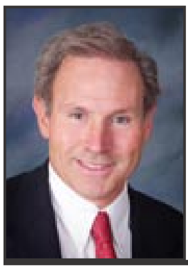

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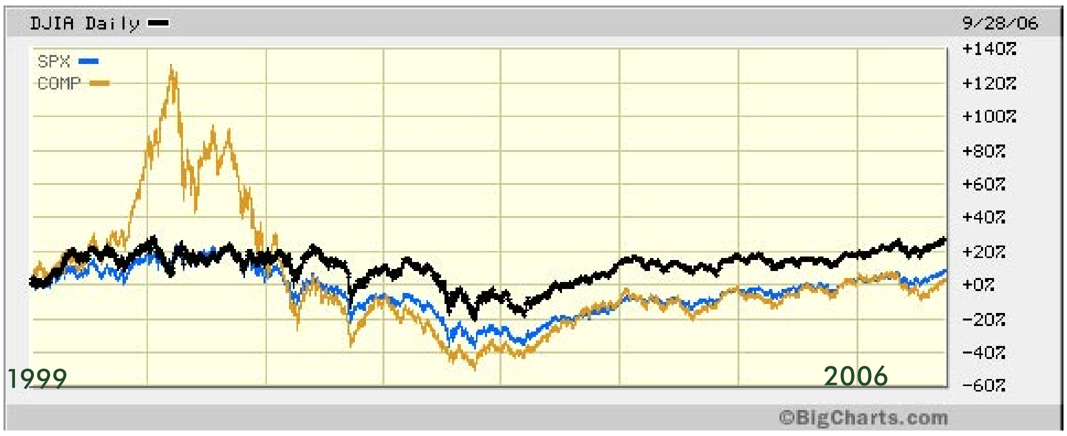

New Dow High - Oh Really?

The media got excited about the Dow Jones Industrial Average's achievement of a new high water mark during the last week in September. On several occasions the benchmark index topped its record-high close of 11,722.98 from Jan. 14, 2000. The Dow's intraday record, set that same day, remains 11,750.28. But as the chart above reveals, there really is not much to get excited about, at least as yet. The broader Standard & Poors Index (blue line) covering 500 stocks vs. the Dow's 30 remains below it's old highs from the 2000 to 2001 period. As for the tech heavy NASDAQ index... well a picture is worth 1000 words. During the height of the Technology Bubble, Microsoft traded at price earnings ratio of 53, Cisco at a P/E over 80 and Yahoo at a P/E over 300! (today the S&P PE ratio is about 17, still high by historic standards). The chart above tells the story. The Dow Jones Industrial Average, in black, is up about 30% since January 2, 1999. The broader Standard & Poors 500 index is up about 10%. But the eye opener is what happened to NASDAQ (symbol COMP, in orange). Those who piled into technology stocks in 1999 and 2000 learned the lesson of a life time. Actually, the

Indicator	Q3 2006	Yr. to Date	Trailing 12 mo.	5 Yrs. to 9/29/06
S&P 500	+7.99%	+8.79%	+12.16%	7.03%/yr
Taxable Bonds	+3.12%	+2.16%	+1.71%	4.87%/yr
Intl Stocks	+.67%	+10.06%	+26.89%	18.35%/yr
Trusted Financial	+3.12%	+7.68%	+7.71%	7.41%/yr

Source: Morningstar online and Portfolio Center

Certified Financial Planner™

Gary Miller is in his 32nd year of providing financial guidance to individuals and pension plans. He is a Registered Investment Advisor and a Certified Financial Planner ™ Practitioner. Gary holds a Certificate in Personal Financial Planning from the University of California, Irvine and has served as a Board member of the Financial Planning Association, Orange County Chapter.

Dow has done considerably better than suggested by the above chart. Most of the stocks in that index pay healthy dividends, which are not counted by those who compile the Dow Jones Industrial Average. When dividends are considered, those owning the large mainstream Dow stocks have done better than the above chart suggests.

