Ω THE OMEGA FINANCIAL GROUP

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MEMBER NASD & SIPC INSURANCE AGENCY DONOR ADVISED CHARITABLE ORGANIZATION

Opinions & Facts…

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Quote of the month

"The only possible way to have a superior performance is to do something very different from what most people are doing. You must buy stocks from the point of maximum pessimism."

Sir John Templeton, Chairman of the Templeton Group
Taken from a July, 1991 edition of *Opinions and Facts.*

"THE BAD NEWS FIRST"

Lets face it, until we have children of our own it's very difficult to understand how a parent can "over give" to his kids. So with that in mind, we'd like to cover briefly one of the major incidences that we as parents go through with our adult children (you young folks don't laugh, unless you're very fortunate you may be in the same position as your parents with your children).

One of our industry publications ONWALLSTREET, in it's January edition, pointed out that out of approximately 23.5 million Americans age 45 or older with at least one 25-plus-year-old child, nearly half (45%) provide their kids with financial support. The frightening part: this same survey taken by the magazine pointed out that 43% of the parents doing this expect that it will force them back to work after retirement.

While we know that it probably doesn't affect most of our clients, it might be of interest for you to see the following chart. Incidentally, the parents who responded to the survey have adult children; they're over age 45; they have never retired and work at least 15 hours per week.

While this may sound like an indictment of our kids, it is not. All kinds of setbacks can require parents help. It simply can act as a wake up call for parents to analyze their own situation.

WHERE THE MONEY GOES

Help them out with living expenses other than leisure travel, medical or housing	29%
Review and make suggestions about their investments	27%
Help them manage their expenses and income	17%
Pay for uninsured medical expenses	10%
Provide them with a down payment for their home	10%
Pay for vacations or other leisure travel for them	10%

"WHY ARE THERE TWO BALANCE SHEETS HERE?"

Sometimes we here at Omega Financial Group believe that there are two or maybe three sets of statistics regarding financial data that exist in this country today. For example, a new study by the non-partisan Congressional Budget Office provided ammunition for both sides of the tax cut debate.

"Don't tax me…"

Federal tax rates dropped more sharply for families earning more than a million dollars a year than for any other group in 2004, the most recent year for which data was available, the study revealed. The *Investment News* stated that this report documented that the wealthiest families also paid a larger share of total taxes than other groups. The top 1% of income earners paid approximately 36.7% of the federal income taxes and 25.4% of all federal taxes in 2004.

"Don't tax thee…"

On the other hand, between May 2003 and May 2006 asset values in the U.S. have also risen by $13 trillion thanks to the stock and housing market rallies. Just the growth in asset values in 2003 exceeds the entire net worth of all but a handful of nations, yet Democrats who've just taken over both houses of Congress want the 15% rate on dividends and capital gains to go back up to 39.6% and 20%. They

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argue that this big tax increase won't affect growth in the U.S.

Now, interestingly enough, families in the bottom 40% of the income earners with incomes below $36,300 paid no federal income tax and received money back from the government in the form of earned income tax credits.

"Tax that man behind the tree…"

Other information from the Treasury Department on the latest IRS data as to who paid how much in taxes in America through 2004, shows those who were in the top 5% and 10% of earners saw an increase in their tax share over that same period. The top 5% of the tax payers paid 57.1% of the total taxes in 2004. They had paid 56.5% in the year 2000. The 15% tax on capital gains and dividends correspond with a huge spike in tax payments by the affluent between 2002 and 2004. The income tax share of the top 0.1% of earners rose to 17.4% from 15.4%. This of course, reflects the lower tax on capital gains and dividends which in turn encouraged growth by reallocation of assets after paying the new low tax of 15%.

"So Joe. Get to the point."

So much for statistics. Another problem that we see with tax increases versus tax cuts: a psychological barrier to free market thinking. How many times have we heard our clients say in the days of very high tax brackets (50%), "Well, I've made all the money that I can make based on my tax bracket, so I'll slow up and quit working in October?"

On the other hand how many of us remember the Reagan tax cuts and how it increased the productivity of our own business to a very high percentage since we knew that our endeavors would bring us more money to take home for our families?

