

ABEL Strategy — First Quarter 2006 — April 5, 2006
Managed Investments & Retirement Planning

Income Conundrum

The biggest issue facing retirees? Having enough income to sustain them through retirement—a period which will last much longer than most expect.

Within the next 10 years it is estimated that tens of trillions of dollars will become income money, or “money in motion”. Pension assets are estimated at \$7.5 trillion, annuities hold \$1 trillion and there’s another \$10 to \$30 trillion of other assets that will be turned into income.

The shift from accumulation to distribution requires rethinking how money should be managed. While the accumulation phase focuses on growth and total return, the distribution phase makes a priority of risk management and protecting against declines.

The financial services industry is actively working on new products that blend the features of annuities, where one cannot outlive the income, and investment securities, where you can enjoy the benefits of ownership.

- ⇒ You will be able to buy a dollar of monthly income to commence at a future date of your choice.
- ⇒ The product will be priced daily, not as to what the current lump sum is worth, but rather as to how the future monthly income amount has changed from yesterday.
- ⇒ And if you own some of this product, you can sell it just like a stock or mutual fund you might own.

The “Barely Boomers”

They’re the youngest, aged 40—45, and they tend to have more sophisticated needs than older ‘boomers’. Nearly 1/3 hold stock options, 30% own restricted stock and 31% of their investments are in real estate. A report has it that there are 700,000 of them with over \$500,000 in investments; and that they are more interested in building wealth than preserving it.

Who Ignores a 35% Discount?

The broker-dealer—Schwab & Co or TD Waterhouse—that holds the stock certificates in your account charges a transaction fee [*they call it a commission but it stays with them*] when we buy or sell a security for you. Last summer Charles Schwab & Co, bending to competitive pressures, reduced their transaction fees from \$19.95 to \$12.95 for our clients who sign up for **eConfirms**. If you are not taking advantage of this, your trades are costing more than need be.

Each time we buy or sell you receive a confirmation in the mail identifying the date, company, # of shares, price per share, and the amount of the transaction fee. This costs money to send out and gives you one more thing to file.

Your month-end statement also shows what you bought, when you bought it and what it cost. This makes saving the paper confirm redundant. So why not get the confirms via email, store them in a folder in your computer and make life a bit simpler ... and save 35% at the same time.

Call Carolyn (925 988-0330 x29) and ask her to sign you up. You’ll get an email from Schwab—for each account—asking you to confirm that you want confirms by email. Answer each email, clicking on the **CONFIRM** box. Future confirms will come via email. And all future trades will cost 35% less.

You don’t have a computer? Ask if you can use a family member’s email address, or have them add a mailbox in your name. Make sure you share the above sign up procedure with them.

Jim Ellman

The Goal Of Diversification

- Lahcen Abidar, Portfolio Manager

To help our portfolios provide a 'smooth ride' they are diversified by sector; and the companies we buy are ones that have low, or inverse, correlation with each other. The benefit of low correlation is that the companies in our portfolios don't all march to the same drummer. They won't all be up at the same time, and they won't all be down at the same time. This enables us to reduce a portfolio's volatility which results in less anxiety for clients. This diversification also reduces portfolio risk.

An alternative to our conservative approach is a portfolio with highly correlated holdings, i.e. they go up and down together. The portfolio might be up 6% one month and down 7% the next. Such a portfolio often carries high risk. Most clients are not interested in experiencing a roller coaster ride with their serious money, or taking unnecessary amounts of risk.

Investing is an emotional experience for many investors. It is human nature to focus on the components of one's portfolio, rather than the portfolio as a whole. What's GM doing now? Will Radioshack ever get it turned around? Alcoa is up more than 25% - can it go further? These are the wrong questions to ponder since most price change is just random noise. Just as it is impossible to predict what the 'market' (the S&P 500 companies) will do in the short run, it is humanly impossible to know what our companies will do. Trying to make an informed decision based on short-term movements of any particular stock is "Mission Impossible".

In conclusion, one's focus should be on the portfolio as a whole, not the individual stocks that compose it. Is the portfolio performing well? Will it allow you to reach your financial goals? Considering the risks taken, is it performing better than you would expect? Are you comfortable with the monthly ups and downs?

	1st Qtr	12 Mos	3 years
Dow	+4.2%	+ 8.3%	+13%/yr
S&P500	+4.3%	+11.7%	+17%/yr
Nasdaq	+6.1%	+17.0%	+20%/yr
ABEL Strategy	+4.8%	+ 9.2%	+11.6%/yr *

* includes mix of Stocks, Funds and Cash

⇒ Index numbers from Morningstar, Inc

More on Privacy & Identity Theft

Ordering checks—just put your initials and last name on them. Use your work phone number. Consider using a PO Box rather than your street address.

