GLOBAL WEALTH ADVISORS LLC
Registered Investment Advisor

INSIGHTS

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Investment Implications Of The Federal Bailout

As one market-shaking event followed another in the fall of 2008, it became harder and harder to stay abreast of the changes. This or that move by the government would be greeted as the key to economic survival only to be discarded as irrelevant or wrong-headed just days later. And the most ballyhooed effort, the near-trillion-dollar rescue package that finally made it through Congress and was signed into law October 3, has proven equally difficult to fathom.

The best-known provision of the Emergency Economic Stabilization Act of 2008 is $700 billion initially intended to fund purchases of "toxic" mortgage-backed securities from cash-strapped banks. Shortly after the bill passed, however, U.S. Treasury Secretary Henry Paulson announced a new plan—taking equity stakes in banks in return for direct injections of capital.

The bailout also has $100 billion in tax breaks, including a "patch" to save millions of taxpayers from the alternative minimum tax (AMT), and a temporary rise, from $100,000 to $250,000 per account, in the limit on Federal Deposit Insurance Corporation guarantees for bank deposits.

These and other provisions may have implications for investors, who could consider several possible responses.

Keep an eye on inflation. There's widespread disagreement about where prices are headed. Initial concerns that the bailout would fuel inflation have more recently been supplanted by worries about deflation, with the price spike of the summer and fall seeming to be reversed by a slumping economy, soft demand, and collapsing commodity prices. Meanwhile, traditional inflation hedges such as gold and other precious metals experienced their own bubble and could fall back. If you expect inflation to return, a better idea might be to invest in Treasury Inflation Protected Securities (TIPS) and inflation-adjusted Savings Bonds (I Bonds) that adjust upward with the Consumer Price Index.

Think globally but invest cautiously. The recent troubles have shown just how closely the world's financial fortunes are intertwined. Yet while most investors should be internationally diversified, U.S. markets may have an edge in coming months. The mortgage crisis began here before spreading globally, and a recovery could start here, too. And though both foreign developed and developing economies were initially faring better than the U.S., a deep global slump now seems to be

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A Personal Note From Global Wealth Advisors

As we go to press, we see that the equity markets have enjoyed five consecutive days of positive returns, an indication that stocks may have been oversold in a wave of panic selling in prior periods. Moreover, participants in the market are beginning to recognize that various governmental programs, initiatives and legislative efforts are starting to take hold.

Note that we are not indicating an end to the recession. We've remarked in the past that, historically, the markets tend to rebound several months in advance of the end of a recession. We expect the recession to continue for a number of months, but caution our clients that no one knows in advance when the recession will end, nor when the markets will fully rebound. Nonetheless, we should observe additional improvement in major economic indicators later this year.

In a recurring theme, we continue to subscribe to the wisdom of a long term perspective, and encourage our clients to focus on their long term goals and objectives. We will continue to keep you posted on significant developments, and invite you to contact us at any time to review your investment and financial planning circumstances.

Thanks again for your continued confidence. We also appreciate your referrals to new clients.

Jim Knaus *Mike Krencicki*

Trust A Fiduciary To Act In Your Best Interest

You may have heard of the term "fiduciary," but do you understand what it means for your finances? Is there really a difference between a fiduciary and a non-fiduciary advisor? You betcha. And that difference is you.

A fiduciary has a legal obligation to act in your best interests, above his own and those of his firm. While many industry associations have certain fiduciary recommendations or oaths that they require of their members, all fiduciaries must adhere to these principles of the advisor-client relationship:

1. Be competent and exercise due care
2. Loyalty to the client
3. Full and adequate disclosure

Today, Registered Investment Advisors (RIAs) commit to a fiduciary responsibility and have to state it in writing. Commission-only reps, on the other hand, are merely in the business of making financial transactions—like helping you to buy mutual funds or annuities. They have no obligation to choose the investments that work best for you, and, naturally, may steer you towards suitable, but not the most ideal, investments that give them greater commissions.

Hybrid advisors—those who work on both commissions and fees—have a more opaque situation. They can charge you rates for providing advice, but then can also receive commissions for selling you certain investments. By receiving commissions, the objectivity of their recommendations becomes uncertain.

With a fiduciary advisor, the clients' needs must come first. If there are any conflicts of interest, they must be fully disclosed. A fiduciary advisor carefully assesses your financial situation and recommends a diversified portfolio that serves your financial goals. The fiduciary advisor will start with what you want to achieve—from paying your children's college costs or buying a second home to funding your retirement—and considers how long you have to get there. She probes your comfort level with investment risk then designs a mix of investments most likely to move you toward your objectives. She also analyzes your need for insurance and assesses the impact of taxes.

