



# Portfolio Notes

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## CALIFORNIA ADOPTS FEDERAL STATUTE, MAKES RETIREMENT A "SNAP".

**T**HANKS IN PART TO LOBBYING BY THE FINANCIAL PLANNING ASSOCIATION, CALIFORNIA ADOPTED THE 2001 FEDERAL TAX BILL'S LIBERALIZED RETIREMENT PLANNING OPTIONS.

THIS OFFICIALLY OPENS THE DOOR TO A WIDE RANGE OF FINANCIAL PLANNING OPPORTUNITIES, ESPECIALLY AS REGARDS LONG TERM SAVINGS ON A TAX FAVORED OR TAX FREE BASIS. HERE A FEW GROUPS WHO WILL WANT TO KNOW ABOUT THE NEW LAW:

### SELF EMPLOYED AND SMALL BUSINESS OWNERS

- THERE IS FAR LESS PAPER WORK REQUIRED THAN IN THE PAST.
- "KEOUGH" AND DEFINED CONTRIBUTION PLANS REQUIRING COSTLY FILINGS MAY BE OBSOLETE SINCE NOW 25% OF NET BUSINESS INCOME (\$40,000) CAN BE WRITTEN OFF AS A PROFIT SHARING PLAN CONTRIBUTION, AND REQUIRES ONLY THE ONE TIME COMPLETION OF A FORM THAT TAKES ABOUT 4 MINUTES.
- IF YOU'RE OVER AGE 50 AND HAVE AMPLE CASH FLOW, YOU MAY BE ABLE TO SOCK AWAY HUGE PRE TAX SAVINGS IN ORDER TO REWARD YOURSELF WITH A RETIREMENT INCOME OF UP TO \$130,000 A YEAR.

### TRADITIONAL FAMILIES WITH ONE BREAD WINNER AND ONE HOMEMAKER

- IF TOTAL ADJUSTED GROSS INCOME IS UNDER \$150,000, STAY AT HOME MOMS CAN NOW CONTRIBUTE \$3,000 PER YEAR TO AN IRA AND DEDUCT THE CONTRIBUTION FROM TAXES!

### MUNICIPAL EMPLOYEES

- FOR THE FIRST TIME YOUR 457 SAVINGS PLAN CAN BE ROLLED ENTIRELY INTO AN IRA WHICH IS OFTEN A BETTER CHOICE THAN CONVERTING TO A MONTHLY INCOME AT RETIREMENT!

### PARENTS OR GRANDPARENTS OF CHILDREN DESTINED FOR COLLEGE:

- YOU NOW CAN SAVE LARGE SUMS ON A COMPLETELY TAX FREE BASIS, REDUCING BOTH INCOME TAXES AND ESTATE TAXES!

*REMEMBER, IT'S IMPORTANT TO INVEST INTELLIGENTLY, BUT EQUALLY IMPORTANT TO KEEP WHAT YOU INVEST IN YOUR POCKET NOT THE GOVERNMENT'S.*

*IF ANY OF THESE OPPORTUNITIES WHET YOUR APPE-TITE, CALL OR E-MAIL ME [GARY@WALKERFINANCIAL](mailto:gary@walkerfinancial.com) AND WE'LL FILL YOU IN ON THE DETAILS.*

### TRAIN WRECK AVOIDED IN ORANGE COUNTY

WE WERE SADDENED TO LEARN OF THE DEATH AND INJURY CAUSED IN FULLERTON WHEN A FREIGHT TRAIN COLLIDED WITH A PASSENGER TRAIN ONE APRIL MORNING.

FEDERAL INVESTIGATORS SUGGESTED THE ENGINEER ON THE FREIGHT MISSED A NUMBER OF WARNING SIGNALS.

WE RARELY THINK OF THE ENGINEER AND THE JOB HE OR SHE DOES FOR US WHEN WE GET TO OUR DESTINATION SAFELY. FEW PEOPLE EXPECT TO SEE A HEADLINE LIKE THE ONE ABOVE.

