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ABEL Strategy — Fourth Quarter 2007 — January 5, 2008
Managed Investments & Retirement Planning

Running Out of Money Before I Run Out of Time Isn't Appealing.

What Can I Safely Withdraw

Why do people accumulate wealth? Some for the sake of doing so. Others for personal and family security. Most of us build a nest-egg so it will support us during our retirement. A long time ago a family wasn't required to think about accumulating assets that would support them once they stopped working. Company pension plans took care of that. Today 401k plans have largely replaced the company paid pensions and the burden of having enough to retire on falls squarely on the shoulders of you and me.

Recently, three professors at the State University of NY published a study that reached the following conclusions:

- ◆ You can withdraw between 5.5% and 6% from your accumulated assets only if you recognize that you have a 25 to 30 percent chance of running out of money before you run out of time, and only if you allocate 75 to 100 percent to common stocks.
- ◆ You can withdraw at a 4.4% rate if your investment portfolios are allocated 50/50 between stocks and bonds, and if you realize that you have a 10 percent chance of running out of money.

Not happy with the odds? If you want more of a guarantee, a 96% allocation to stocks and a 2% withdrawal rate has just a 1% probability of running out of money.

How much 'wealth' is needed to provide an adequate retirement income? That depends on the level of income desired, and on the other sources of income you will have during retirement. The following example is an over-simplification but it can be a starting point for your own calculation.

Target take-home	\$8333/mo	>	\$100,000/year
Gross income assuming 33% net tax bracket		>	\$150,000/year
Social Security (husband & wife)		>	- 28,000/year
Prior employer pension		>	- 6,500/year
Rental real estate (net cash flow)		>	- <u>10,000/year</u>
Income required from 401k and savings		>	\$105,500/year

Assume stocks earn 10%, bonds 6% and inflation averages 3%

An all stock portfolio requires wealth of	>	\$1,507,000
An all bond portfolio requires wealth of	>	\$3,517,000

We can provide a report that will aggregate all your sources of retirement income and lay them against your primary financial goals of college for the kids and retirement for you. If we are managing your investments, the cost for this report is \$250; otherwise it costs \$750. Call us if you would like to pursue this exercise.

Jim Ellman

Experiencing Declines – Missing Rallies

- Lahcen Abidar, Portfolio Manager

The pain we experience from a big drop in our account values is far greater than the anxiety felt when we are out of the market when it moves to the upside.

The first six months of 2007 were little different from prior years. Most client accounts were up 11% to 14%. By September 30th accounts were up 8%+ on average. A month later they were up 5.5%. It was apparent we were experiencing a very mild correction. It was to be expected. Then came November. Nothing was safe. Every stock we owned suffered, financials dropped significantly. We went from a positive YTD return to a negative one and found ourselves trailing all the common indexes. It all happened so quickly.

Our expectations for fourth quarter earnings were not very positive. Announcements were to start in December. Expectations were too high. Disappointments would be frequent and stock price reactions very likely to the downside. We owned good quality companies that were already selling at significant discounts, but they may become better discounts as the news came out. We decided to go to cash ... 100%.

Here are a few examples of companies that reported in December, and how investors reacted:

Dell reported, stock dropped 14% [we had already sold it].

SLM Corp stock management mentioned they might lower the dividend, stock dropped 20%.


Other reactions: Rite Aide -31%, MBIA -25%, Hovanian Builders -11%, Circuit City -25%, Paychex -4%, Conagra Foods -4%, and Darden Restaurants -27%.

What worries us are the number of consumer related stocks that are lowering their future earning estimates, supporting the likelihood of a recession.

We don't expect to stay in cash for long. We will build a defensive portfolio, one that should weather either an economic slowdown or a recession. Big question: was what happened in November just an overdue correction, or was it the beginning of a bear market? Personally, I believe it

(Performance #s on page 3)

CLOSE TO HOME



Information on how an Annual Spending Plan can be a solution to achieving your financial goals in 2008.

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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.

Statistics ...

50Percentage of medical inflation attributed to medical insurance. (MIT)

35 ... Percentage that costs at 4 year public colleges have increased in the past 5 years, after adjusting for inflation. (College Board)

\$30,267 ... average annual cost for tuition, fees, room & board at private 4 year schools. (College Board)

50... Average percentage rise in value of 401k accounts for workers who saved consistently between 1999 and 2005. (Investment Company Institute)

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IRS analysis of 2005 tax returns shows that ...

Just 3.1% of the total income tax paid was paid by the bottom 50% of the filers;

The top 10% of filers — that's adjusted gross income "AGI" of \$103,900 or more — paid 70% of the tax while earning 46% of the total AGI for 2005;

And that 59% of the tax, while earning 36% of the total AGI, was paid by the top 5% - that is an income of \$145,300 or more .

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was the start of a severe bear market, but hope I am wrong.

As we progress through the early months of 2008 we will have a clearer picture of the health of our economy (housing, credit, earnings and consumers' willingness to spend). Until we do, we will use individual stocks sparingly, using exchange traded funds in their place.

Here is a good analogy from a portfolio manager we respect describing the current environment:

"... Suppose you're considering riding a unicycle on a high-wire that by most evidence is not secure, but it's possible that the wire might hold up for a while. If you keep riding, people will throw small bills at you until the moment the wire breaks. Once the wire breaks, you will be injured and will probably lose whatever you gained initially. Would you keep riding?"

