

Trusted Advisor

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Trusted Financial Clients Celebrate Holiday Season and a Good Financial Year



Pictured above are Carl and Kristin LaPlante, clients of the firm enjoying our annual Client Holiday Luncheon. 2006 marked the eleventh consecutive year that our clients have gathered to enjoy the gourmet food at Mr. Stox, a Zagat rated restaurant in Anaheim, CA. Entertainment was provided by Richard Abraham, keyboardist, with a few holiday tunes sung by client Tom Campbell, a long time member and past President of Pacific Chorale. An annual report to clients was presented by Trusted Financial Advisors Principal Gary Miller. Below is a synopsis of his comments:

2006 Wrap Up

2006 turned out to be a good year for clients of Trusted Financial Advisors. This was the fourth recovery year since the markets bottomed out in March 2003 following the combined whammy of a collapsing technology stock market coupled with the psychological effects of the terrorist actions of September 11, 2001. It is a tribute to the resiliency of the world's financial markets that the increased costs of heightened security, restricted travel and soaring energy prices have failed to cause a prolonged recession/depression, something that would have seemed very possible from the perspective of four years ago.



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.

For information about attending one of Gary's seminars please call
949-249-2057 or e-mail gary@trustedfinancial.com

For the year, our clients enjoyed returns averaging 14.86%¹, as compared to some of the popular indexes:

Index	2006 Total Return
Trusted Financial Advisors Composite (TR)	14.86%
Dow Jones Industrial Average	16.29%
Standard & Poors 500 (TR)	15.79%
NASDAQ Composite	9.52%
MSEAFE (World, ex U.S.A.)	13.93%
Lehman Aggregate Bond Index	4.33%

NOTE: TR=total return including dividends, if no indication, then % growth of principal only.

Our client portfolios are diversified not just in the traditional “Stock-bonds-cash” manner, but with at least three additional overlays that have served clients well:

First, as long time believers in international investment opportunities, about 25% of client equity holdings and about 5% of bonds are non-US companies. These are predominantly issuers from first world, regulated markets. Not only are many foreign economies expanding more rapidly than the US economy, but the selection of equity holdings is value oriented. We are not chasing, for example, high priced Chinese telecommunications companies, but more mundane and yet attractive holdings like European electric utilities and Canadian housing developers.

Second, clients are broadly diversified by asset class, beyond the formulaic stocks-bonds-cash approach offered by the so-called “managed account” offerings of brokerage firms. This means that within broader categories like “equities” or “debt,” holdings are chosen that have low *coefficients of correlation*. Consider that a company that pipes natural gas from Texas to Chicago may lose sales during an unusually warm winter, but a retail firm may benefit because shoppers are more willing to go out and browse their offerings. An insurer that covers catastrophic risks may be hurt due to hurricane losses, while a building products firm benefits from the demand for rebuilding supplies. These are examples of companies affected in very different ways by identical events whose stock prices do not move in tandem. Such diversification is designed to lower portfolio volatility even more than the standard diversification strategies employed by less creative investment managers.

Third, our equity choices have an orientation to “value” investing. Studies² show that a value approach had provided superior returns to so-called “growth” investing for the majority of the past

century. Growth investing is decidedly sexier, with its headline grabbing emphasis on wonder drugs, hot new technologies, and futuristic possibilities. But the business of providing necessities such as housing, heating, transportation and medical care can be very profitable, providing firms are purchased when they are out of favor or undervalued. By focusing the equity portion of portfolios on bargain purchases, a further layer of risk protection is provided.

The surprise in all of this risk avoidance is that for the past five and ³/₄ years of fee only portfolio management, we have provided clients with very competitive rates of return. Last year was a good example: the average³ account grew faster than the growth oriented NASDAQ composite and captured most of the gains of the broad based averages as shown in the table above. We expect to provide the full track record since March 31, 2001 at our web site, sometime in February.

NAPFA® Welcomes Gary Miller

The National Association of Personal Financial Advisors has admitted Trusted Financial Advisors principal Gary E. Miller, CFP® as a member. NAPFA has spearheaded the “Fee Only” financial planning movement since 1983. The public generally does not realize that of over 50,000 Certified Financial Planners, only about 1,400 are NAPFA members and provide financial advice without selling products. Prior to admittance to NAPFA an advisor must submit a comprehensive financial plan for peer review, and must sign a Fiduciary Oath representing that he will only work in good faith and with the best interests of the client in mind.

I'm confused about the distinction between "Community Property" and "Separate Property." If I own the property before we get married, does he/she still get it if we break up?

No. In California divorce law, it is important to distinguish "community property" from "separate property". §761 of the California Family Code provides that "except as otherwise provided by statute, all property, real or personal, wherever situated, acquired by a married person during the marriage is community property." But, §770 of the California Family Code provides that separate property of a married person includes the following: (1) all property owned prior to the marriage; (2) all property acquired after the marriage by gift or inheritance; and (3) all rents, income and profits of any separate property asset.

When a couple divorces in California, the court will divide all of the community property in half and award 100% of the separate property to its respective owner. This means that if you own

property prior to getting married, it remains your separate property even after you break up. However, there are some exceptions to this rule. For instance, if you commingle your assets you can make an asset community property. Also, if you make a down payment on a piece of real estate with separate property funds prior to the marriage, but throughout your marriage you make mortgage payments from your community wages, your spouse will have a community interest in that property known as a Moore-Marsden interest, which is calculated with a formula based upon the amount of loan principal paid from community funds. However, you will get your separate property down payment back.⁴

Divorce is one of those things you rarely plan for. Divorce is driven primarily by emotional considerations and behavioral causes. Still, if you are contemplating divorce or have separated, it is smart to get some advice from an objective third party professional, such as a Certified Financial Planner™ as early as possible. Don't make any verbal and certainly no written agreements without getting advice first!



Class and Workshop Schedule

Title	Location	Date/Time	To register call or visit...
Financial Independence for Women	Saddleback Community College	3 Thurs. evenings Feb 22 - March 8, 2007 6:30 -9:00 PM	949 582 4646 www.saddleback-ce.com

Footnotes:

- [1.](#) Size Weighted
- [2.](#) Stocks, Bonds, Bills & Inflation, 2006, Ibbotsen Associates, ©2006
- [3.](#) Time Weighted Composite performance, Size Weighted
- [4.](#) Adapted from web site of Brave, Weber & Mack, divorce attorneys, San Diego, CA

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