



Recovered Milestones

Todd Brand, President

Investors like milestones. Dow 11,000 and NASDAQ 5,000 were quite exciting when they were achieved for the first time more than six years ago. Certainly, we all like to reach a new high in personal net worth. In global markets, the reality is that milestones occasionally get to be re-celebrated. The March 2, 2006 Wall Street Journal shared that “The Dow Jones Industrial Average advanced 60.12 points, or 0.55%, to 11053.53, breaking through the familiar three-zero benchmark for the 22nd time since May 1999.” That’s a lot of partying for the same gift. As we all prepare to clap for that globally anticipated event when the Dow Jones Industrial Average fully recovers from its declines earlier this decade and crosses into brand new territory, for the first time since January of the year 2000, it’s worth considering what we’re really clapping for: a milestone made once of paper that we hope is now finally made of stone. If we’re fortunate, we’ll celebrate the same milestone for the NASDAQ 100 Index in the next decade or so.

To this discussion, we add the table on page four (“**Recovery Table**”). It reflects basic math. This is the kind of math that really matters in our opinion. It also reflects a truth that can literally be retirement changing. This truth can be summarized in two words: Risk Matters. Much planning goes into the selection of good investments, across multiple market spaces, with low expenses, generating few tax obligations. Much thinking should go into these arenas. However, this table lends support to a potentially even greater objective: volatility control. Controlling your portfolio’s volatility will affect the number of milestones you reach as an investor and, importantly, the time between those milestones.

The table suggests that controlling the downside risk exposures of your wealth can lend itself to an easier, faster and more certain recovery of milestones. That might not be obvious, so let me explain. The four exhibits in this table reflect four different levels of decline in a portfolio of \$1,000,000. It is assumed that the more aggressive a portfolio’s structure, the more downside risk to which that portfolio is exposed. It

should be mentioned that this table is hypothetical. You’ll note that the declines range from ten to seventy five percent. That’s probably consistent with a range of investor losses in the bear market of 2000 through 2002. The significance is reflected in the last row. The investor who loses ten percent of the value in their portfolio might re-achieve their “milestone” in about a year and a half assuming a seven percent annualized return. The investor who loses seventy-five percent of the portfolio’s value, even at a higher recovery return of 10% per year, might not achieve their milestone valuation for nearly fifteen years. In retirement, fifteen years can occasionally be replaced with the word “never.” If we were to deduct an additional amount, say four percent per year from the portfolio to supplement the investor’s retirement income, you can probably guess that this table and these timelines get a bit more onerous.



Our purpose in sharing this article with you is two-fold. First, markets are once again flirting with or achieving new highs. We want you to know that after three solid years of decent returns for the globally diversified investor, **downside risk control** is still vitally important to your future and something that we take seriously. Second, we want to remind you of the importance of **true diversification** of your portfolio. A well-diversified portfolio is key in determining the underlying strength of the milestones you will reach. Diversification is our best tool for controlling the risk of the portfolio. While we talk about it with you frequently, we want to use this occasion and this year to re-review the allocation of your wealth, the downside exposure we think might be imbedded in your portfolio structure and the goals you seek to achieve both before, during and after retirement.

If you’ve read this far and don’t have comfort that you’ll see another milestone or that it won’t last if you do, we encourage you to call any of us for a frank discussion of that critical question.

As always, we are blessed to have you as clients and friends of our firm. Have a great 2006.

Maximizing Your Wealth – Part V
Is Your Investment Advice “Best” For You
Madaline Creehan, Vice-President

Investing can be complicated and challenging even to the most sophisticated investor. In fact, making sense out of the stock, bond and mutual fund world requires in-depth research of the various investment opportunities while simultaneously acquiring the know-how to intelligently apply this knowledge. Many investors realize the challenge in managing this aspect of their lives due to time or desire, and choose to delegate this critical responsibility, but to whom? The financial world offers two broad avenues for investing, brokerage and advisory. Most investors are unaware of the difference, particularly when it pertains to fee-based accounts, so please keep this information (and us) in mind as you talk with friends and acquaintances that might benefit from our services.

