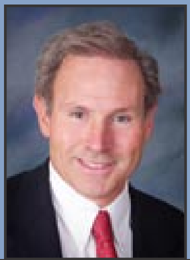

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Trusted Advisor

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March Madness

Barely had 2006 profits been tallied when January and February saw big points scored with seeming ease, leading me to congratulate myself on the great team of investments I'd put together for client portfolios that we manage. But long experience has taught me never to underestimate the ability of financial markets to block even the best performing stocks from scoring, despite their individual abilities.

The fast break of January and February was undone as we crossed into March. Chinese speculators began to panic at signs the US economy was slowing and perhaps in anticipation of a toughening stance toward Chinese imports issuing from a Democrat controlled Congress. A world wide equity market melt down ensued. Close on its heels *New Century Financial*, an Orange County, California mortgage lender and packager was said to be in trouble. Suddenly a phrase with which most Americans were unfamiliar, "sub Prime", was on the lips of every investor. It appeared the free market was doing what the Federal Reserve has failed to do: cut off credit to marginal borrowers and home purchasers. Such a move has portent for the homeowner market in its entirety. Sub prime lending makes mortgages available to entry level home buyers. These new buyers allow home sellers to unload their properties and move up the price ladder. The collapse of the sub prime market also has portent for the economy in general as a supply of credit to first time home buyers fuels new home construction, making possible the jobs of construction workers and building suppliers whose spending in turn sends positive ripples through the economy.

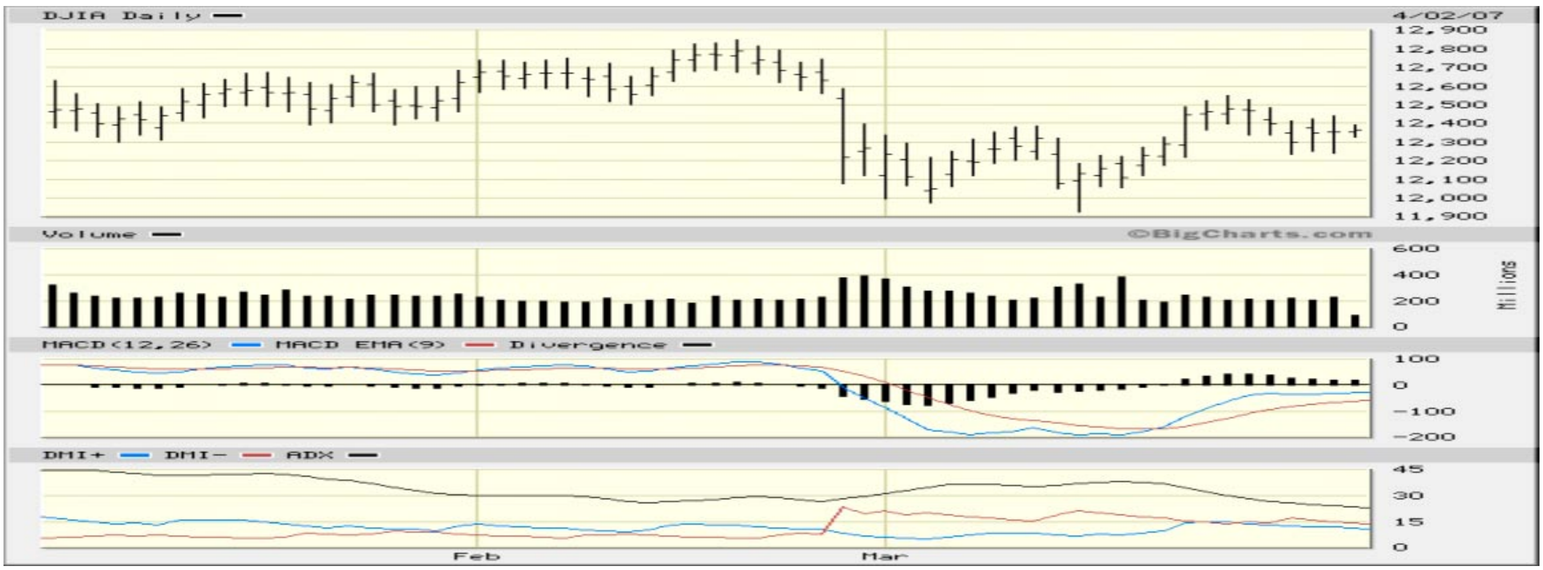
Certified Financial Planner™

Gary Miller is in his 33rd 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.

With the bearish crowd thundering from the bleachers, nervous investors began heading for the exits and before long the points scored in the early part of the quarter were the stuff of memory. Major indexes finished the quarter with small gains, although the popular *Dow Jones Industrials* were actually off .9%. A Broader US index, the *Standard& Poors 500* was up .2% but the *Dow World Index* did nicely despite the China panic: up 3.8%.

“Thank You for allowing me to be of Service”

Often I end my letters or emails with the phrase above. Here is a true story of financial planning service in action:



Dow Jones Industrial Average January 2 2007- March 31 2007 (©Big Charts)

We are pleased to note that a composite of Trusted Financial Advisors discretionary client accounts generated a 3.6% size weighted return for the quarter[1]

Why was this so? What is ***Trusted Financial Advisors*** doing that allows clients to sleep well at night, even in the face of storms that periodically blow through the equities markets? Most sell-offs are the result of short term panics that force leveraged and aggressive investors to sell out. Some market sell-offs are graver affairs, like the unwinding of the Technology Bubble, which led to a bear market of over two year's duration[2]. We position for both short term panics and more serious events by staying diversified, and trying to own undervalued equities as well as those that by their nature are less volatile than the averages[3]. Our track record of over 6 years of discretionary investment management suggests our approach is successful.

