, taxpayers in the lower brackets can benefit from this unprecedented tax break in 2008, 2009, and 2010.

What does it have to do with you? Based on the inflation-indexed figures just released for 2008, the cutoff for the 15% tax bracket is only $65,100 for joint-filers, and $32,550 for single taxpayers. Short of taking a year-long, unpaid vacation, you're probably unlikely to squeeze under the bar. You'll probably be stuck with the 15% maximum capital gains rate.

But that doesn't stop your family members from benefitting from the 0% rate. For instance, you could transfer stock or other appreciated assets to a child or grandchild fresh out of school. Then, the child can sell the shares in 2009, or 2010, when the zero percent tax rate applies. If you were thinking of giving your son or daughter a gift, for a house down payment or to pay off college loans, this approach has the added benefit of cutting capital gain taxes.

What assets should you transfer? Highly appreciated ones. A block of stock you've been holding for years and that is now worth several times what you paid, for instance, would be a good gift to a child. If you were reluctant to pay a 15% tax on your gain, this would be a good way to get out from under that tax burden.

The current market value of the assets you transfer will be considered a taxable gift. But an annual exclusion lets you give $12,000 to any individual every year without paying any gift tax. This exclusion is doubled to $24,000 if your spouse consents to making a gift. So if you're married and have, say, two low-bracket children, you could give each child securities worth $24,000, for a total of $48,000, all completely gift tax-free. And you could repeat the strategy in 2008, 2009 and 2010. (Larger annual gifts would count against your lifetime $1 million gift tax exclusion.)

There is one complication. The Small Business and Work Opportunity Tax Act of 2007 expanded the reach of the "kiddie tax." Kiddie tax rules say that if a child receives unearned income (usually in the form of capital gains or dividends) that exceeds an annual threshold—$1,800 for 2008—the excess amount is taxable at the top tax rate of the child's parents. Prior to 2007 law, the kiddie tax applied only to children under age 18. Beginning in 2008, though, it affects any child under age 19, as well as full-time students up to age 24, if they don't have earned income that accounts for at least half of their support.

So if you have a dependent child in college or high school in 2008, you should be aware that gifting appreciated assets for them to sell could backfire. Your child's unearned income in excess of $1,800 could be taxed at your higher rate and undermine the gifting strategy. The amount of your gift, your child's earned income, and other numbers need to be considered and analyzed beforehand.

If you have a sizable amount of securities with significant unrealized gains, you may want to consider transferring them to a Charitable Remainder Trust to avoid immediate capital gains, receive a charitable contribution deduction and lifetime income, and to benefit one or more charities.

Also keep in mind that it almost never makes sense to sell securities based solely on potential tax savings. Remember, this tax break is scheduled to last through the 2010 tax year. But if everything falls into place, this new tax rule could help your family enjoy the best of all possible tax rates. ●

But May Not Be Right For You

compared with just 12% of those in comprehensive health plans.

You may also simply be happier with a comprehensive plan. According to the Commonwealth Fund/EBRI survey, 63% of individuals with comprehensive health plans were extremely or very satisfied, compared with 42% of CDHP enrollees. That could be because CDHP enrollees are more likely to avoid or delay health care than those with comprehensive plans. According to the Commonwealth/EBRI survey, 35% of people in CDHPs avoided going to the doctor when they were sick, compared with 17% of those in comprehensive plans.

That, of course, is how it's supposed to work, with CDHP enrollees having a financial incentive to avoid unnecessary care. But the line between what's needed and what's not may often blur for health-care consumers. And some policy experts worry that failing to get preventive care or catch medical problems at an early stage could lead to much more serious problems—and much higher costs—down the road. Until more is known about the long-term success or failure of the CDHP concept, it may make sense to spring for a traditional health plan. ●

Eight Ways To Save On Life Insurance

The price you pay for life insurance largely depends on things you can't or don't want to change: your age, health, habits, and other lifestyle choices, such as smoking and skydiving. Still, there are ways to save when buying a policy.