A 2007 federal court ruling helped clarify the distinction between financial planners and advisors and non-fiduciary fee-based advisors affiliated with broker/dealers. The court ruling ended an exemption from the Investment Advisors Act of 1940 that had allowed broker/dealer-affiliated advisors to charge fees and call themselves financial planners and investment advisors while not being held to a fiduciary standard of conduct.

When dealing with our firm, you don't have to worry about conflicts of interest related to selling products. We have a legal obligation and a professional oath to put your interests first, and you can trust that we will strive to go above and beyond that obligation. ●

Is It Time To Buy Municipal Bonds?

Municipal bonds don't normally make news. But the past year's credit crisis dragged even the most staid investments through the mud, and munis were no exception. The good news is that the rap on these bonds' reputation has led to the best muni buying opportunities in a long, long time.

The problem wasn't the municipal bonds themselves, which are used to finance public projects such as bridges and roads, but the bond insurance that many bond issuers purchase. Provided by companies such as Ambac and MBIA, this insurance gives any muni bond, regardless of underlying credit quality, an AAA rating. Investors like insurance because it adds another layer of protection against default; issuers like it because using it reduces borrowing costs. (Higher-rated bonds can offer lower interest rates.) At one point, about half of the municipal market was insured.

If bond insurers had insured only munis, there would have been no problems, because municipal bonds have miniscule default rates—just 0.1% from 1970 through 2006, according to a Moody's Investors Service study. (Corporate bonds, in contrast, have a 9.7% default rate.) But it turned out bond insurers had gone beyond the municipal bond market to insure collateralized debt obligations built around dubious subprime mortgages, and subsequent losses put the companies on unstable financial footing. Municipal bond prices plummeted and their yields rose after Ambac was downgraded by one rating service and put on notice by two others.

At one point, AAA-rated munis yielded about 0.5 percentage points more than comparable Treasury bonds. Ordinarily, munis' yields are lower than Treasuries', because

Eleven Websites That Are Useful And Entertaining

Most of us take the wonders of the Internet for granted. Find the name of that actress in that old movie with whatshisname? Sure. Get a 10-day weather forecast for Altoona or Acapulco? You bet. But this universe is expanding at a furious pace. These 11 sites may change your view of what's possible.

Let me take this call. It may seem everyone is talking on a cell phone, but if yours isn't ringing, and you feel left out, The Popularity Dialer (www.popularity dialer.com) can help. You could have your phone dialed once or multiple times, and when you answer, a recorded voice—ostensibly from your boss, a male or female friend, even a cousin in need—holds up its end of the conversation.

Name that tune. If you're trying to remember the name of a song—or find information about something you're hearing for the first time—subscribing to 411-Song (www.411song.com) could be just the ticket. For $3.99 a month, the service will identify an unlimited number of songs. Just dial 866-411-song, wait for a beep, and hold your phone close to the music. You'll get a text message with the song name and artist, and a link to buy it.

A lasting bond. One web specialty is providing arcane but useful information—say, about how to glue almost anything to almost anything else. This to That (www.thistothat.com) lets you mix and match 11 materials—from glass and ceramic to styrofoam and wood—and suggests the best adhesives to keep them together. Metal to rubber? For the strongest bond, try household goop, though 3M 80, a spray adhesive, may also work.

Go ahead: vent. Objectively speaking, life may be good, but who needs objectivity? Griping about school, work, and life may actually be good for you, and B*SH, aka I Love to Complain (www. ilovetocomplain. com), lets you pen your own grouse, respond to others', or just enjoy the high dudgeon.

Phone it in. Love 'em or hate 'em, cell phones have moved front and center in our culture, and choosing a new phone from among the myriad models and options can flummox even the savviest users (your kids, say). Enter Phone Scoop (www.phonescoop.com), a one-stop, independent site for reviews, side-by-side comparisons, information about carriers, and forums.

Drown it out. Life is often loud and obnoxious, and while silence may be too much to hope for, white noise can at least cover up some of the worst auditory distractions. According to Simply Noise, "the best free white noise generator on the internet" (www.simplynoise.com), white noise can help you sleep, mask tinnitus, soothe distractions, enhance privacy, and even ease migraines. The site now also offers "pink noise"—you could try to understand the (very technical) differences between white and pink, but you may prefer just to see which sounds better to you.

Top these Top 10s. If you like lists, check out List Universe (www.listverse.com). Think the Titanic was the worst maritime disaster? In fact, it ranks only fifth. And you may remember that Franklin Roosevelt married his cousin, but did you know about Jesse James, Albert Einstein, and Rudolph Giuliani? Warning: This site is addictive.

Making headlines. You don't have to die or commit a crime to get your name in the newspaper—not if you create your own publication and write your own story. With the Newspaper Clipping Generator (www.fodey.com/generators/newspaper/snippet.asp), just name your paper, specify a date, come up with a headline, and type in the article. Click to see an image of your rag, which you can download to include in a blog, send to friends, or post on your own site.

