

Review & Summary



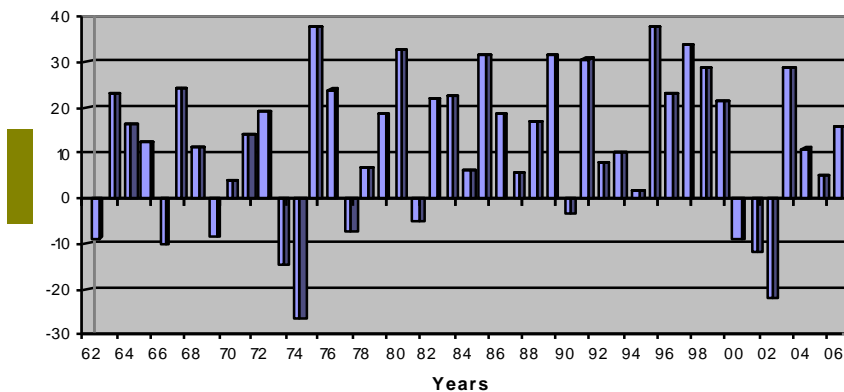
By Jordan
Gary, CFP®

We are now in the midst of a strong stock market, good economy, good bond market, stable and reasonable interest rates, declining oil and gasoline prices, and modest inflation worries. All good for my clients' investments. I had been predicting a 10 percent return for the stock market for 2006 and we got significantly more than that for stock market indexes. The S&P 500 index moved up nicely during the last half of 2006 to gain 15.8% for the year. I have been predicting large cap stocks to become the best place to be in US stocks and they made several attempts to lead the market and finished slightly ahead of medium and small cap stocks. International stocks funds and indexes again performed better than US stocks. Bonds finished about where I had predicted, earning somewhere around 4% for 2006. In the July newsletter I predicted that we were about to see the peak in interest rates and that I was moving from short term bonds to long term bonds. This has turned out to be correct. The average balanced mutual fund was up 10.7% YTD, an improvement of 4.9% for the fourth quarter. Our clients were up 8 to 14% for 2006. The more aggressive portfolios earned most. Our Moderate risk balanced portfolios earned above 12%! Please see your performance reports to see how you have done. I predict that 2007 will be similar to 2006 with strong portfolio returns resulting from a strong economy and growing corporate profits.

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Annual Returns of S&P 500 Index w/ Dividends (44 Years)



Detailed Report

By Jordan Gary, CFP®

A growing economy and growing corporate profits forecast a higher stock market. I have also been expecting the bond market to have some trouble with rising interest rates during the first half of last year. This is why, last year, we reduced clients' holdings in

bonds and bought more short term bond and bank loan funds to replace longer term bond funds. These moves were correct. Then in July I decided that interest rates had peaked and we moved clients short term bank rate notes to long term Treasury bonds. This move was also correct and our



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Forecast (Cont'd from Page 1)

clients have gained over 6% in the American Century 2025 government bond fund since early August.

The FED has raised short term inter -bank lending to 5.25% and paused. Most expect the FED to stop raising rates here and in a few months may reduce interest rates if the economy slows down much. The current 5.25% is considered to be a normal and neutral range. Most people consider a 5% CD rate to be about average over the years. We are almost there and it should allow the economy, stock markets, and bond markets to do well.

The long time basic market observation has been that one should invest in last years' losers as they will likely be this years' winners. This very often works. The largest loser in the Dow Jones 30 index for 2005 was General Motors which lost 52%. In 2006 it rebounded and gained 58 % and became the Dow's index largest winner. However, this tendency for the losers to become the winners does not turn on calendar years and often takes several years for the change to happen. For 6 years, from 1994 to 1999, the giant fast growing companies like Walmart, Microsoft, Dell, and Pfizer were the best place to invest. Then for 7 years, from 2000 to 2006 they performed poorly. Most market observers predicted that 2006 would be the year that such large cap growth investing would return to the lead. Repeatedly during the last 18 months these growth stocks tried to lead but failed. Instead the deeply troubled stocks like GM, telephone companies and airlines were the market winners for 2006. They rebounded from distressed levels. Meanwhile the worst stocks last year in the Dow 30 were Intel, Walmart, and Home Depot, which all went down after being giant sized glamour growth stocks for years.