- John Hussman 12/24/07

For the past 5 years we have managed your portfolio in a manner to achieve above average returns while exposing you to less than average risk. We had grown confident that the method worked well. November 2008 taught us that we cannot become complacent... assuming that what has worked well in the past will always produce success. Going forward we will make every effort to avoid those risks that have, on average, produced no return, as well as avoiding investments which may become subject to abrupt declines in value. Current market action, valuations and the risk of recession has historically been associated with negative returns. Repeated risk-taking during conditions like the present has generally not been rewarding, and has frequently involved significant and abrupt losses.

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Benchmarks & ABEL Performance

	<u>4th Qtr</u>	<u>12 Mos</u>	<u>3 years</u>	<u>5 years</u>
Dow	- 3.9%	+ 8.9%	+9.7%/y	+12.2%/y
S&P500	- 3.3%	+ 5.5%	+8.6%/y	+12.8%/y
Nasdaq	- 1.6%	+10.6%	+7.6%/y	+15.5%/y
ABEL Strategy	-14.8%	- 6.7%	+5.2%/y	+15.0%/y *

* includes mix of Stocks, Funds and Cash

⇒ Index numbers from Morningstar, Mgr Funds & Baseline

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Social Security Changes for 2008

The wage base goes up to \$102,000 in 2008. That is an additional \$279 in taxes to be paid for high income workers ... and their employers.

Social Security benefit checks will be 2.3% larger in 2008.

And earnings limits will change:

- * If you are between ages 62 and 66 by Dec 31st 2008, you can make up to \$13,560 without losing benefits.
- * If you turn 66 during 2008, you can earn \$36,120 prior to your birthday without losing any benefits that year.
- * There is no cap on what you can earn once you turn 66.

Retirement Accounts – 2008 Limits

IRAs & Roths go to \$5,000 ... + \$1,000 if over 50.

Keogh & Profit Sharing Plans go to \$46,000.

401k Plan limits don't change: \$15,500 ... + \$5,000 if you were born in 1958 or earlier.

SIMPLE limits also remain unchanged at \$10,500 ... + \$2,500 if over 50.

Defined Benefit Pensions can provide up to a \$185,000 annual benefit.

Setting Realistic Expectations

In 40% of all rolling 10 year periods since 1928, the Dow has returned less than 10%.

We've had 23 out of 24 consecutive 10 year periods of market returns approximately 10% or more.

However, from 2001 to 2006, the average annual return was 4.67%. To reach a 10% average by 2010 requires a 18.5% average annual return from 2007 to 2010. Selected Funds "The Successful Investor"

An optimist thinks this is the best possible world. A pessimist fears this is true.

If You Are Soon Eligible for Social Security Benefits ...

More than half of Americans claim benefits at age 62. Lengthening life expectancies have some policy pundits suggesting that we should work longer and collect later.

Two recently published papers suggest a novel strategy that should benefit many married couples: one spouse—usually the wife—claims at age 62 to 66, while the other waits until 69 or 70. This pays off because of obscure Social Security rules and some facts about life expectancy.

For anyone born from 1943 thru 1954 ‘full’ retirement benefits are at age 66. Claiming at 62 results in benefits reduced by 25%; and each year you wait past 66 benefits rise 8% + an inflation adjustment. At age 70 you reach a maximum benefit of 132% of what you could have taken at age 66.

These reductions and additions are meant to be actuarially neutral. But they are not. Married couples get a special deal: when one spouse dies, the survivor can take the deceased spouse’s benefit, if they are higher, and drop his or her own.

One of the authors points out that “Whoever the higher earner is should plan to delay taking Social Security, because the higher benefit will always live on.” Wives, keep your husband in the workforce as long as you can. A wife can draw benefits and continue to work, however, she might lose some benefits if she earns too much. Once you reach 66 you don’t incur any penalty for working.

Consider a husband and wife born 1/1/1950. When they reach age 62, the wife will have an expectancy of age 84 and 8 months. The husband’s expectancy is age 81 and 10 months. But there’s a 50% chance one spouse will die before age 78, and a 50% chance one will live to almost 89. The smaller check the wife chose to draw at 62 remains small only until—on average—her husband dies shy of 78. And the larger check the husband waited for will keep coming to one of them for 19 years or more...half the time.

Note that a wife who has not worked outside the home can collect “spousal” benefits, after her husband reaches his full retirement age, or after he starts to draw benefits, if earlier. Spousal benefits do not increase if they are deferred past age 66, but are reduced if drawn between age 62 and 66.

What if both spouses are high earners and choose to use the 62/70 strategy and the husband keels over from a heart attack at age 64? The wife can pay back, without interest, the benefits she has received and then wait until 70 to claim bigger retirement checks for herself.

The split-age strategy works even if both spouses have earned the Social Security tax base maximum (\$97,500 for 2007 & \$102,000 for 2008) their whole careers.

If both spouses have Methuselah genes, it probably pays for both to wait until 69 or 70 to collect. On the other hand, if both are in poor health, they may both want to collect early.

Forbes magazine, Nov 12, 2007 (source: James Mahaney & Peter Carlson, Prudential Retirement)

Here’s a fact that may shock you: China and India represent 40% of the world’s population and just 8% of the world’s economy. Moreover, the South and East Asian middle class is expected to be two billion—yes that’s a ‘b’ for billion—strong by 2030. That’s a whole lot of growth potential.

Tim Hanson, Motley Fool.com May 2007