



1399 Ygnacio Valley Road #24 (925) 988-0330  
Walnut Creek, CA 94598 justplans@jps.net  
www.justplans-etc.com

ABEL Strategy — First Quarter 2007 — April 5, 2007  
Managed Investments & Retirement Planning

## Dealing with Sudden Wealth

Most of us would probably welcome the windfall with nary a thought of what headaches might follow. Being suddenly wealthy, whether from inheritance, a legal settlement, selling a business or from the lottery, simply means exchanging old problems for a new set of headaches. One web site dealing with lottery winners suggests that you not tell anyone and move out of state. It goes on to say 1) tie up financial loose ends, 2) hire a tax attorney, 3) update your will, and 4) contact a financial planner.

Sudden wealth, whether planned or unexpected, is likely to have the same effects. Either way it means a change in one's financial and emotional situation. The emotional part is enormous, and can't be overlooked. From this day forward you can do what you have a passion for doing, not because you need the income it provides, but because it's important to you.

In addition to helping clients work through the inevitable changes about to take place, we are quite capable of taking the burden of investing the new wealth off their shoulders.

There are a number of resources to take advantage of, some of which are listed below.

“*You're Rich?—Bummer*” by MP Dunleavy [www.articles.moneycentral.msn.com](http://www.articles.moneycentral.msn.com)

“*Financial Psychology and Life Changing Events: Financial Windfall*” a brochure from the National Endowment for Financial Education, [www.nefe.org](http://www.nefe.org).

“*Sudden Wealth Syndrome*”, from the Money, Meaning & Choices Institute.  
[www.mmcinstitute.com/sws.html](http://www.mmcinstitute.com/sws.html)

“*Sudden Wealth Can Leave You Rich—and Miserable*” from Bankrate.com  
[www.bankrate.com/brm/news/sav/20000906.asp](http://www.bankrate.com/brm/news/sav/20000906.asp)

Sudden Money Institute, founded by Susan Bradley [www.suddenmoney.com](http://www.suddenmoney.com)

Susan's book, “*Sudden Money: Managing a Financial Windfall*”

“*The Psychological Impact of Sudden Wealth*”, Eileen Gallo Ph.D., Journal of Financial Planning, January 2001

I quote Mark Twain again— He said, “Twenty years from now you will be more disappointed by the things you did not do than by the ones you did do.”

What is your passion? What would you do if you could do anything, knowing that you had an adequate income that could last your lifetime, and then some? Dream your dream. Find your passion. Let us help you.

*Jim Ellman*

Are you disappointed with the investment options or the performance of your 401k plan? Ask your plan administrator if an “**In Service Distribution**” can be made to an IRA. If the answer is “Yes”, call us.

*Jim*

***We Appreciate You ... and Your Referrals***

- Lahcen Abidar, Portfolio Manager

We believe that stock selection is one of our most important skills, especially in the current environment. Buying quality companies at significant discounts, building a well diversified portfolio, avoiding greed, & taking profits when targets are reached makes for good performance. We will raise cash and avoid 'hot' stocks which defends against inevitable market corrections.

The February 27<sup>th</sup> mini-correction saw the S&P 500, Dow, and Nasdaq drop 3.5%, 3.3%, and 3.9% in one day. Our portfolios dropped 1.1%. We attribute success to our discipline. Two weeks before the correction we took profits in AVP (+29.9%), APPB (+25.1%), and GM (+70.1%). This provided a 25% cash cushion; the balance of the portfolio was invested in a well diversified group of quality companies, including the only S&P500 stock that went up, RadioShack.

We will continue to look for opportunities and deal with conditions as they develop. Being disciplined in implementing our strategy has taught us to avoid emotions and has been significant in helping clients reach their goals.

People who base their decisions to buy or sell on others' forecasts and then second guess those forecasts when the market moves the other way will likely experience disappointment and frustration. Application of a firm discipline is an absolute necessity for success in this business.

September 30th completes the fifth year using our 'ABEL Stock Strategy'; and thanks to God, it has been very successful for us and our clients.