The table on page one provides preliminary performance information for a composite of *Trusted Financial Advisors*' discretionary accounts, and compares them with relevant financial indexes. Note that the entire period covered is the post Bubble era, 9/30/2001 to present.

Long time clients and readers will note that as the current bull market goes on, our balanced approach which held up so well during the 2001-2003 bear market and allowed us to significantly outperform indexes constructed of 100% stocks, is no longer out performing a stocks only approach (except for the 5 year period which includes much of the bear market). This is consistent with our approach, which is to first protect capital from losses and then attempt to capture about 80% of the US stock performance. We expect to produce a more detailed report in about one month's time which will also demonstrate that month-to-month volatility for our client discretionary portfolios is less than half that of a stocks only approach.

One other observation - to me it is odd that the financial press does not make more of the fact that international equity investments have had a tremendous year to date and trailing 12 months. By the way, our client accounts have been consistently and significantly exposed to international stocks for the entire 5 ½ years that we have managed money on a fee only basis. This can be a notoriously volatile sector, so responsible diversification does not admit to going overboard with the currently attractive sector. The money that has been made for clients in the last six years has not come from predicting where any particular index will go[1]. It has come from bottom up selection of value stocks, REITS, MLP's (discussed below), mutual funds, and a willingness to sit in cash when there are no bargains available. We will to hone to this approach because it works.

Client Comment of the Month:

Clients Elaine and John Gidcombe were kind enough to send us the following commentary on the recent performance of their two IRA accounts:

"You might be interested to know the following. According to my calculations, since you got us out of Brandes in May 2003 (3 years and 3 months ago), our portfolios have annually averaged the following percentages. Pretty darn fine, wouldn't you agree?!?"

	John	Elaine	Total
Trusted Financial	12.54% per year	13.00% per year	12.82% per year
Brandes,Berkley, etc.	8.77% per year	5.45% per year	6.60% per year

For readers who are unfamiliar with the reference to "Brandes" and "Berkely", these are large money managers, Registered Investment Advisors who, like *Trusted Financial Advisors*, make day to day investment decisions for clients. At one time we farmed out portions of client portfolios to these firms, which are widely used as "wrap fee" account managers at large brokerage firms. It is gratifying to learn from a client who has been tracking performance that we have out paced these other managers for the past three years.[2] Thanks John and Elaine!

Useful Website for Everyone, Especially Neat Freaks:

The Insurance Information Institute offers a free software that can help you keep track of your possessions, especially the valuable ones that could be stolen or damaged in an earthquake, flood or fire. This is a great way to hold on to original purchase receipts too. Further, it could be useful to help your family inventory your possessions in the event of death. Check it out at: http://www.knowyourstuff.org/how.htm

Still Loving Energy MLP's!

In case you are unfamiliar with the abbreviation "MLP", it stands for Master Limited Partnership - an exchange traded, SEC registered security that raises capital by issuing limited partnership "units" to the public . This compares to the more common structure known as a corporation, which issues "shares". As clients know, these have generally been a positive investment, especially our holding of Kinder Morgan and to a lesser extent, Valero, LP. Late in the quarter we began to add another MLP, Enterprise Partners (EPD), which is a gathering and transportation pipeline system for natural gas and natural gas liquids, similar to Kinder Morgan but with a more vertical orientation to the natural gas distribution business.

A key attraction of MLP's is their avoidance of income taxation at the business level, unlike corporations. This means the business can pay a greater share of its earnings in the form of dividends, making MLP's ideal for investors who regularly access their accounts for cash. Many of our clients must take annual "Required Minimum Distributions" from their IRA accounts, and MLP dividends keep liquid funds coming in to the account to satisfy this requirement.[3] Enterprise Pipeline Partners, L.P. for example currently pays a dividend near 7% per year.