The average large cap growth stock fund gained only 5.6% for 2006 while the average large cap value fund gained 17.9%, much more again, and for the 7th year in a row. This mis-guessing the market for 2006 seems to be why the vast majority of fund managers, (81% according to the Wall Street Journal) underperformed the S&P 500 index. This was a switch as the majority of fund managers had outperformed the index for the previous 6 years (61% outperformed the S&P 500 in 2005 according to the WSJ.) Bill Miller of Legg Mason Value Trust had beaten the S&P 500 for 15 straight years but

trailed the index by 10% last year. So my explanation for why my clients' portfolios did not do even better is that the majority of funds did not perform as well as the Dow 30 or S&P 500 indexes and our moving clients to emphasize growth investing turned out to be a little early. Ron Muhlenkamp, who is a very famous fund manager with his name on his fund said, "One year out of four I look dumb, but we make it back up." Actually, our clients did better than the average funds did for the same risk. Our moderate risk clients did better than the balanced fund average, and that was even after management fees. In fact, our moderate risk balanced portfolios have outperformed the Lipper Balanced Blend Mutual Fund Average in 7 of the last 8 years in which we have model track records. (Please see your reports.)

With all this in mind, I am guessing that 2007 should give, maybe, 4% returns to bond investors and 12% to stock investors. International stock investing should continue to be better than US investing, as much of the world is growing at a faster rate than the US. Many US and international investors are increasing their investing in international markets. I also believe that growth investing will outshine value investing for the first time in 7 years and then continue for a couple of years. Large and medium sized, fast growing companies may yet be the best place to invest in the US for 2007. All of these forecasts lead us to make allocation shifts within our clients portfolios. During the 4th quarter 2005, we shifted from the Clipper Fund, which is a large cap value fund, into the Bridgeway Large Cap Growth fund. The quarter before, we shifted from mid cap value to mid cap growth using the Munder Mid Cap Growth Fund. The first quarter we sold an underperforming Franklin Equity Income fund and bought a similar income stock fund, Ivy Dividend Income, which has been doing better. At the first of August, we sold the Eaton Vance Bank Loan fund and bought the American Century 2025 government bond fund. At the end of 2006 and the first week of 2007 we moved from Pioneer High Yield Bond fund to TFS Market Neutral fund. (Please note that this is a new asset category type of mutual fund for my clients, and Oscar writes about it in his article.)

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Lipper Stock and Bond Fund Benchmarks

| Investment Objective | Performance | | | | | |
|--|-------------|--------------|--------------|------------------|-------------|-------------|
| | 4th Qtr | YTD | 1 Yr | -- Annualized -- | | |
| | | | | 3 Yrs | 5 Yrs | 10 Yrs |
| Stock Fund Types: | | | | | | |
| S&P 500 Funds | 6.53 | 15.19 | 15.19 | 9.85 | 5.60 | 7.95 |
| Large-Cap Growth Funds | 5.39 | 5.60 | 5.60 | 6.28 | 2.15 | 5.53 |
| Large-Cap Value Funds | 7.01 | 17.93 | 17.93 | 11.91 | 7.84 | 8.50 |
| Small-Cap Growth Funds | 8.17 | 10.30 | 10.30 | 8.94 | 5.90 | 8.17 |
| Small-Cap Value Funds | 8.41 | 16.48 | 16.48 | 13.85 | 13.60 | 12.09 |
| Equity Income Funds | 7.06 | 18.49 | 18.49 | 12.28 | 8.59 | 8.79 |
| Utility Funds | 10.40 | 25.53 | 25.53 | 20.90 | 10.97 | 10.21 |
| International | 10.51 | 24.87 | 24.87 | 19.08 | 13.95 | 8.10 |
| European Region Funds | 12.20 | 33.65 | 33.65 | 22.48 | 17.36 | 11.90 |
| Emerging Markets Funds | 17.64 | 32.12 | 32.12 | 29.35 | 26.55 | 10.12 |
| Avg. US Stock Fund | 6.96 | 12.56 | 12.56 | 10.49 | 6.92 | 8.18 |
| Bond Fund Types: | | | | | | |
| General Municipal Debt Funds | 0.99 | 4.48 | 4.48 | 3.77 | 4.87 | 4.90 |
| High Current Yield Funds | 3.94 | 9.93 | 9.93 | 7.40 | 8.75 | 5.35 |
| Intermediate U.S. Government Funds | (0.42) | 1.42 | 1.42 | 2.83 | 4.30 | 5.25 |
| Intermediate Investment Grade Debt Funds | 1.26 | 4.04 | 4.04 | 3.27 | 4.54 | 5.54 |
| Avg. Bond Fund | 1.60 | 4.95 | 4.95 | 3.85 | 5.09 | 5.17 |
| Balanced Funds | 4.88 | 10.66 | 10.66 | 7.77 | 5.65 | 6.86 |

