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ABEL Strategy — Third Quarter 2006 — October 5, 2006
Managed Investments & Retirement Planning

IRA Changes (TIPRA)

We get many questions from clients about the Roth IRA. Roth IRAs are attractive because they let you make tax free withdrawals once the account is 5 years old and you are over age 59½. However, not everyone is eligible to open a Roth, or convert a regular IRA to a Roth.

Currently, if you are married, and your modified adjusted gross income (MAGI) is over \$150,000 you cannot open a new Roth IRA. The income limit is \$95,000 if you are single. If you are eligible, \$4,000 can be contributed for 2006 (\$5,000 if you are over age 50). This may be possible even if you are participating in an employer retirement plan.

Currently, you cannot convert to a Roth IRA if your MAGI is over \$100,000. TIPRA changes this: the restriction goes away entirely on Jan 1st 2010. **Anyone** with an IRA will be able to convert it to a Roth.

The drawback in converting to a Roth IRA is that it is a taxable event. Presently, the tax is due in the year the conversion is made. As of Jan 2010 the tax will be due 50% in the year after the conversion, plus 50% the year after that.

The 5 year requirement to get the tax free withdrawals means you should act now if this is of interest to you. Open a Roth now – assuming you qualify to do so – and your five years are up in 2011. Then, should you choose to convert a regular IRA, or a portion of a regular IRA, to a Roth in 2010, you won't have to wait five years before being able to take qualified withdrawals.

If you are not eligible for a Roth now, you can still make contributions to a regular IRA, whether deductible, or not. Deductibility should not be the issue since paying the tax now means less tax paid at the time of conversion. Some tax advisers suggest that you should stuff all you can into non-deductible traditional, SEP and SIMPLE IRAs, all of which can be converted in 2010, regardless of income.

If you have both a deductible IRA and a nondeductible IRA, you cannot just convert the nondeductible IRA in 2010 and pay no tax. Some portion of what you convert will be taxable based on the amount of tax-free funds compared to the total in all your IRAs.

If you have named a trust as beneficiary of your IRA, you want to make sure that IRA is converted to a Roth IRA while you are still alive. Distributions to the trust that are not paid out to the trust income beneficiary are subject to high trust tax rates. Roth distributions are not taxable to the trust.

I would be happy to discuss this further with you, and before any decision is made, please consult your tax adviser.

Jim Ellman

Emotions versus Research

- Lahcen Abidar, Portfolio Manager

Investing is an occupational calling where there are more 'experts' than average managers, and where it seems everyone has above average results. Many individual investors believe they can do as well or better than the professionals despite lacking the expertise and knowledge required. This is largely due to the media. Reading an article in Forbes magazine or the Wall Street Journal, or watching CNBC doesn't make a person qualified to pick stocks or manage portfolios.

Reacting to one's emotions when making investment decisions is another good way to lose money in the stock market. Fear and greed are two of the individual investor's worst enemies; greed drives people to buy a stock at the very time when they should consider selling it, and fear pushes people to sell a stock when it has become attractively priced and should be considered for purchase.

Here is a recent quote from a money manager that I respect, and with whom I agree 100%:

"Over the past three weeks, elements of the media lined up with a list of bad news (Mid-East wars, high energy prices, heat wave, potential hurricanes, rabid dogs in China, etc.) to explain the market falling and then looked dumbfounded as the Dow moved higher: another example of a credible data set [the actions of the Federal Reserve's Open Market Committee] overpowering media hype and emotional presumptions." "Although the current condition is standard fare to us, for many it is an emotionally charged environment ... The true cause of their [investors'] psychological stress is accepting/believing media hype, wishful thinking, and other assorted nonsense as causative factors of price change and ignoring established historical/statistical precedent. The behavior of the masses (preferring short-sighted fantasy over fact) is very consistent."
Bob Drach 8/4/06

We are pleased that our clients don't fall into the emotional trap, but rather, let us use our years of planning experience, and our expertise in financial analysis to manage their portfolios without interference. As result they are enjoying the fruits of our due diligence and research, which are producing portfolios with low volatility and above average performance.

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	3rd Qtr	12 Mos	3 years
Dow	+ 5.3%	+13.1%	+10.4%/yr
S&P500	+ 5.6%	+10.8%	+12.3%/yr
Nasdaq	+ 4.1%	+ 5.8%	+ 8.9%/yr
ABEL Strategy	+10.6%	+18.1%	+11.20%/yr *

* includes mix of Stocks, Funds and Cash

⇒ Index numbers from Manager Funds, Inc

Job Based Health Coverage Remains Precarious...

Recent studies suggest that a substantial number of American workers continue to be on their own when it comes to health care coverage.

- ⇒ 60% of employers offered coverage in 2005, down from 69% with the decline mostly among small firms.
- ⇒ 46% of workers whose employer did not offer health benefits in 2002 were uninsured.
- ⇒ 22% of those who declined employer-offered coverage blamed high costs.
- ⇒ Health insurance premiums have risen 73 percent since 2000, while wages have risen 15 percent.

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Statistics ...

67 ... Average percentage of 401k participants' assets invested in equities as of year-end 2004.
(Investment Company Institute)

1981 ... Last year the yield curve was inverted.
(Smart Money)

1933 ... last year prior to 2005 that Americans' personal savings rate fell below zero for a full year
(Assoc Press)

345... Dollars, in billions, the IRS estimates Americans underpaid in taxes due to errors or intentional avoidance.
(IRS)

4.5... Number of years it took the DOW to regain 11,000 since the last time it was that high. (Market Watch)

57 ... Millions of households that held stocks directly or through mutual funds in 2005, versus 40 million in 1995 and 16 million in 1983.

