



Financial Resource 2007

Investment & Financial Planning Insights

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Asset Allocation for Real-World Investors

As an individual investor you likely expect your portfolio to meet a variety of needs or goals. When an investment professional determines what an investor's strategy should be, a common practice is to identify a level of risk tolerance – a measure of the investor's ability to handle declines in his or her portfolio. This practice is based on modern portfolio theory and assumes that an investor has one, and only one, level of risk tolerance. However, in reviewing your portfolio, you may realize that you do not have just one investment goal or level of risk tolerance – you may have many, relating to both your short- and longer-term needs and goals. One of the

goals of behavioral finance is to address that issue.

Your portfolio ought to be designed to satisfy an entire life cycle of needs. The basic needs of food, clothing, and shelter come first. Beyond that, you may want to consider your lifestyle, education, retirement, philanthropic and legacy goals. You should set aside specific money for each goal and invest each pool of money based upon your unique risk, return, liquidity, cash flow, and tax requirements for that goal. So when someone asks what your risk tolerance is, the answer ought to be, "That depends on which pool of assets you are asking about."

Traditional asset allocation optimization techniques are based upon optimizing a single risk/return relationship based upon a set asset/liability obligation. However, you may find that you require the optimization of multiple relationships. As an investor you may have multiple goals and different levels of risk tolerance and return requirements for different pools of wealth.

You and your investment professional can use a behavior finance approach to develop a comprehensive investment strategy to suit your individual financial needs and objectives. When applying this approach, you begin by determining the life span needs, or goals, that your portfolio must address and then allocate specific assets to satisfy each of those needs.

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Four Reasons to Invest Internationally

To provide a steady return, an investor should diversify over a broad range of asset classes. As you diversify, consider the following reasons to invest 10-25% of your assets internationally:

1) The Inevitable Explosion of Growth in China and India - The US will remain the world intellectual center, but the world center for capital accumulation and growth will move to Asia. A mere 5% increase in consumption of any product, such as energy, cars etc., in China and India equals in size to a 40% increase in America simply because China and India have eight times as many people as the US (*The Complete Investor*, Winter 2006).

2) International Value Funds and International Bond Funds - A generational shift is occurring, which will have a long-term impact on both the stock and bond markets in the next decade. As the general population ages in the US, Europe and Japan, retirees will seek income from both the stock and bond markets. Value stocks generally pay a higher dividend (income) than growth stocks, both domestically and internationally.

3) Downward Pressure on the US Dollar - The US Market experienced strong growth in the late 80s and 90s, supported by low federal and

trade deficits, low inflation and oil prices, no major wars and a strong dollar. Today, the opposite has occurred. Greater federal and trade deficits generally increase the downward pressure on the dollar. Historically, international stocks and international bonds outperform if the dollar is weaker. Past performance is not an indication of future results.

4) Lower P/E Ratios in both Europe and Asia vs. the US - According to Hammond Associates, the P/E ratio of the S&P 500 Index is 17.4, while the P/E ratio in Asia/Emerging Markets is 13.8 and 13.7 in Europe (September 2006). P/E ratios determine stock valuations. Generally, the lower the P/E ratio, the more favorable the valuation or purchase price of the stock.

To read the full report, go to www.financial-resource.com/christiansen.asp

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The Secrets of Personal Financial Planning Success

Financial planning is an art, as well as a science. It integrates the goals and objectives of an individual with creative solutions and technical expertise. It is a unique process for every individual.

Top 10 Insights

1) **The essence of investment management is the management of risks, not the management of expected returns.**

Investing involves a number of risks which can not be predicted; and these risks are managed through diversification. Diversification is achieved through asset allocation, which involves incorporating multiple asset classes into a portfolio in order to

improve its risk-reward characteristics. Choosing a sensible asset allocation strategy and having the discipline to maintain that allocation are the keys to achieving successful long-term investment results.

The tax cost of any one given year is less important than the cumulative cost over several years.

2) **It is not what you earn, but what you keep.**

Income taxes need to be proactively planned and assessed over multiple years.

This allows you to strategically defer income, accelerate income or deductions, and plan in advance for complicated AMT issues. Investment vehicles with a

higher associated income tax cost should also be allocated to tax deferred plans such as IRAs or 401(k)s.

3) **Wealth distribution planning could enhance your family's net worth more than anything.**

Individuals typically progress through life and strive to accumulate, preserve, and then transfer wealth. Wealthy families typically receive the greatest financial impact from effective wealth transfer planning. The estate exemption is currently \$2 million until 2008 and every dollar above this amount is taxed at approximately 50%. Understanding the financial reality of what happens at your death according to your estate plan can lead to many effective estate planning strategies.

To read the Top 10 Insights and full web report see the link below.