Source: Lipper Analytical Services, Inc., Summit, NJ 07901 and Wall Street Journal - January 4, 2007

These are averages of all the reported funds that have the stated objective. Average total returns based on NAV with all distributions reinvested. An investment cannot be made directly in an index, including the Lipper indices listed. Some funds are normally front end commission funds. Our clients do not pay commissions in their managed accounts. We buy shares at Net Asset Value (NAV). Past performance is not indicative of future results. The performance presented is for illustrative purposes and is not indicative of any investment.

The investment return and principal value of an investment may fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Investments outside the United States involve special risks such as currency fluctuation, political instability, differing securities regulations and periods of illiquidity. For a prospectus containing more complete information on any fund, please contact Investment and Asset Planning, LLC or Jordan Gary & Associates at 940-761-2527. Investors should read the prospectus carefully before investing.

The balanced stock/bond is a moderate risk way to invest. The traditional balanced fund has a portfolio of approximately 60% Blue Chip stocks, 35% conservative bonds and 5% cash. We have highlighted the above because we suggest that you use these numbers as the benchmark we are trying to beat in many of your portfolios. Our method of out performance is that we have far more diversification into different types of stocks and bonds, and we more actively manage the portfolio choosing the best mutual funds we can find to build your portfolio. Our priority is to match or beat the performance of the balanced stock/bond return. Check your quarterly report. How have we done?



Researching Charities Before You Give



By Jordan Gary, CFP®

At a Christian Financial Professionals Network conference, I met a man, Rusty Leonard, who has given a great deal of his professional time and money to create a website for people to research Christian charities. I have been using it and researching other websites that you and I can use to find out more about charities and decide if we want to give money to them. The website that this man created is the best one that I have found. It is MinistryWatch.com. This web site gives a great deal of information and commentary with a rating for Christian charities. You can find a tremendous amount of information about organizations like the Salvation Army, Vision International, Focus on the Family, or Feed the Children. They have 7 full time people collecting information on about 500 religious charities. They also have a tremendous collection of articles on philanthropy and charitable giving. You will also find links to many other web sites to help you.

The second best website that I found was CharityNavigator.org. This is the largest body of information with ratings about public charities as they have reports and ratings on 5,000 charities, including 256 in Texas and one in Wichita Falls. Here you can research religious and many other types of organizations. You can research health and welfare organizations and education foundations, etc. I found out that Special Olympics Texas has a low rating because they spend so much on fundraising. I also found out MADD does better but it is still not a highly rated Charity.