Thank you for your referrals. We cannot grow without them. Our goal is to reach \$100 million under management and you play a big part in our getting there. You owe it to your friends, *so keep the referrals coming...*

***Lahcen***

	1st Qtr	12 Mos	3 years
Dow	- 0.5%	+13.3%	+12.4%/yr
S&P500	+ 0.6%	+11.7%	+ 9.8%/yr
Nasdaq	+ 0.4%	+ 4.1%	+ 6.3%/yr
ABEL Strategy	+ 5.5%	+19.9%	+12.5%/yr *

\* includes mix of Stocks, Funds and Cash

⇒ Index numbers from S&P, DOW & Nasdaq websites and & Thompson Baseline

*"We live from one paycheck to the next, we're struggling to save, and we never seem to have enough money to do anything fun."*

Amy Schuetts, who earns \$150,000 a year  
Money magazine

Call for information on how an Annual Spending Plan can be a solution to achieving your financial goals in 2007.

Barbara Hause, MBA  
Financial Counselor  
2723 Crow Canyon Road #211  
San Ramon, Ca 94583  
(925)743-0518

[barbarahause@sbcglobal.net](mailto:barbarahause@sbcglobal.net)  
[www.barbarahause.com](http://www.barbarahause.com)

Barbara is a client, but is not affiliated with Just Plans.

eDelivery (eConfirms + eStatements) at Schwab earns a 35% discount on trades if you have signed up for them.

Check out our completely overhauled web site.

[www.jp-etc.com](http://www.jp-etc.com)

**Statistics ...**

**53 ...** .Percentage of tax-payers who would rather clean house or visit in-laws than prepare their own taxes. (Tax ACT)

**16 ...** Percentage of GDP consumed by health care costs, versus 13.6% in 1997. (U.S. Health & Human Services)

**57 ...** Percentage of workers looking for a new job who feel they're underpaid, versus 19% who really are, based on job market data. (Salary.com)

**9...** Number of affluent families out of every ten such families who will lose their fortune by the end of the 3rd generation. (Christian Science Monitor)

**200,000...** Cost in dollars couples without employer sponsored retiree health benefit will pay out of pocket for health care after age 65. (Fidelity Investments)

**137 ...** Asset dollars in billions, held by the largest US mutual fund: Growth Fund of America. (Morningstar)

**5 ...** Number of U.S. senior citizens, in millions, who are financially abused each year through investment scams. (Securities Exchange Commission)

**53 ...** Percentage of taxpayers favoring a no-deduction, flat-rate income tax or national sales tax. (Tax Foundation)

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### “Steep Cost”

Federal regulation is a hidden tax on American consumers and the U.S. economy. According to a recent study conducted for the Small Business Administration, the total cost is a staggering \$1.1 trillion—about the same amount the federal government collects in income taxes every year.

- Michael Franc, Heritage Foundation, HumanEvents.com

### **IRA Assets at \$3.7 Trillion**

Three years of growth through 2005 brought IRA assets to a level larger than either profit sharing (\$2.97T) or defined benefit pension (\$2.15T) plans.

The growth was largely from rollovers from company sponsored retirement plans—\$200 billion a year. Contributions to IRAs amounted to only \$40 billion annually.

The Employee Benefit Research Institute report also found that most the contribution money went to Roth IRAs.

Only 10% of eligible taxpayers contributed to IRAs in each year between 2000—2002.

### Medicare Changes for 2007 & Beyond

Medicare Part A for hospital coverage is what we earn a right to when we reach age 65. Part B for doctors' bills, lab tests and other outpatient services requires the payment of a monthly premium. That premium is going up. Surprised?

Historically, Part B has been heavily subsidized with the federal government funding 75% of the cost. The basic monthly rate for 2007 is \$93.50.

Certain higher income seniors will pay more than 25% of the cost this year, and the premiums will increase dramatically over the next few years.

