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ABEL Strategy — Third Quarter 2007 — October 5, 2007
Managed Investments & Retirement Planning

Spending Plan First, then Retirement Planning

Most people referred to Just Plans come to us to discuss retirement planning and the management of assets earmarked for retirement income. It is assumed that day-to-day cash flow issues are under control. And for most that is the case. But for those who struggle with the month-to-month management of their finances, or have family members or friends who do, the following piece from Barbara Hause's website [see page 2 item] may be helpful.

“Financial goal setting for some couples can be challenging especially when two people have different value systems. An example of this would be John and Mary's situation.

John grew up in a family where lack of money was always an issue. He watched his parents work hard to support their family and still there never seemed to be enough money. John worked his way through college and law school. He is now a well paid attorney.

Mary grew up in a family where money was never an issue. She lived a comfortable lifestyle and got her first job after she graduated from college. Mary was used to shopping and not paying much attention to price tags because anytime she needed more money above what she earned she could count on her parents to help her out. After marrying John, Mary's parents continue to gift money to them annually.

Even though John now earns a good income his value system is about saving money for future security. Mary has never experienced the lack of money. Her value system is about enjoying life today without worrying about the future.

Here are some steps John and Mary could take to get on the same page with short-term and long-term financial goals:

Step 1: Have a discussion about each others perceptions, feelings and beliefs of how money should be spent. This is not a time resolve issues about money but a time to try to understand each others view points. The outcome from this discussion is not necessarily to see eye to eye on everything, but to start looking at some compromises that will lead to mutually beneficial goals.

Step 2: Either together or with the help of a financial professional take time to create a spending plan that incorporates the compromises and goals decided on in step one. The purpose of the spending plan is to give both spouses/partners a clear picture of what it will take to meet their goals and satisfy each others values.

Step 3: Decide who is going to oversee day to day money management which includes logging expenses and income onto the spending plan and paying bills. Decide on how many checking accounts. Will there be three, “his, hers and ours” or one joint account? Decide on what is a major expenditure. Once the amount is clarified, then each spouse/partner should let the other know before making such a purchase.

Step 4: Set up a regular time to meet once or twice a month to review the spending plan and talk about ways to handle upcoming financial issues.

Each of the above steps are important but unless you have the discussion (Step 1) and formulate financial goals that meet the needs and dreams of both spouses/partners it will be difficult to stay committed to steps 2, 3, and 4.”

Jim Ellman

Your Portfolio Correlation to the Market

- Lahcen Abidar, Portfolio Manager

If two items are correlated, their statistical $R^2 = 1.0$. Your portfolio has a low 0.56 correlation to the S&P500. What does it mean? Your portfolio will move with the market 56% of the time, and will march to its own drummer 44% of the time.

A low correlation is most helpful during turbulent markets. And we may see more of what we recently experienced going forward. There is a fear the housing crisis is worse than first thought...that it could throw us into a recession. An estimated 3 million homeowners will experience a dramatic increase in their mortgage payments during the next 12 months. Many of them will be faced with foreclosure, and that will make a weakening real estate market worse.

The good news is that the Fed, Congress, and the White house are working to solve, or at least minimize, the potential problems. The Fed's recent 0.5% reduction in both the discount rate and the federal funds rate is encouraging. If the Fed continues to lower rates, it should give people an opportunity to refinance at a level that reduces their monthly payments.

Among the solutions discussed in Congress is one to allow Freddy Mac and Fannie Mae to expand their portfolio size thus providing much needed liquidity to the mortgage market. They may also be permitted to buy sub-prime and 'jumbo' loans.

If these interventions by the government do not help stabilize the mortgage/housing market and reinvigorate the economy, and there is that chance, the result might be a slowing economy that leads to a recession, and more than a few corrections in the stock market. If this were to happen, it is of some comfort to know that our portfolios are only 56% correlated to the market; and it is of greater comfort to know that Just Plans will protect your assets and raise cash to 100% if the "down 8%" threshold is reached. On the other hand, if a recession is avoided, a positive market will most likely continue, and we will continue to seek decent returns without exposing your portfolio to unnecessary risks.

Lahcen

(Performance #s on page 3)

"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.

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

Happy with our service? Delighted with our performance?

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It's a nice thing to do. They'll thank you.

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Statistics ...

41 ... Percentage of taxpayers who appeal successfully to the IRS for at least some relief. (GAO)

55 ... Percentage of new car loans in 2005 that were for longer than 60 months. (Consumer Bankers Assoc)

24,000 ... Number of pages General Electric's 2005 e-filed tax return was equivalent to. (IRS)

55 ... Percentage of grandparents who contribute financially to their grandchildren's college education. (Met Life Mature Market Institute)

44 ... Percentage chance women age 65 or older will

sometime enter a nursing home. (Genworth Fin'l)

19 ... Percentage of unpaid caregivers, 80 percent of whom are women, who provide 40 hours or more of care a week. (Genworth Financial)

40-70... Billions of dollars in U.S. taxes avoided annually through the use of offshore tax havens. (US Senate)

5... Number of top ten wealthiest people on the Forbes 400 who are college dropouts. (Forbes)

7... Number of the Forbes 400 who are younger than age 40. (Reuters)

XXX

Benchmarks & ABEL Performance

	3rd Qtr	12 Mos	3 years
Dow	+ 4.1%	+21.7%	+13.9%/yr
S&P500	+ 2.0%	+16.4%	+13.1%/yr
Nasdaq	+ 3.9%	+19.6%	+12.5%/yr
ABEL Strategy	- 2.6%	+13.1%	+13.9%/yr *

* includes mix of Stocks, Funds and Cash

⇒ Index numbers from Morningstar online & Baseline

Disappointed with the investment options or the performance of your 401k plan? Ask if an "In Service Distribution" can be made to an IRA. If it can be, call us.