At the conclusion of a three part workshop designed to provide financial education to women[4], a widow came to see me for a no cost “get acquainted” session. Her husband had died in an accident four years earlier, leaving her with a four year old son. Thankfully, he carried a life insurance policy and the death benefit has allowed this mom to raise her son, and an older daughter from her first marriage, without the need to go back to work full time. Because she does not want her teen age daughter to become a “latch key” kid, and feels she needs to be around to transport her son to and from school, she works as a part time bookkeeper, often over the internet, from home. Her $50,000 earnings, however, are not quite enough to pay for an Orange County lifestyle, and she has begun spending some of the principal of the life insurance settlement. Her objective for our meeting was finding ways to improve her investment return. Her question to me was: "how do I earn a better return than the 5% I'm getting on a Certificate of Deposit, without risking the loss of my insurance settlement fund?"

We discussed better alternatives to CD's (see article below). I began exploring her spending. As the conversation continued I was able to suggest ways she might alter her spending patterns. Soon she began running with the ball, thinking out loud about unnecessary expenditures, including some indulgent spending she allows her daughter. As her daughter is no longer a small child, I encouraged this widow to let her daughter share some responsibility by communicating with her in an adult manner. Learning that she regularly refers her bookkeeping clients to a tax preparer, I further suggested she might ask him to do her taxes for free instead of paying him $500 each year to prepare her taxes. Her eyebrows rose and I could see a shift in thinking taking over. By the time our "Get acquainted" meeting ended, this young woman thanked me for saving her about $700 a month in expenses, a sum that approximated the amount by which she was dipping into her insurance money! With re-deployment of her resources into higher yielding investments, she should be able to remain a part time worker, until her son graduates high school, at which time she will likely return to full time work.

Improving Returns for Careful Investors

Like the widow described above, a question often heard from prospective clients is *"how do I improve on the poor return I'm earning at my bank or credit union, but without taking a lot of risk?"* Many of the people asking this question were hurt badly in the last bear market, often the result of too great exposure to technology or biotechnology stocks that they did not really understand.

Fortunately, there are a number of investments that offer the following characteristics:

- **Regular dividends backed by financial strength and earnings**
- **Investments that can be sold and turned back into cash quickly**
- **Understandable businesses with little risk of surprises**

To be sure, these investments are not as safe as government insured CD's or Treasury bonds. But long years of experience have proven to my satisfaction that the small additional risk assumed by allocating some funds to the investments listed below is amply rewarded with higher returns.

REITS

Beginning in the 1990's we began investing in Real Estate Investment Trusts (REITS) and, pleased with the results, devoted greater percentages of client portfolios to them in 2001. The results have been nothing less than spectacular, especially when one compares this high dividend investment with the losses suffered by owners of many index funds and technology companies. Although this asset class has now been "discovered" by institutional investors and retail stock brokerages, there appear to be some attractive issues available and we currently hold REITS with dividend payouts as high as 6.8%.

MLP's

Nearly four years ago, high dividends attracted me to a New York Stock Exchange listed company with the unusual structure of a partnership rather than a corporation. Master Limited Partnerships (MLP's), as they are known, are found in a number of industries, but a change in the law has limited their recent issuance to companies that build and operate energy infrastructure businesses. These include natural gas pipelines, refined petroleum product pipelines, storage tanks and barges. Like the interstate highway system, our nation is criss-crossed with thousands of miles of pipelines carrying energy, unseen, underground. Many MLP's are yielding better than 6% and have been regularly raising dividends. This is an easily understood business, an unglamorous way to earn a nice income! Many MLP's pay dividends, but most of this income is not currently taxed. It is not unusual to find that 60-80% of the income is sheltered and not taxed until sold - something analogous to ownership of residential real estate, but with considerably better cash flow.

Closed End and Exchange Traded Mutual funds

Because they can use leverage, some funds borrow inexpensively and use the borrowed money to buy high yielding bonds. One of our favorites, which has been around since the 1980's borrows in the US at low interest rates by issuing short term preferred stock. These borrowed funds, plus common shareholder equity, are used to purchase high dividend paying bonds, often government issues in Australia, New Zealand and emerging Asian nation. For example, 5 year bonds issued by the Australian state of New South Wales offer better than 6%. Combined with moderate leverage, a closed end fund can produce over 7% yield for investors.

Check our website for financial updates:
www.trustedfinancial.com

Preferred Stock

Finding a good quality preferred stock can be difficult. Many are issued by utilities whose businesses are low risk, or by REITs (discussed above). We've identified a few attractive preferreds, again with dividends above 6%. An added benefit of this instrument is the low tax rate you pay on the dividends. Like common stock dividends, the maximum tax rate applied is 15%. In the event of a sustained rise of interest rates, however these long dated instruments can lose a considerable amount of value.

Footnotes:

1. Performance figures are prepared in accordance with CFA Institute standards but are not independently audited.
2. Compounded by fearful events on September 11, 2001, the average common stock lost 40% of value over a three year period, from January 1, 2001 to March 31 2003.
3. Businesses without too much leverage, with pricing power, with market dominance tend to exhibit less price volatility than others (think food companies vs. airlines).
4. *Financial Independence for Women* will be presented again by Saddleback Community Education three Thursday evenings - September 6, 13 and 20 2007.