Buy the type of insurance you need. Though there are dozens of variations, life insurance basically comes in two flavors: term or permanent. With a term policy, you pay an annual premium and, assuming you die during the term of the policy, the insurer guarantees it will pay your beneficiaries the face amount of the policy upon your death. A permanent policy does the same thing, but premiums are higher, because you build up cash value that you can borrow against or withdraw if you cancel the policy. The right type of insurance for you depends on several factors, including your age, family situation, and financial goals. Often a term policy can save you money.

Don't be loyal to one company. You may receive free or discounted life insurance through a current or former employer. But you'll probably need to supplement that coverage, and buying additional insurance from that insurer may not get you the best deal. Keep in mind, though, that you'll likely have to qualify medically for a policy you buy on the open market, which may not be required if you buy through an employer.

Negotiate. Smoke one cigar a month? You'll probably be lumped into the same category as someone who smokes two packs of cigarettes a day. And a dangerous activity, such as skydiving, that you tried just once could also ratchet up your premium, even if you have no intention of doing it again. Your premium may be negotiable, if you write to the insurer explaining why you think you should qualify for a better rate.

Find a specialist if you have health problems. Some insurers specialize in covering people with heart disease, cancer, or diabetes. These companies employ underwriters trained to differentiate, for example, between people with high blood pressure who take their medication regularly and those whose hypertension is uncontrolled.

Buy in bulk. If you're planning to buy $950,000 of coverage, a $1,000,000 policy may actually cost less. Insurance is priced in multiples of $250,000, and an insurer may charge disproportionately more for an in-between amount.

Avoid hidden fees. Before you sign up for any convenience, find out how much it costs. For example, some insurers charge for deducting monthly payments automatically from your checking account.

Choose riders carefully. An insurer may pad your policy with extras called riders. For example, the accidental-death rider, more commonly known as double indemnity, pays twice the normal death benefit if you perish in an accident. But the chance of that happening is quite small and may not be worth the extra cost. Be sure you understand what riders you are buying.

Review. It's wise to review your policies every two or three years, especially permanent policies, to see if they can be leveraged or exchanged into a new lower-cost policy. ●

Court Ruling Hurts Brokers

(Continued from page 1)

services, did have to register as advisors under the new rule, though they might also continue to serve other customers in their role as brokers, exempt from fiduciary responsibilities.

Complaining that all of this was confusing to consumers, the FPA sued the SEC. According to the FPA, investors didn't know what they were signing up for. They might reasonably assume that all advisors—including brokers in the fee-based programs and advisors in RIAs—operated under the same rules. But in fact, the FPA argued, there were big differences. RIAs had to disclose to their clients any conflicts of interest along with their qualifications and any disciplinary actions taken against them—and, most importantly, they were fiduciaries and therefore required by law to place a client's interests above their own. That's an important distinction. If our firm, for instance, has to choose from two identical mutual funds and one would provide a bigger fee to us, we cannot, as a fiduciary, advise you to invest in the fund that is more expensive. Brokers, in contrast, don't have those responsibilities, though they could call themselves financial planners or consultants and provide financial planning services.

In a two-to-one ruling in March, the appeals court sided with the FPA. Judge Judith Rogers wrote in the decision that the SEC had exceeded its authority by exempting brokerage firms from the Investment Advisers Act of 1940. That act, Rogers wrote, allowed exemptions only for brokers who don't get special compensation for giving advice, and asset-based fees qualified as special compensation. Rogers ruled that advisors in the fee-based programs would have to register as RIAs and could not give this type of advice as brokers.

The SEC has said it will not appeal the ruling, and now brokerage firms offering fee-based programs are scrambling to comply. In many cases, brokers are cramming for licensing exams that would qualify them to register as advisors and continue to serve their clients. But it will be some time before it's clear whether the FPA's hoped-for clarity will materialize.

You remain above the fray. You've chosen an approach to financial advice that has clearly defined rules and goals. We operate as fiduciaries as a matter of principle and of law. Your interests are always paramount. If you have questions, please give us a call. ●