Investment Behavior —

In the 20 years through 2004, Lipper Analytics stated the average equity fund, with dividends re-invested, had returned 10.7%, while the average equity fund investor had, according to DALBAR, earned just 3.7%.

What might be the reason for the difference between fund performance and investor performance?

It can only be explained behaviorally: inappropriate behavior by the investor. Letting greed dictate when to buy, and fear when to sell.

Real Returns vs. Nominal Returns

If your investment increases 50%, your nominal return is 50%. But if taxes and inflation go up by the same amount, your real return is **zero**.

Consider the following chart based on data for 20 years through the end of 2006 -

	Nominal Return	Real Return
Large Domestic Companies	11.69%	6.47%
Small Domestic Companies	10.91%	5.90%
International Stocks	8.40%	3.53%
Municipal Bonds	7.24%	3.49%
Long Term Govt Bonds	8.27%	2.07%
Single Family Homes	4.75%	1.19%
Corporate Bonds	7.52%	1.13%
Intermediate Govt Bonds	6.56%	0.78%
T-Bills	4.53%	-0.67%
Commodities (DJ-AIG Index)	3.07%	-0.89%

\$100 invested in the S&P500 twenty years ago would have grown to \$3,224 by December 31, 2006.

Nominal return	12.27%	(\$3,224)
After fees	11.72%	(\$2,776)
After Dividend taxes	10.04%	(\$1,765)
After Capital Gain taxes	9.64%	(\$1,582)
After Inflation	5.19%	(\$ 456)

You have to consider inflation when you plan your investment strategy before & during retirement.

Ibbotson & associates ... Thornburg Investment Mgmt

The Qualified Transportation Fringe Benefit

Here's something to discuss with your employer next time a salary review comes up.

Employer's, on a selective basis, can provide *commuter fringe benefits* that are not considered wages for income or Social Security taxes to the employee, nor are they subject to payroll taxes owed by the employer. Benefits can be provided directly or via a bona fide cash reimbursement arrangement. Even if you elect to reduce your wages by the amount of the tax-exempt benefit amount, you come out ahead because of the taxes saved.

Qualified Parking— up to \$215 a month
 Transit Passes—up to \$110 per month
 Commuter Van—up to \$110 per month

Talk is cheap because supply exceeds demand.

If You Can Handle the Volatility ...

In 1958 most US investors bought just US stocks. The venturesome invested in funds focused on Great Britain and some of the European countries. They were all economically developed and provided reasonable opportunities for growth. The rest of the world was under-developed, or considered too risky. Fifty years ago few ever thought of investing in Brazil, Russia, India and China, the “BRICs”.

There is an opportunity in those countries for growth similar to what America experienced during the second half of the 20th century. Two-thirds of our growth is attributed to consumer spending and as consumers in the BRICs experience increased standards of living, their economies could experience dramatic growth.

It was 1978 when Deng Xiaoping announced that the China was implementing reforms aimed to revitalize their economy. Since then real GDP has averaged growth of nearly 10% a year. The economy, then ranked ninth-largest, is now ranked second [84th on a per-capita basis], adjusted for purchasing power. Life expectancy has risen from 65 to 71, and 200 million people have been lifted out of poverty. The change is attributed to export growth, which with business investment represents 50% of the economy, with consumer spending just 25%.

Why do the Chinese save rather than spend? Because the government spends less than 3% of its GDP on programs to support health care, education, welfare and pensions. Individuals are conditioned to care for themselves, and that limits what they are comfortable spending.

The ultimate purpose of economic growth is to improve the welfare of the people. The Chinese government has implemented several measures to bolster consumer spending, including cutting taxes, raising the minimum wage, and improving its social safety net. Outlays on health programs have increased by 25% in each of the past two years. However, increased spending on education and the retirement system is probably necessary before households will commit to spending more of their income and becoming the engine of growth.

Investing in other countries carries additional risks. There is a currency risk where the dollar is strong and the foreign currency is weak (the opposite of today’s environment). Other governments are not considered as stable as ours so there is a political risk to consider. The growth potential may be very significant over the long run, but the road to the future, especially in countries like India, China and Russia, is apt to have a pothole or two.

Trust Me ...

It’s common to find that our clients have a revocable living trust, a will to catch items not registered to the trust and durable health powers. It uncommon, on the other hand, for clients to have durable powers of appointment or a directed trust.

You are the trustee while alive and competent and most likely have named an adult child as successor trustee, with a bank trust department as final trustee. If your adult child doesn’t have the time, ability or interest to act as trustee, the bank quickly becomes the party in charge...responsible for carrying out the terms of the trust and responsible for managing the trust assets. Gone is the trusted relationship between your family and their financial advisor and money manager. Higher fees and lower returns is a common result.

Does your situation include children from a previous marriage, a spendthrift child or grandchild, the need to protect assets, or the desire to minimize federal transfer taxes? The Directed Trust where the relationship with Just Plans is continued while a corporate trustee handles the other details may be something we should talk about.

Jim