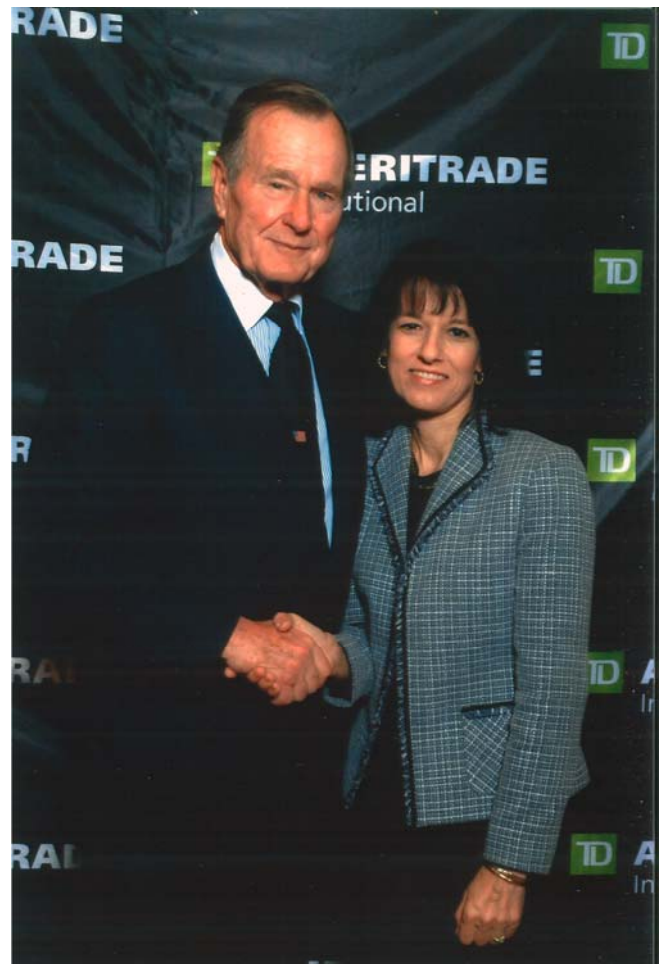
Basically, an investment advisor and a broker serve their clients by making “suitable” investment purchases. Surprisingly, suitable investments are often in conflict with what’s in the best interest of the investor. While an investment might appear appropriate, it might preclude being client oriented. For example, investments, which fall within the “suitability standard”, may have incentives and/or higher expenses that are in the best interest of the broker, but not necessarily the investor. A TD Waterhouse article recently released the language that a brokerage firm must prominently disclose regarding fee-based accounts:

Your account is a brokerage account and not an advisory account. Our interests may not always be the same as yours. Please ask us questions to make sure you understand your rights and our obligations to you, including the extent of our obligations to disclose conflicts of interest and to act in your best interest. We are paid both by you and, sometimes, by people who compensate us based on what you buy. Therefore, our profits and our salespersons’ compensation may vary by product and over time.

Fortunately for investors, regulatory statutes hold investment advisors to a standard much greater than that of suitability. Advisors have a “fiduciary” responsibility to act in the best interests of their clients at all times and disclose any conflicts of interest. A fiduciary can be defined as one who “manages the assets for the benefit of another person rather than for his or her own profits.” The bottom line being that investors benefit by receiving advice that they can trust that’s aligned with their long-term and shorter-term financial goals and objectives.

The fee-only compensation model adds another level of objectivity for investment advisors by making the investor the sole source of compensation. Fee-only compensation is generally based entirely on the value of client’s assets, which eliminates the conflict of interest brokers face by being paid by the product. In other words, your success is our success based on the appreciation of the portfolio, not compensation from investment companies or vendors for implementing their products.

Fee-only investment advisors sell an investment process, not a series of investment products. The differentiator between a broker and an investment advisor is clear, and tied directly to the success of your financial future where your interests take priority. At Brand Asset Management, we offer objective, high quality investment counsel that you can trust.



“We’re trying to meet influential people to help build the business. I may have overshot a bit.”

529 Plan Update

Phil Daniels, Investment Consultant

529 Tax Advantage Scheduled to Expire

The ability to withdraw funds from a 529 account for qualified higher education expenses without paying federal tax on the gains is a benefit to account owners. However, the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) that provides for that tax exemption has a sunset provision causing it to expire December 31, 2010.

Without legislation to extend the deadline or to make permanent the federal tax-exempt status, taxation of gains would revert to the pre-EGTRRA structure which still offered some benefits to account owners. Taxation of the gains would continue to be deferred and when funds are withdrawn would be taxed at the beneficiary's tax rate which often would be less than that of the account owner.

There has been a widely held belief that the tax benefits would be extended prior to their expiration. After all, the explosive growth of assets in 529 plans to \$70 billion from the \$12 billion that was in such plans in 2001 when EGTRRA passed is indicative of the attractiveness of the current structure to college savers. While we are still hopeful that legislation will be enacted to address the sunset provision, it may not happen in the near future, adding uncertainty to the program. Even if the current tax benefits are not extended, we would still consider 529 plans to be a good way to save for college.

Account owners should be aware of the sunset provision and how the tax treatment of gains may change. Additionally, they may want to let their elected officials know that they would like to see the federal tax exemption provided by EGTRRA made permanent. While they are at it, they may also want to encourage them to extend the dividend and capital gains tax relief beyond 2008, but that's another article.

For your convenience, www.congress.org is a website that would allow you to send an email to your representatives.



Missouri 529 Transition

In January, via the "What's New" section of our website, we shared our preliminary thoughts following the announcement that Missouri selected Upromise as the new program manager for the MOST college savings program. Since then, some additional data has been made available that we've summarized to help you know what to expect during the transition.