Another source of information is Give.org. This is a website from the Better Business Bureau which gives information on many national organizations. Also you will find links to local BBB such as Wichita Falls which might give you information about a local organization. The information here is basic and there are no ratings or evaluations. I did find out that our local AMVETS Value Village thrift store is not a charity! I

researched it online and found a newspaper article which explained that it is a thrift store owned by the billionaire US family of William O. Ellison. Long ago they went into the thrift store business across north America and use the AMVETS name and give a little of the profits to AMVETS, which has no local chapter in N. TX. Giving to them is not a qualified charitable income tax deduction like giving to Faith Mission or Salvation Army.

The last web site that I suggest is GuideStar.org. This is helpful if you want to read IRS filings for foundations and charities. They have a very large database which makes it easy for you to find out more, i.e. if the public charity has to file IRS returns. I found out how large the Perkins-Prothro Foundation is. Many local charities and foundations are included with the national organizations. This database seems to mostly be used by companies which want to buy subscriptions and get information which they can use to market to charities and foundations. But you can get a lot with a free registration.

What is lacking in these databases and services is information on true churches and denominational organizations. These do not have to file IRS documents as they are not charities but churches. Ministry Watch covers a few of them, like the Salvation Army. But I suggest that you ask for information from your church agencies and compare their reports with information that you get from MinistryWatch.com and CharityNavigator.org on other ministries. With a little work you can determine for yourself how well managed and efficient a group is.

I believe that we should give to organizations that we really appreciate and who do a good job of using our gifts for good. I think that we should avoid giving to the many telephone solicitors who drain off the majority of gifts to fundraising costs.

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WORK YOU CAN
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YOURSELF HOW
WELL MANAGED
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NEIGHBOR
WITH WORD
AND DEED

Tax Relief and Healthcare Act of 2006



By William Nilles, CPA

Congress came through for us at the last minute with an important tax bill for 2006. The new law retroactively restores some popular expired tax cuts to the start of 2006 and enhances some important tax incentives, bolsters Health Savings Accounts, revises deadlines for certain excise taxes, extends some expiring energy credits, makes critical “technical corrections” to existing tax laws, and includes an impressive list of “miscellaneous” tax relief.

However, you should be aware that the extenders provisions were passed after the IRS’s deadline for printing 2006 tax year materials. The IRS plans, in its own words, “a media blitz,” to alert taxpayers that the extenders are back and should not be overlooked in preparing 2006 tax returns. Despite these plans, you can expect significant confusion, both by the general public and by return preparers, on exactly what to compute on what line. For that reason I am giving you a very brief summary of some of the more important provisions. Be sure to discuss this with your tax preparer and make certain that you get the tax benefits that you deserve.

Among these “extenders” are the Deduction for State and Local Sales Tax, the Higher Education Tuition Deduction (not to be confused with the Hope credit or the Lifetime Learning credit) and the Teacher’s Classroom Expense Deduction. All of these “expired” at the end of 2005 but were “extended” through 2007 by this act. Also in that category were the Qualified Zone Academy Bonds, a special education type tax-exempt bond, and the New Markets Tax Credit, which taxpayers can get by making qualified equity investments in economically distressed communities.

The new law also enhances the use of health savings accounts (HSAs). Unlike the extenders, the HSA enhancements are permanent and most take effect for tax years beginning after 2006. Specifically, employees with a health flexible spending account (FSA) or a health reimbursement account (HRA) will be allowed to make a one-time transfer of the balance in their FSA or HRA to an HSA.

And even more importantly, the new law allows employees a one-time, once-in-a-lifetime, rollover of funds from their IRAs into an HSA. The change is designed to give employees quicker access to their funds for medical expenses.

The new law renews several temporary energy incentives. These were enacted as part of the Energy Tax Incentives Act of 2005. Noticeably absent from these energy extenders is an extension of the residential energy property credit, equal to \$500 overall and \$200 for thermal windows and doors. The other energy provisions addressed by the new law were extended until the end of 2007. These include the Business credit for energy efficient new homes, the Credit for Residential Alternative Energy Expenditures, the Renewable Electrical Energy Production Credit, and the Clean Renewable Energy Bonds.

These are not all of the changes in this tax bill. In all there are about 200 changes to the tax code brought into law by the legislation. Be sure to ask your tax professional how they affect you.