(Investment Company Institute & Securities Industry Assn)

4.1 ... Percentage hike in monthly n 1991.
(Social Security Admin)

40 ... Percentage of US labor (Conference Board)
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“Fiduciary Duty” - Just What Does It Mean?

In simple terms, as fiduciaries, we advisors owe a higher duty to our clients.

Fiduciary duty encompasses much more than just being honest and avoiding negligence. Advisors owe an affirmative duty of loyalty, which means the client’s interests are put first. Duties include, but are not limited to

- * Providing only disinterested advice.
- * Giving thorough written disclosures of potential or actual conflicts of interest. We do this with our Form ADV and our Investment Management Agreement.
- * Maintaining strict confidentiality.
- * Refraining from fraudulent activity or misconduct.
- * Establishing a process for dealing with emergencies, contingencies and disasters.
- * And, if we voted proxies (we don’t), we’d have to do it in the best interests of each client.

A breach of the fiduciary duty is the most serious transgression and advisor can commit. The 1940 Advisors Act prohibits investment advisors from engaging in fraudulent, deceptive, or manipulative conduct. [That seems rather obvious]. The Act prohibits misstatements as well as omissions of material facts.

It’s not enough that advisors avoid conflicts of interest. They must avoid situations that might be perceived as creating a conflict of interest, even if none exists.

They must make full disclosure of fees and practices. And it is imperative that they document their commitment to compliance with extensive and thorough policies and procedures.

Advisors also have a fiduciary duty to ensure that their advice is suitable in light of the client’s financial situation, investment temperament, and investment objectives. We do this through our initial meetings with clients, subsequent reviews and periodic discussions. In the future we will be asking each of you to complete a questionnaire the results of which will help us assure that the investment strategy used is aligned well with your investment temperament and financial goals.

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Lost Your Cell Phone?

Have you ever wondered why phone companies don't seem interested in trying to prevent the theft of mobile phones? If you have ever lost, or had one stolen, and if you are on a plan, you still have to pay the fees for up to 24 months, & you have to buy another handset & enter into another contract.

There is a simple way of making lost or stolen cell phones useless to thieves.

To check your mobile phone's serial number, key in the following on your phone: star-hash-zero-six-hash (* # 0 6 #) and a fifteen digit code will appear on the screen. This is unique to your phone. Write it down and keep it safe.

Should your mobile phone get stolen, you can phone your service provider and give them this code. They will then be able to block your handset, so even if the thief changes the sim card, your phone will be totally useless.

You probably won't get your phone back, but at least you know that whoever stole it can't use/sell it either. If everybody did this, there would be no point in stealing mobile phones.

How About Those 411 Fees?

No charge for directory assistance. Phone companies are charging us \$1.00 or more for 411 - information calls when they don't have to. When you need to use the 411 information option, simply dial 1-800-FREE-411 or 1-800-373-3411 without incurring a charge. Works on home phones and cell phones.

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Never be afraid to try something new. Amateurs built the ark, professionals built the Titanic.

Slip-Sliding & They Don't Even Know It

Baby boomers are accumulating wealth at the same pace as previous generations—and that's bad news.

Researchers at Boston College's Center for Retirement Research studied data from the Federal Reserve's triennial Survey of Consumer finances over the past 20 years. They found that the ratio of accumulated wealth to income remained the same for any given age for all periods.

The problem is that baby boomers need to be accumulating more in order to increase the wealth-to-income ratio for four reasons:

1. Boomers must depend more on defined-contribution plans (defined benefit plans are not even included in the federal survey)
2. Today's lower interest rates will produce less retirement income [*this is becoming less a factor*]
3. Life expectancies are rising
4. Health care costs are rising fast

Transaction Costs—Can't Avoid Them

When we execute a trade the back office of Schwab or TD Ameritrade goes to work. It is their trading desk that seeks out the best price and arranges for the buyer and seller to come together. They also process the delivery or receipt of the security being sold or bought. They'd love to do this for free, but do charge for this service.

How has this cost has changed since 2002?

The average cost to effect a trade in 2002 was \$35.70. By September 2006 the cost to execute the same trade had dropped to \$18.16, a 49% decrease.

When we evaluated the cost per share traded it was not possible to reach the same conclusion. This is because 99% of the transaction cost is a fixed amount. The more shares bought, the lower the cost per share. For example, buying \$10,000 worth of GM at \$20/share gives you 500 shares for, say, a \$20 cost, or 4 cents a share. The same \$10,000 purchase of Harley Davidson at \$46/share gives you 217 shares for the same \$20 cost, but this time the cost per share is 9.2 cents.

2002	7.5 cents	2005	7.9 cents
2003	11.6 cents	2006*	5.9 cents
2004	6.9 cents		* thru Sept 12

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Barbara is a client, but is not affiliated with Just Plans. Communication with her is completely confidential.

Another below average forecast .

"Returns this decade have been and will continue to be below levels we enjoyed in the '90s and even the '80s, meaning that they will be in single digits on average. They are going to feel disappointing compared to what people grew up with over the past 20 years."

*-Russ Koesterich, Sr Portfolio Mgr,
Barclays Investors, SF*

Best Execution

Transaction costs are just part of the equation. Since 2002 they have averaged 1/4 of 1%, not real significant.

Other reasons we have chosen to do business with Charles Schwab & Co and TD Ameritrade include their ability to provide competitive net prices (after transaction related costs), their execution, clearance, error resolution and settlement capabilities in general and specifically in connection with securities of the type we buy and sell, the firms' reliability and financial stability, considering the size of our transactions; and the market for the securities we trade.

Just Plans is not obligated to find the lowest commission or best net price for any particular transaction, but we constantly work to provide our services at the lowest cost to our clients.

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