- Account owners should receive a newsletter or pamphlet from the State Treasurer's Office later this spring discussing the change and informing them of the new investment options. Those investment options will be further explained by Upromise and Vanguard.
- Account information including beneficiary designations will transfer from TIAA-CREF to Upromise/Vanguard and for accounts that have automatic deposit or payroll deductions, Upromise will send account owners additional information.
- Account owners will have an opportunity to select the new investment options that they would like to use. If a specific election isn't made, current assets will be automatically mapped to comparable options.

The transfer is scheduled to occur in early May with completion expected by May 10th. If you have any questions about the transition of your accounts or the new investment options in the Missouri 529 program, please give us a call.

Charitable Gift

For most of you, Fidelity serves as the primary custodian for the majority of your assets. Fidelity has a strong presence in the custodial marketplace, housing accounts for many, many individuals and corporations, including **charitable** institutions. The **transfer** of assets (whether that transfer is in the form of cash or securities) between your Fidelity account and the Fidelity account of a charitable institution is **extremely simple** and **efficient**. If you have an interest in transferring cash or assets to a charitable institution, and would like us to determine if that institution has a Fidelity account, please let us know. We would be happy to **facilitate** a charitable gift.



Portfolio Construction: Enhancements of the Last 15 Years

Todd Brand, President

Last quarter, we touched on a staple of wealth management: Asset Allocation and how important that one ingredient is to your lifetime investment results. We also mentioned that for this quarter, we would shed light on some of the aspects of portfolio design that have made major strides in the last 15 years. Without periodically reviewing what portfolio structures looked like years ago, it's easy to miss the changes because they occur slowly for the most part.

Here are the top three improvements in the field of investments...according to me.

Number One: The number of competitive choices available to investors has expanded almost exponentially. There are more than 20,000 mutual funds an investor can choose from. When I joined the business in 1992, I remember running a screen for "no-load emerging markets stock mutual funds" in Morningstar. I think there were three that we had access to on behalf of our clients. Today that number is 117 and the variety within those choices is staggering (growth/value/index/large-cap/small-cap/Asia/Latin America/etc.). A similar expansion of offerings has occurred in virtually every category of investment and has given the investor a much wider selection. Obviously this can add to the challenge and confusion of making investment selections, but for the informed, it is a huge improvement.

Number Two: The "Walmartization" of the mutual fund marketplace. A conscious decision has been made by some fund companies to reduce their fees and as such their revenue per share in hopes of making it up in volume. Industry cash flow data would suggest that it appears to have been a good move for at least some of those companies. Rather than market the past performance of a fund or manager, which is not necessarily an accurate indicator of future performance, investments are being made available that allow investors to retain more of their returns. This is a sustainable benefit. The best example I know of is the

evolution of Fidelity's core stock index fund (Fidelity Spartan US Equity Index). Fidelity has reduced the annual expense ratio of the cheapest share class of that fund from 0.31% to 0.19% to 0.10% to 0.07% in the last 10 years. The structure and intent of the investment hasn't changed but the net relative return to investors has gone up by 0.24%/year. In a fund with more than \$23 Billion, that's an annual improvement of \$55 million available to shareholders. That same story has played itself out at many of the major fund complexes in America.

Number Three: The growing selections of Passive (Index) investments and particularly the evolution of the "Exchange Traded Fund" or ETF has given the average investor access to a lower cost and more tax-efficient alternative for many of their asset class needs. In the early stages of my career, I had a very narrow selection of index funds, mostly tied to the S&P 500 Index. Today, an investor can buy an index of Swiss stocks, energy companies, government bonds, you name it. This helps in the implementation of a well designed portfolio by allowing the core portions of that portfolio to be cheaply constructed and highly tax-efficient.

These are just three of the arenas in which investors have seen great improvement in the "opportunity" to construct a better portfolio. There is surely much room left for the utilization of the new and more cost-effective investment tools.

The competitive nature of the fund industry and the amount of assets available to be invested force the creative firms (we put ourselves in that category) to bring to market new solutions. These solutions will most certainly continue to drive improvements to the portfolio construction process. We can only begin to guess what new tools may become available in the years to come. As a fiercely independent firm, we are always on the hunt for those tools so that we might continue to hone our portfolio construction skills.

Recovery Table (from page one)

Hypothetical Example	Conservative	Moderate	Balanced	Aggressive
Starting Value	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Return in Bear Market	-10%	-30%	-50%	-75%
Lowest Value	\$900,000	\$700,000	\$500,000	\$250,000
Return in Bull Market to "Fix"	7%	8%	9%	10%
Years at Bull Market Return	1.55	4.63	8.04	14.54

EMAIL ANNOUNCEMENT!!!!

If you haven't done so already, please begin using our new email addresses which end in brandamg.com. Our old email addresses, which end in amgbrandrussell.com, will be discontinued. All of the new email addresses are listed in the box to the right. Please call us if you have any questions.

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