Credit cards—don't sign the back; put 'see photo ID'. Paying credit card bill—just put the last 4 digits of your card number on the check.

Copy the contents of your wallet—both sides of licenses and credit cards. Write the phone # to call if lost or stolen. Store the copy in a safe place. Travel abroad—make a copy of your passport and take it with you.

And if a crime happens ... call the police in the city where it happened. Call the 3 credit reporting firms (Equifax 800.525.6285, TransUnion 800.680.7289 & Experian 888.397.3742) to place a fraud alert on your name & Social Security #.

You should be getting eConfirms of all trades if you have signed up for them.

eStatements were available starting Dec 20th

Visit our web site at www.jp-etc.com

Statistics ...

20 ... Percentage of men age 65 and older in the labor force today, versus 16% in 1985 and 46% in 1950. (Business Week)

\$5,267 ... Per-capita spending on U.S. citizens for health care in 2002—53% higher than by the next highest industrialized nation. (Health Affairs)

60 ... Percentage of workers who rank health insurance as the single most important employee benefit, versus 17% for retirement savings plans. (Employee Benefit Research Institute)

60... Percentage of wealth controlled by women by 2010. (Fortune)

113... Household debt as an all-time high percentage of personal disposable income in 2004 versus 96% in 2000. (US News & World Rept)

\$9,312... Average household credit card balance in 2004, versus \$7,842 in 2000. (Cardweb.com)

1995... Last year that US credit card delinquencies were as low as they were in mid-2005. (Moody's)

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Social Security Reform—Dead in the Water?

With IRAQ, terrorism and federal deficits at center stage, the Social Security problem has been relegated to the back burner. Contributing to the lack of attention is the lack of a comprehensive proposal and fear-oriented myths about suggested changes to the system. The funding of future benefits is at risk—and the risk is real. Action needs to be taken sooner than later; the longer we wait the higher the cost will be.

Benefits will be slashed—Only for those under a certain age, say 45. But if no action is taken that will happen anyway: higher taxes or reduced benefits. The ‘*personal accounts*’ could guarantee a minimum benefit regardless of how the account performed.

Personal accounts are risky—Model the accounts after the federal Thrift Savings Plan that covers millions of federal employees. Well-diversified regulated funds, government bonds and bank CDs with a provision that the mix of equities and fixed income would change as one aged, reducing stock market exposure.

National debt will expand—It is estimated the system’s unfunded liabilities—money needed today to pay future obligations—is anywhere from \$4 trillion to \$14 trillion, depending on assumptions. The debt already exists!

Borrowing to finance the transition is prudent. We did it during WW II when we borrowed (at less than 3% for 20 years) the equivalent to 3-5 times what is needed to salvage Social Security. Our nation’s balance sheet could finance the transition easily.

Social Security will take in \$2.3 trillion more than it pays out during the next 10 years. Outlays won’t exceed income until 2017. Where will the excess funds go? Politicians will spend it giving IOUs to Social Security just as they have done for decades.

Presently the tax is 12.4% (half from employee; half from employer) on the first \$94,200 earned. Personal account allocation should not be limited to just 4% (a third of the tax), but rather set at half or more with the very young being allowed to allocate all of the tax to a personal account. Ultimately, we need to eliminate the Social Security trust fund as a source of funding federal programs other than Social Security.

(Ed.-portions of this article from Forbes Magazine)

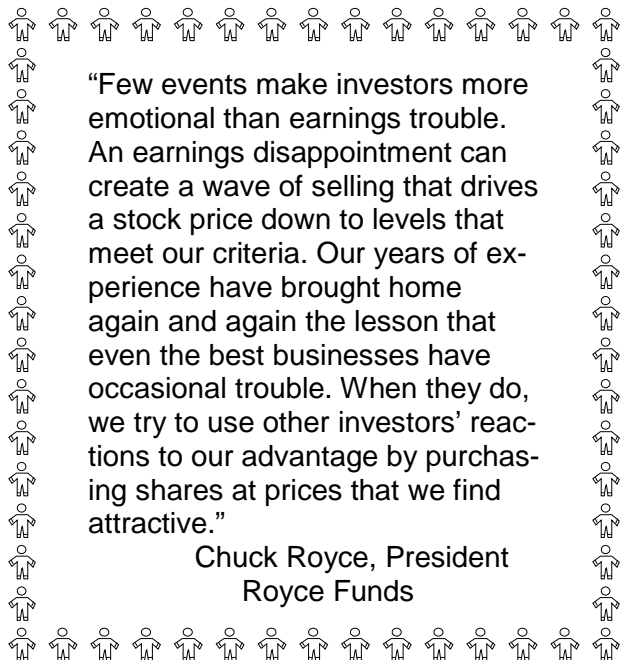
Successful Investors Emotionally Brain Damaged!