A MAJOR PART OF THE VALUE WE CAN ADD TO YOUR PORTFOLIO CONSISTS OF AVOIDING BIG LOSSES. WITH ALL MAJOR EQUITY INDEXES TRADING BELOW THEIR LEVEL OF THREE YEARS AGO, THERE HAVE BEEN PLENTY OF "TRAIN WRECKS" IN THE STOCK MARKET. INITIALLY THESE WERE CONFINED TO THE ".COM" STOCKS WITH FLIMSY BUSINESS MODELS AND PIE-IN-THE-SKY FINANCIAL ASSUMPTIONS. THEN THE IMPLOSION SPREAD TO OVERPRICED NAMES LIKE MICROSOFT, INTEL, CISCO AND LUCENT. WE'RE NOT ALWAYS SUCCESSFUL IN AVOIDING POOR STOCK PERFORMERS, WHICH IS WHY DISCRETIONARY ACCOUNTS ARE WELL DIVERSIFIED. BUT WE'RE PROUD OF OUR WILLINGNESS TO EXIT SITUATIONS THAT SMELL LIKE TROUBLE AND NOT DECEIVE OURSELVES BEYOND RATIONALITY.

FEW PEOPLE THOUGHT AMERICAONLINE (AOL) THE WIDELY USED INTERNET SERVICE PROVIDER WHICH ACQUIRED TIME WARNER IN EARLY 2000 WAS VULNERABLE TO A TECHNOLOGY MELT DOWN SINCE IT HAD WISELY EXPANDED BEYOND ITS INTERNET ROOTS TO ENCOMPASS MAJOR TELEVISION PROPERTIES (CNN, TURNER BROADCASTING), FILM (WARNER BROS.) AND MAGAZINES (TIME).



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ALTHOUGH NOT CLEAR AT THE TIME, AOL OVERPAID FOR TIME WARNER BELIEVING IN "SYNERGIES" THAT WOULD LOCK UP HUGE NUMBERS OF CONSUMERS AND MAKE THEM UNINTERESTED OR UNAVAILABLE TO THE COMPETITION.

WHEN A COMPANY PAYS MORE THAN BOOK VALUE FOR AN ACQUISITION, THIS OVERPAYMENT IS PLACED IN AN ACCOUNT CALLED "GOODWILL". GOODWILL IS GRADUALLY DEDUCTED FROM FUTURE EARNINGS LIKE DEPRECIATION. BUT THE HOPED-FOR AOL-TIMEWARNER SYNERGIES HAVE NOT MATERIALIZED AS YET AND THE COMBINED VENTURE HAS SUFFERED A LOSS OF ADVERTISING REVENUE AND A DRAMATIC SLOWING OF NEW INTERNET SUBSCRIBERS (WHO WANTS THOSE ANNOYING POP-UPS?)

WHEN IN THEIR BEST JUDGMENT THE INDEPENDENT ACCOUNTANTS FOR A FIRM FEEL THE ABILITY OF AN ACQUIRED COMPANY TO GENERATE FUTURE REVENUES HAS BEEN "IMPAIRED" (DUE TO CHANGES IN LAW, CONTRACTS, COMPETITIVE ENVIRONMENT) THEY FORCE A COMPANY TO "WRITE DOWN" GOODWILL. THIS REDUCES SHAREHOLDER EQUITY OR BOOK VALUE. THE DEGREE TO WHICH STEVE CASE AND HIS ADVISORS OVER PAID FOR TIME WARNER WAS EXPOSED WHEN THE ACCOUNTANTS APPARENTLY NUDGED THE COMPANY TO "WRITE OFF" **\$54 BILLION** (YES "B") OF "IMPAIRED GOODWILL" IN THE MARCH 31, 2002 QUARTER, THE LARGEST QUARTERLY LOSS IN U.S. CORPORATE HISTORY, ACCORDING TO NEWS REPORTS.