A useful thought experiment is to imagine how the last 4 years would have gone without the tax cuts of 2003 to help overcome the problems our economy faced. According to the *Wall Street Journal,* growth has averaged nearly 4% a year, federal revenues have increased by more than $500 billion over the last 2 fiscal years, and unemployment is at near a record low. Let's hope that our new majority leaders will consider these facts when speaking of increasing taxes**. The voters spoke loud and clear in November what they desired. And it wasn't higher taxes.**

"The tax on capital gains directly affects investment decisions, the mobility and flow of risk capital…the ease or difficulty experienced by new ventures in obtaining capital and thereby the strength and potential for growth in the economy."

In case you don't remember, that was from John F. Kennedy. He was right in the 60's and it's the right statement today.

"TIME FOR SCHOOL…SHOW ME THE MONEY"

The well publicized jump in college costs over the last few years and the promotion of 529 plans (college savings) should be putting fire under the feet of parents and grandparents alike to save and invest. A recent Alliance-Bernstein survey of 1358 parents showed that there was a widening gap between the amounts people have saved and what they will need to spend for college. Not only that, there is less financial aid to go around because there are more kids who are going to college, and when a student does get aid, it's often in the form of loans. We hate to consistently talk about problems, but here are the hard facts.

College: The Hard Facts

Tuition, fees, room and board for the 2006-2007 academic year:

- Average four-year public: $12,796
- Average four-year private: $30,367

Student debt:

- Median student debt at graduation: $19,300
- Median at private for-profit colleges: $24,600
- Median at public colleges: $15,500
- Percent of students from private, for-profit colleges with $30,000 or more in student loans: 40%

Average cumulative debt for undergraduate and graduate school:

- Law degree: $80,754
- Medical Degree $125,819

Median earnings gap between four-year college graduates and high school graduates:

- Men: 63%
- Women: 70%

Source: www.collegeboard.com; www.finaid.com

Let's face it; if you have children who plan to go a college or university, it's never too late to start putting money away for them. For more information on the 529 plans that Omega Securities offers call us and ask for Tom Hardgrove or John Dickens.

"CAN YOU BELIEVE IT…A GOOD WORD?"

As the regular readers of this publication know, I've taken very hard swipes at our friend Jonathan Clements, who writes the Getting Going column for the *Wall Street Journal* which appears in Sunday newspapers around the country.

However, this time I want to quote part of his mid December column that appeared in the *Fort Worth Star Telegram*. It's a column he wrote on having a happy retirement. He points out that today's 65 year olds can expect to live 4 years longer than those who turned 65 in 1945. Further, he states that retirees who devoted more than 2 decades to retirement planning are typically the most satisfied regardless of their level of wealth. And on a sadder note: suicide rates increase with age, according to Mr. Clements. They are especially high among those 65 years old and older.

Perhaps one of the best pieces of advice in the entire column covers, "What's your new role at home?" Margaret Altmix of Navigating Your Retirement, an online coaching program, states, "Before you quit the workforce, you should hash out a slue of issues with your spouse including how much you will travel, who will handle which chores, and how much you will each be able to spend."

"One of the questions should be how much alone time do I get" Ms. Altmix says. "In the past it might have worked very well spending 8 or 10 hours a day apart. You also need to talk about who does what. You have had certain rules for years and years, and now they're going to change. You need to talk early on before the resentment builds."

"…a final word"

Well, Jonathan, you get an A and a ✯ on your paper this time. Thank you so much for leaving out your lengthy sermon about the benefits of index funds. You may go home now. But, don't forget your homework assignment: A 500 word thesis entitled "How the Bear Market Taught Me to Sell My Index Funds."

OPINION

And speaking of Mr. Jonathan Clements. It suddenly occurred to me one morning this last month, that rather than becoming *irate* over the stupid things that journalists who write investment advice columns in magazines and newspapers (and this includes Morningstar publications) that we should *applaud* them. The fact of the matter is that they are the most helpful people available to our business, with the exception of our satisfied clients who kindly give us referrals.

"It's just my job, sir…"

You see, the main objective of the captive journalist is to convince people that they don't need an outside investment advisor –all the advice they need will come from reading their columns posted either in newspapers, on the internet or other publications. These folk are a total blessing to the investment advisory industry. I realize that doesn't sound like its coming in one of my *Opinions and Facts* since I've spent so many words ripping some of these former Food and Style Section writers who now tell people how to invest their money.

"Here we go…!"