While most successful investors are not emotionally brain damaged, a recent study of brain-damaged subjects found that investors would do well to keep their emotions out of their investment decisions.

Researchers from Stanford Graduate School of Business found that people with brain damage that specifically curtailed their emotions of fear and anxiety but left intact their logic and cognitive abilities outperformed “normal” people when it came to investing. The researchers, using a simple investment game, concluded that the brain-damaged investors did not let emotions hinder their investment decisions, while other subjects were cautious to the point of undermining their investment results.

On the other hand, the brain-damaged subjects reported a high rate of personal bankruptcy and were more likely to be taken advantage of financially by others.

Psychological Science—Jun 2005



“Few events make investors more emotional than earnings trouble. An earnings disappointment can create a wave of selling that drives a stock price down to levels that meet our criteria. Our years of experience have brought home again and again the lesson that even the best businesses have occasional trouble. When they do, we try to use other investors’ reactions to our advantage by purchasing shares at prices that we find attractive.”

Chuck Royce, President
Royce Funds

“Fools think they need no advice, but the wise listen to others”

- Proverbs 12:15 NLT

Longevity Quiz

Will you live to see 100? After completing a study of 150 centenarians, Harvard Medical School researchers Thomas Perls MD & Margery Hutter Silver EdD, developed this quiz to help calculate your estimated life expectancy.

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|--|---------------|-------|
| Do you smoke or chew tobacco, or are you around a lot of secondhand smoke? | Yes -20; No 0 | _____ |
| Do you cook your fish, poultry, or meat until it is charred? | Yes -2; No 0 | _____ |
| Do you avoid butter, cream pastries, and saturated fats as well as fried foods? | Yes +3; No -7 | _____ |
| Do you minimize meat in your diet, preferably making a point to eat plenty of fruits, vegetables, and bran instead? | Yes +5; No -4 | _____ |
| Do you consume more than two drinks of beer, wine &/or liquor a day? | Yes -10; No 0 | _____ |
| Do you drink beer, wine or liquor in moderate amounts (1-2/day)? | Yes +3; No 0 | _____ |
| Do air pollution warnings occur where you live? | Yes -4; No +1 | _____ |
| Do you drink more than 16 oz of coffee a day? | Yes -3; No +1 | _____ |
| Do you drink tea daily? | Yes +3; No 0 | _____ |
| Do you take an aspirin a day? | Yes +4; No 0 | _____ |
| Do you floss your teeth every day? | Yes +2; No -4 | _____ |
| Do you have a bowel movement less frequent than once every two days? | Yes -4; No 0 | _____ |
| Have you had a stroke or heart attack? | Yes -10; No 0 | _____ |
| Do you try to get a suntan? | Yes -4; No +3 | _____ |
| Are you more than 20 pounds overweight? | Yes -10; No 0 | _____ |
| Do you live near enough other family members that you can & want to drop by | Yes +5; No -4 | _____ |
| Which applies: 'stress eats at me; I can't shake it off' | Yes -7 | _____ |
| 'I can shed stress thru prayer, meditation, humor, etc' | Yes +7 | _____ |
| Did both your parents either die before age 75 (non-accident) or require daily assistance by the time they reached age 75? | Yes -10; No 0 | _____ |
| Did a parent, aunt, uncle or grandparent live to at least age 90 in good health? | Yes +24; No 0 | _____ |
| Are you a couch potato (no exercise program)? | Yes -7 | _____ |
| Do you exercise at least three times a week? | Yes +7 | _____ |
| Do you take vitamin E (400-800 IU) and selenium (100-200 mcg) every day? | Yes +5; No -3 | _____ |

Add your scores, then divide by 5. If a man, add the result to age 84, a woman to age 88 to get your estimated life span.

Retirement Planning?

Ken Dychtwald author of *Age Wave*, Fortune brings us this thought to ponder: *"Two-thirds of all the men and women who have lived ever lived past age 65 in the entire world are alive today.*

Throughout all of history, most people didn't age. They died. So in the 18th century, couples did not say, 'Gee, what would you like to do in retirement?' Because you would be dead."

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Back then you worked from, say age 15 until you died. There was no need to plan for leisure years ... never had them. Today we start work at 22, work to 62 and live to 92. We need to put as much effort in preparing for retirement as we did preparing for our career.

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FINANCIAL FIX in 2006

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