## SECURITIES INDUSTRY ASSOCIATION: "WE'RE SORRY - CAN WE KEEP FIBBING?"

IN PAST ISSUES WE'VE REMINDED INVESTORS THAT THEY MAY BE ON THE SHORT END OF THE STICK WHEN IT COMES TO RECEIVING INVESTMENT "ADVICE" FROM COMMISSION TAKERS SUCH AS STOCK BROKERS. HEARINGS LAST SUMMER IN CONGRESS HIGHLIGHTED THE INCREDIBLE FACT THAT SOME 99% OF BROKERAGE FIRM STOCK RESEARCH REPORTS CONCLUDE THAT THE SUBJECT COMPANY IS EITHER A "BUY" OR A "HOLD". "SELL" IS APPARENTLY NOT IN THEIR LEXICON.

NEW YORK ATTORNEY GENERAL ELLIOT SPITZER, INCENSED TO LEARN THAT MERRILL LYNCH ANALYSTS WERE TELLING THEIR CLIENTS TO "BUY" CERTAIN STOCKS WHILE PRIVATELY E-MAILING ONE ANOTHER AND REFERRING TO THE SAME COMPANIES AS "DOGS", HAS BEEN DEMANDING REPARATIONS FOR INVESTORS. STRANGELY, LOUISIANA CONGRESSMAN RICHARD BAKER JUMPED INTO THE FRAY CRITICISING SPITZER AS OVER ZEALOUS.<sup>1</sup> THIS WILL LIKELY GIVE SEC COMMISSIONER HARVEY PITT THE COVER HE NEEDS TO LIMIT ANY INVESTIGATION OF THE INDUSTRY, WHICH IS LOBBYING HEAVILY FOR THE RIGHT TO CONTINUE BILKING, ER, BUSINESS AS USUAL.

THE ONLY REAL DEFENSE FOR BUSY INVESTORS WHO DON'T HAVE THE TIME TO PERFORM EXTENSIVE INVESTMENT RESEARCH IS TO RETAIN A PERSONAL

ADVISOR TO PROVIDE OBJECTIVE ADVICE, AN ADVISOR WHO DOES NOT ACCEPT COMMISSIONS. THAT'S THE BUSINESS PROPOSITION I OFFER POTENTIAL CLIENTS!

**PROSPECTIVE CLIENTS INVITED TO GET ACQUAINTED LUNCHEON**



WE ARE PLEASED TO RECALL THAT WHEN THE COMBINATION WAS ANNOUNCED, WE ADVISED CLIENTS WHO HELD THE STOCK, AT A PROFIT, THAT THEY SHOULD EXIT. WHILE WE DID NOT PREDICT THE FAILURE OF THIS MERGER, NEITHER DID WE BUY INTO THE HYPE AND EDITORIALS THAT DECLARED THIS NEW BEHEMOTH WOULD FLATTEN IT'S COMPETITION. WE SIMPLY NOTED THAT BECAUSE THE ENTIRE BUSINESS MODEL WAS CHANGING, AND THE FRISKY INTERNET COMPANY WE HAD ORIGINALLY OWNED WAS MERGING WITH A COMPANY WHO HAD INFERIOR RETURNS ON EQUITY, IT WAS OUR OPINION THAT THERE WERE BETTER FISH TO FRY. WE UNLOADED AOL AT ABOUT \$70 IN JANUARY 2000. IT RECENTLY TRADED NEAR \$18. TRAIN WRECK AVOIDED.

I WILL BE HOSTING LUNCH AT THE ST REGIS HOTEL IN LAGUNA NIGUEL ON MAY 22 AND AGAIN ON JULY 9. THIS WILL BE AN OPPORTUNITY TO HAVE YOUR INVESTMENT QUESTIONS ANSWERED AND TO LEARN ABOUT SOME EXCITING TAX SAVING STRATEGIES. I'LL ALSO EXPLAIN THE BASICS OF MINIMUM REQUIRED DISTRIBUTIONS FROM IRA'S THAT AFFECT PEOPLE WHEN THEY REACH AGE 70 ½.

FOR RESERVATIONS CALL US AT 949-367-1961 OR E MAIL MY ABLE ASSISTANT JACKIE TAUB AT [JACKIE@WALKERFINANCIAL.COM](mailto:JACKIE@WALKERFINANCIAL.COM).