Time flies. Another year, another trip around the sun. But moving to Saturn, say, which takes almost 30 earth years to complete its orbit, could transform your 50-year-old self into a babe of less than 2. On Pluto? According to Your Age on Other Worlds (www. exploratorium.edu/ ronh/age/), you won't turn one until March 3, 2207. On Mercury, though, you're already pushing 208.

To a tee. So many tee shirts, and so little wit? The goal of Busted Tees (www.bustedtees.com), according to the folks from CollegeHumor.com who created the site, is to help people "have fun, laugh, look good, feel comfortable, get good jobs, get sweaty dancing, and go home with someone who also did those things." There are even shirts for sale here to please the old and monogamous.

Watch and learn. Instructional videos can be helpful, hilarious, or both. On VideoJug—Life Explained On Film (www.videojug. com) you can view demonstrations on everything from tying a full windsor knot to folding a tee shirt in two seconds to avoiding a trapped arm while cuddling in bed. ●

municipal bond interest is exempt from federal income taxes. "It was clearly an anomaly for munis to yield more," says Thomas Doe, chief executive officer of Municipal Market Advisors, a municipal bond strategy firm.

While the muni crisis may have passed—and that screaming buying opportunity with it—municipal bonds still are attractive to many investors, particularly those in high tax brackets.

When muni yields approach those of Treasuries, muni investors come out ahead, keeping more income after taxes. The advantage can be even greater on bonds that are also exempt from state and local taxes. The higher an investor's tax bracket, the higher the value of the bonds' yields. "Munis are still attractive on a relative basis," says Doe. "They give you more yield than should be available for a particular level of risk." If the government raises income tax rates in the future, tax-free municipal bonds will become even more attractive.

Contact our office if you would like to discuss whether this might be an opportune time to add municipal bonds to your portfolio. ●

The information provided is not specific financial advice or a recommendation to buy or sell. We must review your profile, needs, and accounts specifically to determine what is right for you.

Creating A Comfortable Financial Independence Plan

Everyone needs a financial blueprint for life after work. Operating without one is a little like closing your eyes as you barrel down the freeway. It's essential to know where you're going and how you expect to get there. But a financial independence plan will help you achieve your goals only if you incorporate it into your financial life, and that won't happen unless the plan feels comfortable. And that comes from understanding its component parts and how they're connected. Consider these elements:

Cash flow analysis. Your plan needs to project where your money will come from and where it will go during the rest of your life (and your spouse's life, too, if you're married). What will come in during retirement, from Social Security, a company pension, annuities, and from drawing down your savings? And how will that match the needs of the lifestyle you want? Several unpredictable variables complicate these calculations. Inflation affects how far your money goes, and investment returns, based in turn on economic and market cycles and your choices, determine how much you have to spend. Taxes will also play a role.

Investment choices. Three factors affect what should be in your investment portfolio. Your goals: What kind of return do you need, both while you're working and during retirement, to support your lifestyle? Your risk tolerance: How much volatility in portfolio returns are you willing to accept to meet your goals? Taking greater risks may provide higher potential long-term returns, but not if you panic and sell when the market takes a turn for the worse. And your time horizon: How long do you have to save for retirement, what is your tax bracket, and how many years do you need your savings to last?

Contingency plans. Job losses, expensive illnesses, or the unexpected death of you or your spouse could put your plan off track. There could also be unforeseen expenses involving your children or parents, and the need for nursing home care during retirement could quickly drain your savings. Having a cash cushion along with life, disability, and long-term care insurance can prepare you to handle potential setbacks. Not planning for lifestyle changes is a major mistake and will put your financial future in jeopardy.

Estate planning. This is crucial even if estate taxes aren't likely to be an issue. You need a will, periodically updated, and a letter of instruction that tells heirs where to find information about financial accounts, life insurance, safe deposit boxes, and the like. It's also important to designate beneficiaries for 401(k)s, IRAs, and other financial accounts that reflect your wishes and take into account potential tax liability.

It can be complicated to weave together all of these elements. But we have the tools, expertise, and experience to help you create a financial plan that feels comfortable. ●

Implications of Bailout

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underway. While foreign stocks may falter, European bonds could gain as investors seek safe havens.

Small could be beautiful (but large might be, too). When the economy abroad slows and growth in the U.S. returns, small-cap stocks—which tend to have a domestic focus—may be preferable to giant multinationals and exporters. Still, many experts believe any U.S. recovery may first benefit safer, dividend-paying large-cap stocks.

Stay nimble. In today's chaotic markets, it's more crucial than ever to maintain a thoughtfully diversified portfolio with a long-term focus. But tactical adjustments involving small changes in exposure to asset classes, sectors, or national markets may occasionally be needed.

We are continuing to monitor the extraordinary developments in the economy and investment markets, and we would be happy to discuss the potential impact of the bailout and other government initiatives on your portfolio and financial plan. ●

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