MAGI income under \$80,000 (\$160,000 married filing jointly) - \$93.50/month

MAGI \$80,000 to \$100,000 - \$105.80/month

MAGI \$100,000 to \$150,000 - \$124.40/month

MAGI over \$200,000 - \$161.40/month

All of the above is based on the current total cost of \$374. If by 2009 the total cost rises to \$450 a month (up 20%), the premiums will range from \$112 to \$360 per month.

Private insurance for Medicare Part B? Possibly.

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**Taxes >>** If you already haven't, send us your tax preparer's email address & we'll send them COST BASIS & FEES PAID #s for 2006.

### Telephone Excise Tax Refund

The IRS estimates that over 150 million people who paid the tax between Feb 28, 2003 and Jul 31, 2006 are due a refund. Traditional land lines, cell phones and internet phone packages can qualify. It is estimated that individuals paid in more than \$8 billion during the above time period.

The amount of your refund can be calculated one of two ways. With copies of all your past telephone bills, identify the exact amount of telephone excise tax you paid and claim that, plus interest. Or, use the standard IRS guideline, which are based on the number of exemptions you claim: \$30 for one exemption, \$40 for two, \$50 for three, and \$60 for four or more exemptions.

There is a line entry on the Form 1040 to enter the amount to be refunded.

Tax Talk Today, Investment Advisor, Feb 2007

Character is much easier kept than recovered

- Thomas Paine

## Keeping It In Perspective

The truth of the matter is that great investment managers experience long periods when they go cold. In a recent study covering the best performing large company funds from 1996-2005, Litman Gregory found 70% had 3 or more consecutive years of trailing their benchmarks by at least 5%, yet beat the benchmark over the 10 year period.

Owning the best performing fund all the time is simply not possible. But avoiding the great behavioral mistakes that most investors make is possible. You have to focus on the long-term opportunities that will emerge during the coming decades. And then have your money invested accordingly.

The average American who will retire in 2007 was born in 1944. If \$1000 was invested in the S&P500 at birth, letting it compound yields a bit over \$1,000,000 today. The average American doesn't know this, nor do they incorporate it into their investment plans for the next 30 years of their life. Rather, as they approach retirement, and almost always once retired, they talk about 'keeping our money safe'.

It is not understanding Federal Reserve policy, or the interplay between inflation and price/earnings multiples that we need to focus on, but rather on the miracles of progress that we have witnessed in the past.

- ◆ You command more computing power in your desktop or laptop than was available to NASA for the entire Apollo 13 mission in 1970!
- ◆ You can already speak into your computer rather than type; soon it will be able to talk back to you.
- ◆ Do a Google search—in English, right? Soon we will be able to search all the information in the world, regardless of the language in which it was written; and scientists will be able to build on all of it.

The key to cutting-edge technological superiority is not technology, but science, because all new technology flows from science. And nobody does science as well as America.

Over the next 20 years nanotechnology, biotechnology and robotics will converge to launch nanobots into the body that will destroy cancer cells, clear out arteries and do much more which today seems like science-fiction...nothing short of miraculous.

The deepest, strongest, most flexible, most entrepreneurial, most transparent economy in the history of mankind—ours—will continue to enable citizens to amass net worth to levels previously unimaginable.

**Be careful of watching too much news and not seeing enough truth.**

The Federal Reserve's 2006 3rd quarter flow of funds report showed US households at \$27.5 trillion, more than all the rest of the world combined. American households added \$1.5 trillion to net financial assets for the year ended September 2006; however, this is not reflected in the 'national savings rate' which excludes gains. Why does the government calculate net financial assets including mortgages and credit card debt as liabilities, but excludes houses from assets? Go figure!

So as you approach and then enter retirement how should you allocate retirement assets? In the same manner you did that got you to where you are today...with one modification: set aside 2-3 years of dollars earmarked for income withdrawals, thus allowing you to weather any periods of weakness in the stock market.

*Portions of this article were gleaned from a piece written by Nick Murray in the February 2006 issue of the Financial Advisor Magazine.*