So here's the set up: an individual begins to read these columns and the first thing he discovers is that he is given hints not to pay any attention to brokers or outside investment advisors since "they are not objective". Basically, it's hinted that advisors will rip you off. The next thing the reader finds is that over the weeks and months certain mutual funds are recommended, and in 98% of the cases those funds are some form of no load funds that should be bought directly from the "factory" that produces them (Vanguard, T Rowe Price, Fidelity, et al). It's not that these funds are bad funds; it's just that the writer does not want the reader to consult any professional outside advisor except the journalist who wrote the column. But don't call him/her; all you'll get is voicemail. It's also doubly interesting since very seldom do they ever mention using discount brokers, such as Charles Schwab. The reader may accidentally reach someone who works on commission.

"Hey, what happened?"

Things go smoothly and making money is easy 'cause the market is going up. But, sooner or later, the bull market ends and the poor guy who works 40 or more hours per week in his "day job" and manages his own portfolio, begins to wonder what to do when the value of his investments begin to deteriorate. It's not that the funds are that bad, but he goes through the psychological state of a down market (that all of us go through) without anybody to call. And if you ever noticed during the down market our "journalist advisors" very seldom give the reader any advice on what to do when things go bad. They usually begin writing about taxes, probate of your will or maybe auto insurance.

"On and on…"

So rather than really knowing much about the funds that he owns, the lonely investor pictures them as "commodities" i.e. "all funds are alike"; thus, he probably has no idea about the historic record of the *people* managing his money. In the case of *index funds*, no knowledge of what the *computer* that manages the account is doing other than holding on to the stocks it has in its portfolio, and if new money comes in, continues to buy those same stocks until the executives at Standard & Poor or Lipper decides to change the index.

The Index Fund has no idea what it is buying or holding. Our investor now begins to listen to his friends, relatives, and other investment "experts" – to no avail.

"Oh, woe is me! And it's all the market's fault or the government, or the …"

Now our hypothetical investor frets over the stock and goes about his daily life while noticing his 401(k) is also losing value. He attempts to reallocate his 401(k) account based on this advice that he thinks fits what the journalist advisor might suggest. Remember the 401(k) represents serious retirement money. Naturally, he would be shy about going to an outside advisor now, since the advisor might "rip him off".

"I can't understand it. How can I lose money? I went to Harvard!"

In many cases our hypothetical investor is a well educated executive who has vowed never to pay a commission or a fee to an advisor, because it's "too costly". This of course, is the underlying theme of the "advisor journalist's" theory. While the executive may even have an MBA, he is not a professional investment manager and unknowingly jumps from one fund group to the other, chasing the elusive treasure at the end of the imagined rainbow. He thinks, "The only funds that are any good are the ones I can acquire free." So once again, he picks up Money Magazine or any one of scores of other publications (Barons, WSJ.) He has never considered the time he spends managing this money. The hourly cost is quite high when compared with the time he loses at work and time with his family. What a hobby!

NOW HE BEGINS TO THINK

Finally after more confusion and heartache he finally awakens to the fact that looking back over the last three, four or five years, he has been managing his own money. He has averaged 3% to 4% per year while the funds that he has read about, the ones that he has owned, over their lifetime have averaged anywhere from 10% to 14% per year.

"What happened? That fund averaged 12%. I was in it (for a while, he recalls) and I did 3½%".

"Keep it simple, stupid."

Well, we can tell our hypothetical investor what the problem is. The difference is having no guidance. When does he make various reallocations? Does he have the courage and knowledge that he is invested in funds that are well managed? Are they well managed? Does he know who is managing his fund? Is he aware of the tenure of the managers? Does he know anything about the fund except it's no load?

So now hopefully, he checks out various investment advisors. (And as far as Omega is concerned, he may come to us, but only through a referral since 98% of our clients come from referrals). Who knows, he may find a good investment advisor who will tell him the entire story - not just part of it. Maybe he'll be told what the charges are for managing the money; what the portion earned by the broker or investment advisor is and any other commission or fees he pays; in other words *Full Disclosure.*

"Be our guest."

Well, we will leave the rest of the story for you to finish. Those of you, who have been our clients for any length of time of course, know the rest of the story. Especially the story of *Full Disclosure.*

"Cheers!"

So hooray for the Jonathan Clements of this world - let them proliferate and grow! Let people who believe what the "advisor journalists" write, continue to follow the Piper and utilize their own expertise in managing their own money. When the scenario ends, the final lines will read: "Can I trust my advisor and will he/she be there when my kids inherit my assets?"

In the end, there'll be no loss of sleep by your "journalist advisor". He'll probably be transferred to the Sports Department with a huge salary increase.

That's our take. Yours is welcome.

Joe John Tom Tammy