It’s a whole new ballgame on Capitol Hill in January with Democrats in charge of both the House and the Senate for the first time in many years. Democrats are promising to change the direction of Congress in the “first 100 hours.” They are also anticipating longer work weeks and shorter recesses.

Tax legislation is high on their agenda. Speaker of the House Rep. Nancy Pelosi, D-Calif. and majority leader Sen. Harry Reid, D-Nevada have promised to target tax relief to middle-income Americans. Although specifics are still being thrashed out, the Democratic leaders want to see movement on tax incentives for education and working families. They also are looking at scaling back some tax breaks for big oil companies. The leadership in both the house and the senate have indicated they will tackle AMT reform, which will be a welcome change for a lot of taxpayers. What will actually happen is anyone’s guess, but for now, just be sure that the deductions that you are entitled to are all included on your 2006 tax return.

Good news and bad news with the new pension protection act of 2006

Special tax treatment for charitable donations from ira's is limited to the next two years.

The Long & Short of a Neutral Fund



By Oscar Jackson III

A little over 4 months ago, we started looking for a replacement for the high yield bond fund. Our clients have made a great deal, for a bond fund, in this category over the last several years (see Pioneer Hi-Yield Corporate Bond in your performance report). We came to believe that, looking forward, the risk in high yield corporate bonds was going to be too high and, of course, the yield has fallen off also. We knew we had to get rid of high yield bonds, but where were we going to put the money when we did? Since that time, we have searched many asset classes to determine an appropriate substitute. We have looked at all types of bonds and all types of so-called alternative investments. We have determined where we think the economy is going. We have compared one asset class against another and one fund against another. The solution we have come up with is the TFS Market Neutral Fund (TFSMX). The reason for this change is that the high yield bond fund had to go and TFSMX is the best way we could find to diversify, reduce risk, and get a better return. We feel that it will fit well in your portfolios as a replacement for the high yield bond.

After much time and effort, we picked a stock fund that is not correlated to the stock market, that has a better return than the high yield bond fund, and has about the same risk as a high quality bond fund. Last year it had a return of 24.19% and return since inception of 14.26% per year. In comparison, the S&P 500 Index had returns over the same period of 15.79% and 12.79%/year. The inception date was 9/7/2004. We have examined the managers of the fund and the techniques used to select stocks. We found them to be better in almost every category that we were considering. They have a computer analysis system of choosing small cap stocks to buy and a system to choose an almost equal number to sell short (short selling is investing so that you will make a profit

when the price of the investment goes down). It is market neutral because it has about an equal number of investments which appreciate if the market goes up or down. Although Morningstar categorizes them as a long-short fund (Number 1 of all long-short funds in 2006), we believe that they are actually a special type of reduced risk long-short fund. We have started introducing this into your portfolios. You should see it at the end of December or the first part of January.

This paragraph is quoted from Yahoo stock quotes under profile for TFSMX. "The investment seeks to produce capital appreciation while having a low correlation to the U.S. Equity market (S&P 500). The fund seeks to minimize U.S. equity market risk by taking both long and short positions in U.S. Common stocks. It generally owns a diversified portfolio of stocks while maintaining a diversified portfolio of short positions in common stocks. The fund primarily invests in common stocks and, to a lesser degree, in registered investment companies. It may invest in equity options, financial futures, and other types of equity derivatives. The fund may commit up to 25% of assets in other registered investment companies."

Because of short sells, this fund will probably not have returns as high as long only funds in a bull market. Also, TFSMX will have higher costs and decreased tax efficiency (close to a high yield bond) because of a higher rate of turnover of stocks during the year. There are four other characteristics that we found to be excellent about this fund. Those are the Alpha, the Beta, the Sharpe's ratio, and the Standard Deviation of the fund. For anyone who would like to discuss those characteristics further or for any other questions you might have, please call us. We will be glad to talk to you because I know for sure that I could not possibly have covered everything.



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