Despite a retrenchment in the price of natural gas and oil, these partnerships are far less volatile than the shares of an oil and gas producer or drilling company. In fact, the price of energy should, in theory, have little effect on these companies, because they are like toll ways, collecting a fee for transporting energy, and usually do not bet on the price of energy.[4] While not completely immune to popular perceptions of where energy prices may be going, MLP's are far less volatile than the rest of the energy sector or even the market as a whole. Despite the recent retrenchment in the price of energy, we continue to believe energy transporters are an attractive holding.

We also see some near-term catalysts. Perhaps the most important is a change to the US tax code that opens up MLPs for more institutional investment. Specifically, mutual funds must derive 90 percent of their income from certain qualified sources to qualify as "regulated investment companies." Until 2004, this did not include Master Limited Partnerships. Funds could place no more than 10 percent of their respective total assets in MLPs. The American Jobs Creation Act of 2004 (the "Act") changed all that. The Act specifically allows funds to put up to a quarter of their assets into MLPs.

Some of the most popular funds in recent years have been income-focused funds. Given the relatively low returns now available from REITs, bonds and utilities, it's a good bet that MLPs will become a more attractive asset class. The 2004 tax law will mean that institutional money begins to gradually move into the sector alongside retail cash.

So the picture in this space is bright in our view and the yields, often over 6%, are becoming even more attractive as interest rates appear to have peaked for this cycle. Our clients have benefited from the Master Limited Partnership structure for over three years now, and we continue to look for opportunities in the sector.

New Tax Law Means You Need a Financial Planning Review

Here are some things to know and ways to take advantage of provisions contained in The Tax Increase Prevention and Reconciliation Act of 2005:

- Long Term Capital gains tax rate stays low - Originally scheduled to revert to 28% in 2008, this has been extended to 2010. Maximum rate remains at 15% until then, making long term investing (one year or more) a better strategy than short term speculation.

- Dividends from corporations remain at 15% maximum tax rate. This means dividend paying investments make tremendous sense in taxable accounts.

- Roth IRAs can be opened by converting Traditional IRA funds, and with delayed tax consequences. This one is a bit tricky to explain so we'll save it for another edition of *Trusted Advisor.* For 2006, those who do not qualify for a Roth, due to high earnings, should now consider contributing to a traditional IRA and later converting it to a Roth, as this approach legally circumvents the income limitations that restrict annual Roth contributions.

- Charitable donations can be made from IRA accounts. You'll surely be hearing about this from your church, Scouts or favorite cause. If you're over age 70 ½ and charitably minded, you can now direct all or part of your Required Minimum Distribution to a charity of your choice, avoiding taxation on the distribution. This may reduce your Adjusted Gross Income to a level where the standard deduction is better than itemizing.

There is more color to these provisions than we can cover here, so stay tuned to future issues of *Trusted Advisor* for more in depth discussions

Reminder:

NOW is the time to do tax planning for 2007. There are a number of smart moves that may be available if you act in time. Give us a call for a telephone discussion.

Class and Workshop Schedule			
Title	**Location**	**Date/Time**	**To register call or visit...**
Tax Saving Retirement Plans for Small Business and the Self Employed	Saddleback Community College	Saturday November 4, 2006 9:00 AM to Noon	949 582 4646 www.saddleback-ce.com

Footnotes

1. A mea culpa is in order here. During the quarter just past we exited a couple of small positions in India Fund and Japan Fund, both indexes for the respective nations' stock markets. This was a poor decision, we lost money in these holdings and fortunately regained sanity before the damage was too great. Lesson learned, I hope.
2. These figures have not been independently verified.
3. As an aside, some tax astute readers may be aware that many MLP's can create "Unrelated Business Taxable Income" for tax sheltered accounts like pensions and IRA's. We are careful to choose MLP's that shelter their income with large capital expenditures that produce annual depreciation deductions.
4. Some MLP's do derive a portion of their income from storing natural gas and taking ownership, which entails market risks.