Financial Resource 2007

Investment & Financial Planning Insights

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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.

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www.financial-resource.com/householder.asp

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Taxes On Your Investments – You're Probably Paying Too Much

Oftentimes individuals and financial professionals overlook tax implications when making investment decisions. This results in subjecting realized gains or portfolio income to higher rates -resulting in lower net returns. While these amounts may seem trivial, over time investors can lose thousands in investment gains because of poor tax planning.

First, one must understand the difference in tax rates for investment gains and income. Income from investments such as bonds, preferred stocks, and REIT's are taxed as ordinary income with rates ranging from 10-35%. Short-term capital gains on investments held less than 12 months also fall into this category. Income from stock dividends and long–term capital gains (more than 12 months) are taxed at capital gain rates of 5% or 15% depending on your marginal tax bracket.

In many cases, simple changes can make a difference. For instance, distributions on tax-qualified accounts (e.g. IRA or 401k) are taxed as ordinary income. Holding dividend-paying stocks that would be taxed at capital gain rates in a taxable account may not make sense. If you are in a higher marginal bracket, allocating fixed income investments to tax free municipal bonds could potentially boost your net return.

Investors, and/or their advisors, also need to stay abreast of current tax laws. A recent change made this year has to do with Required Minimum Distributions (RMD) from IRA's. For 2006 and 2007, investors over 70 1/2 who are taking their RMD, but don't need the income to live on and don't want to pay tax on the payout, can make a Qualified Charitable Distribution. This allows the investor to satisfy their RMD requirement, avoiding potential taxes, and donating funds to a charity. Investors can distribute up to $100,000 each year, providing additional savings in years to come.

By understanding tax rules, or working with an advisor who is knowledgeable about current tax law, investors can potentially increase their net rates of return on their investment portfolio.

To read the full report, go to
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CENTARA CAPITAL

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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.

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

WELLS FARGO

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Financial Planning: A Holistic Approach

Financial planning often begins with addressing items that have become part of the American dream—the home, college for the kids, and, of course, retirement. These are certainly very legitimate items for serious thought and analysis. However, one's financial goals should be set and evaluated in the context of how they relate to what the person truly values in life. Values have a great deal of influence on what is desirable or has worth to each individual. Therefore, in developing an individual's financial plan, values need to be a vital consideration. The process one goes through in such a holistic approach to financial planning enables the individual to better assess their wants and needs, establish meaningful priorities, and avoid imprudent investments. It's important that a client's financial goals reflect their personal values in life. Financials goals that are not in sync with a person's values will likely lead to unwise financial planning.

This holistic approach to financial planning also aids the client in the day-to-day management of assets. "Trying to keep up with the Jones'" is a typical way many individuals spend their money. "Needs and wants" created by neighbors, friends, or through media, can lead to large outlays of money for items that often provide only momentary satisfaction.

Because life's changes are a given, priorities change over time and what works for someone at one point in their life may no longer work for them at another. It is important to be conscious of the level of financial satisfaction and correct areas that impede on your sense of financial well-being. Understanding client values helps guide the advice offered and is key in a successful relationship.

Financial planning using the holistic approach develops an individualized and meaningful plan that reflects the client's goals and values, which should be the goal of every financial planner.

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

HCR HELLER CAPITAL Resources

Heller Capital Resources (HCR) is a wealth management boutique offering comprehensive financial services designed to meet specific client needs. HCR manages over $250 million in assets and has been committed to unmatched customer service since its establishment in 1988. For more information go to www.hellerfunds.com or contact Gregory Heller, CFP®, president, at **877-523-6476** or **gheller@hellerfunds.com**. Gregory Heller is a registered representative with Investment Security Corporation, member NASD/SIPC.

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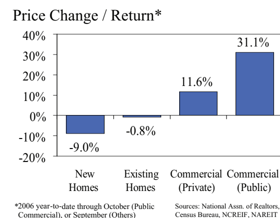
Differing Benefits – Housing and Investment Real Estate

Many individual investors and their advisors believe that they have a significant investment position in real estate, based solely on the value of their own home. Indeed, real estate comprises a major portion of household net worth in America. Residential real estate assets have grown from $6.6 to $20.3 trillion between 1990 and 2006, rising to 34% of all household assets and 77% of tangible assets. However, investors often blur the distinction between residential and commercial real estate, leaving a hole in their financial plans.

Differing supply–demand and investment cycles create major differences in real estate investment performance. The neighboring chart shows that home prices have declined during 2006, while commercial real estate returns remain positive. This indicates that the residential market has probably hit a relative peak, while several commercial sectors are just hitting their stride.

The investment natures of residential and commercial real estate are fundamentally different as well. Cash flow is a primary driver of investment returns for commercial real estate, providing investors with an income stream and a basis for property valuation. In contrast, residential price discovery is more subjective and less transparent, posing challenges for financial planning.

Commercial real estate ownership can be accomplished through a variety of vehicles, including direct investment in assets and ownership of REIT shares. These options enable investors to create portfolios with different sizes, investment objectives, and degrees of liquidity. By owning commercial real estate, investors enhance their portfolios much more than through the simple inclusion of a home in a financial plan.



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Adelante Capital Management LLC is an employee-owned registered investment advisor, dedicated to listed real estate securities. Adelante's real estate focus and investment horizon has produced superior risk-adjusted returns for institutions and individual investors through a variety of investment vehicles since 1995. Adelante is one of the largest Hispanic owned and controlled investment management firms in the United States. 510-986-2100 • www.adelantecapitalmanagement.com

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

Prudent Bear Funds

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