To read the full report, go to www.financial-resource.com/JMG.asp



JMG Financial Group, Ltd. helps high net worth individuals and families integrate their life goals with wealth management strategies. Our commitment to excellence has allowed us to grow into one of the top wealth managers in the country. Founded in 1984, we are an independent, fee-only advisory firm that customizes advice for every client and maintains objectivity by receiving no commissions on the investments or services that we recommend. Oak Brook, IL • Dennis Marx, Director of Marketing • (630) 571-5252 • www.jmgfinancial.com

Shopping Investment Managers: How to Level the Playing Field

Whether you are identifying a new manager or evaluating your current situation, investors generally rely on a comparison of track records to decide who should manage their money. This should be a simple exercise, yet few advisors actually present their investment performance track records in a manner that is useful to the investor.

In many cases, a potential investor is presented a hypothetical portfolio comprised of several investment managers and their respective track records. While the past experience of the individual managers might be impressive, the real question asks if clients have actually been invested with those managers over the same

time period presented. If not, the track record is irrelevant. Hence, you need to know how and when the advisor changed managers to determine their track record. Critically, a track record of actual client returns reveals the quality and consistency of an advisor's advice over time. Even then, it can be difficult to compare recommendations without some guidelines for reviewing performance.

In 1999, the Investment Performance Council was created by the CFA Institute to address global standards for calculating and reporting investment results to prospective clients. The outcome of this initiative was the creation of the Global Investment Performance

Standards (GIPS). The Standards require disclosure of complete client return data, for a minimum five-year period, and mandate inclusion of all returns for fee-based accounts at the firm.

To the investor, GIPS allows for the fair representation and full disclosure of performance history with any advisor. The Standards prevent firms from omitting underperforming investments or selecting returns from either choice accounts or time periods, when presenting their track records. The GIPS method of presenting performance allows investors to navigate a level playing field for comparability of results over time and among investment advisors. Armed with GIPS-compliant track records, investors can truly evaluate the past performance of advisors and investment firms with the knowledge that they are comparing relevant results.

To read the full report, go to www.financial-resource.com/stavis.asp



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Short Selling As An Asset Allocation Tool

Short selling was once too exotic and dangerous for individual investors. And while most investors should continue to avoid selling short individual stocks, there are a number of short selling strategies that can help reduce portfolio risk.

For example, today's investors can obtain short exposure through mutual funds or ETFs that sell a portfolio of stocks or indexes short. By combining this diversified short exposure with their long equity holdings, investors can create a hedged or even market neutral portfolio. An actively managed short strategy that is able to limit losses in market rallies can make the long/short mix even more attractive.

But why would an individual investor deviate from a long-only buy and hold strategy?

Certainly investors would have benefited from short exposure during the 2000-2003 market downturn. But some indexes, including the widely following Dow, have gone on to all-time highs. Still, some short exposure may be appropriate for several types of investors. That includes equity investors who want a hedge against a sharp market correction. Others may think the rally off the 2003 bottom has run its course and want to prepare for a resumption of a bear market. Historically long bull markets are followed by long bear markets, and the bull market that ended in

2000 was one of the longest and strongest on record.

It's particularly important for new retirees to avoid losses. Negative returns early in the distribution period will cause savings to run out sooner than if losses are suffered prior to or well into retirement. As a result, new retirees may want to sell stock, or temporarily hedge against stock market losses. An explanation of this phenomenon is presented in online version of this article, along with reasons why we think the long bear market is long overdue.

The fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the investment company, and it may be obtained by calling 800.711.1848, or visiting www.prudentbear.com. Read it carefully before investing.

To read the full report, go to www.financial-resource.com/prudent.asp



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The Widow and the Shoebox: A Cautionary Tale for Surviving Spouses

"My husband handled everything! He said, 'Don't worry Honey. When I die you'll be taken care of.' But, now that he's gone, I don't know if I'm going to run out of money or not. All I have is a shoebox full of papers. I don't know what half this stuff is. I don't know what to do!" Mrs. T. – Nashville, TN.

As the men of what Tom Brokaw called "The Greatest Generation" pass away, life with a shoebox is becoming a frequent reality for their widows. Americans over the age of 60 now hold the greatest massed wealth in history. During the next 20 years, the majority of that wealth will

transfer to their statistically longer-lived wives. Traditionally, the husbands of this generation handled financial affairs. Some did a great job; others did not. In either instance, they often left spouses ill-equipped for their new financial role.

Sheila Odnert, an estate planner in Palo Alto, California, recalls one client's situation. "Mr. D. passed away a few years ago and by the time Mrs. D. came in, things were a mess." She had an unfunded trust, pension plan assets, multiple IRAs, children in financial crisis, and had even managed to lose sight of her dining room table under an ocean of papers. "It took 3 months just

to get the title right on her stock certificates." Mrs. D got the help she needed before it was too late. Others are not so lucky.

"We help clients head off the "shoebox syndrome" by integrating continuous education on financial issues faced by surviving spouses, especially those affecting women. We want them to understand that we are here to help prepare and guide them in their new role. The worst partner to grief is confusion. By actively listening, analyzing, and planning, we eliminate at least some of the hardship of loss" explains Frank C. Weightman, Ph.D., financial planner in Memphis, TN.

Don't let yourself or a loved one become a "shoebox widow". Consult with a trusted, qualified estate planning specialist as soon as possible.

To read the full report, go to www.financial-resource.com/householder.asp



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