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Are You Sitting on Hidden Wealth?

Two real life stories serve as reminders that some of us may be sitting on hidden wealth. In the first instance, a current client of mine called to let me know that he would like to "roll over" the balance in a 401K plan from his most recent employer into an existing IRA at Charles Schwab and Company, which we manage for him. As most people know, 401K plans (private companies), 403B plans (teachers and non-profits), and 457 plans (municipal employees) can usually[1] be transferred into an IRA account with no taxes due. As it turns out, my client's most recent employer uses Fidelity as trustee for their 401K plan. When the client went to Fidelity's web site and entered his Social Security number to begin the transfer process, he discovered that he had not one but *two* 401K plans held at Fidelity. Somehow, an account worth about $7,000, from many years ago, had escaped his attention. Who would lose track of a 401K plan, you might ask? Well, apparently a lot of people. So many in fact that there is a web site to help locate forgotten 401Ks: www.unclaimedretirementbenefits.com. You might want to check it out for yourself.

Speaking of found money, my wife Eileen and I had an interesting experience of late that could be informative to others. After discovering a slow slab leak in our foundation at the end of 2002, we were told by neighbors that the cost, about $4500, might be covered by the builder's warranty. California Civil Code §896 provides that a builder must be liable for violation of certain standards set down for new residential construction. The standards establish quality requirements for residential construction and use warranties as the enforcement mechanism. A key issue is the time period for which parties may be held liable under the warranties. Until 2003, the law provided a 4-year limitation for construction defects[2] and a 10-year limitation for latent defects. Our leak occurred just days before the 10th anniversary of our home's construction, or so we believed. But upon contacting the builder, Taylor Woodrow, their representative denied responsibility. So we made a claim to our homeowner's insurance company, Farmers Insurance. I mentioned to the Farmers claims adjuster my attempt to make a claim with Taylor Woodrow. Seven months after our claim was settled and the repairs were made, in mid 2003, we received what appeared to be a formality, a letter from Farmers noting that they had been successful in "subrogating" the claim, because as it turns out, the builder *was* liable. Farmers had received money from Taylor Woodrow to offset the payment they'd made to us.

I thought nothing more of this matter until about a month ago when our annual homeowner's insurance bill arrived, and I decided to make one of my occasional in-depth analyses of the policy. Noticing a paragraph stating that policyholders with no claims in the previous three years were entitled to a discounted annual premium, I contacted my agent to inquire as to whether we were receiving this discount. I learned that we were <u>not</u>, due to the aforementioned flood claim. Of course, I pointed out that Farmers had been compensated by the builder so that we were entitled to their discounted premium. The upshot of this story is that we've managed to recoup excess premium payments that had

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been incorrectly charged us in 2003, 2004 and 2005. Without my insurance review, we would likely have missed out on about $2,100 in overpayments!! Who says the cobbler's children never have shoes?!

If you have experienced a similar situation in recent years and would like us to review your homeowner's insurance or other insurance policies, we will be happy to do so. For clients, there is no charge for this service.

Mid Year Market and Performance Review

It is a good thing we do not pay too much attention to the "big picture" calls of prominent economists. Were we to do that, our clients would have been whipsawed by the constant oscillations of opinion, quickly translated into 100-point price changes in the Dow Jones Industrial Average. Market timers, those who hang on the words of every leading commentator, and jump in and out of stocks like a skittish colt with each news event, have likely been eaten alive by trading commissions, while making little or no headway.

Our Assessment: The stock market in general has been stalled because we are in a US economy under the sway of forces largely beyond the control of our central bank, the Federal Reserve. Despite dire predictions, the highest energy prices in 25 years have had little apparent dampening effect on corporate profits and consumer buying power. This is because Asian economic powers seek to prevent a recession in the USA, their greatest overseas market. They exert this power by buying issue upon issue of Treasury debt, which prevents our long-term interest rates from rising. Doom-Sayers worry that this party will end badly, when foreigners tire of supporting our government's profligacy. Maybe so, but we are all benefiting from Asian economic management, at least in the interim. Low interest rates have allowed US corporations to improve their balance sheets by retiring high coupon debt, replacing it with low cost borrowing. This is usually a positive development for shareholders. A second beneficial effect of the Asian factor is the spectacular rise of residential real estate values, especially here on the west coast, fueled by low mortgage interest rates.

As a corollary, we are seeing steady nibbling at US-based companies by foreign buyers. In exchange for those cheap electronics, automobile components and all manner of stuff sold on the shelves of Wal-Mart, the Chinese would like to own American companies. Haier, a Chinese manufacturer has already scooped up Maytag. Lenovo bought the Thinkpad personal computer line from IBM. But the headline grabber is the offer by Chinese National Offshore Oil (CNOOC) to buy Unocal, the California-based oil producer, who was in talks to be sold to Chevron. This development is discomfiting for many who understand the corrupt nature of the Chinese government, which is backing the proposed Unocal purchase by CNOOC. Still, developments like this were to be expected, since we Americans keep sending vast amounts of dollars overseas through chronic balance of trade deficits. Those foreign interests want something tangible for our greenbacks. Recall when the Shah of Iran was using his oil profits to buy up buildings on 5th Avenue in Manhattan (1970's)? When Japanese interests purchased prominent Honolulu and Los Angeles office buildings and the Pebble Beach golf course (1980's)? The US has been the world's #1 advocate of open markets since the days of Ronald Reagan, so in theory the offer for Unocal should be seen as a normal business transaction.

Are we masters of our own fate here in the US or is it in the hands of Tokyo and Peking? Riyadh and Caracas? I believe the US is still the world's most important consuming nation, certainly the dominant military power, but no longer the only force that directs world economic growth. This philosophy colors our investment choices and is why our client portfolios have an international flavor. In the end, however, we must buy <u>businesses</u> for clients, not grand economic themes. While it would be foolish to ignore larger trends, we are not much influenced by day-to-day scare stories. We are generally bottom up stock pickers, and balance equity selection with bonds, real estate and natural resource investments, seeking to benefit from mega trends like an aging population and a shifting economic balance of power.

Performance year-to-date has been gratifying. While individual client portfolio performance can vary due to unique personal objectives and risk tolerance, discretionary portfolios are up 2% to 3%, year -to- date, which beats comparable growth and income mutual fund portfolios[3]. While long term value oriented funds were stalled, our significant allocation to energy, real estate and bonds (yes, bonds!) provided momentum. Our complete track record, dating back to March 31, 2001, is available upon request.

Don't Miss these Upcoming Presentations by Gary Miller, CFP

Gary E. Miller, Certified Financial Planner ™
will be teaching classes during the remainder of 2005 as follows:

Class Title	Location	Date/Time	To register call or visit...
How to Find High Income in a Low Income World	Saddleback Community College	Saturday October 1 9:00 AM - Noon	www.saddleback-ce.com 949-582-4646
Retirement Plans for the Self Employed	Saddleback Community College	Saturday November 5 9:00 AM - Noon	www.saddleback-ce.com 949-582-4646

(Footnotes)

[1] The rules on rollovers can be confusing. Give us a call for a review of your specific situation at 949 249 2057.

[2] The law was toughened in 2003 in SB 800. We have not performed any research to determine if subsequent legislation or court decisions have modified this 2003 law. Please see a legal specialist if you have questions regarding your own situation.

[3] *Wall Street Journal Online*, July 5, 2005, shows average return for "Equity-Income" funds, similar to our current style to be .96% year-to-date 2005.