

Quarterly Newsletter

4TH QUARTER 2007 JANUARY 2008

VOLUME X, ISSUE 1

Review & Summary

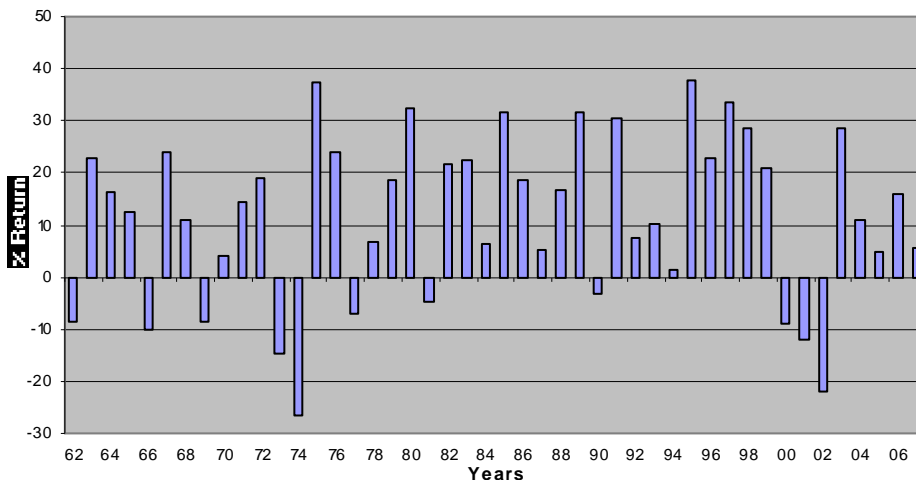


By Jordan

2007 was a very profitable year for our clients. While the average stock or bond fund earned about half the long term average from such investments, our clients earned about twice as much and close to the long term average. The big news for last year was that the markets had a lot of volatility after four years of low volatility. We viewed this volatility as expected and changed our clients' portfolios before the year began and adjusted them during the year to make good use of the changing markets. We had predicted that real estate, mortgage, banking, home building and small companies would do badly and we had expected large dependable growing companies to do well. We had also predicted foreign companies to outperform US companies. We likewise expected bonds to underperform stocks. All of these things turned out to be true.

For 2007 the S&P 500 index was up 5.5%, while the average taxable bond fund was up 4.4%. The average balanced mutual fund showed a 5.8% gain for 2007. For comparison our most conservative accounts earned about 8%, our balanced, moderate risk tax deferred accounts, earned around 10% and our moderate aggressive accounts earned around 11%. Please see your performance reports to see how you have done.

Annual Returns of S&P 500 Index w/ Dividends (45 Years)



Detailed Report

By Jordan Gary, CFP®

It is always nice to be able to report to our clients that their portfolios are doing very well as we can do once again. There has been a lot of thunder and

lightening in many parts of the markets. There has also been some real storms in the home building and real estate and mortgage markets. These storms also really spilled over into bad news for many banks and finance companies.

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Caring for People and Their Financial Security

Detailed Report (Cont'd from Page 1)

STORMS IN THE
MARKETS BRING
CLEANSING AND
RENEWAL

We expect there to be more thunder and lightning over the coming months. The debate is not about the presence of regional financial storms, but how widely they may effect companies and other markets. The graph on the first page and performance graphs of our clients' portfolios show that we do not expect any long term lasting damage in diversified portfolios. The current risk is that the US could have a mild recession. That might cause a mild stock market decline as the mild recession in 1990 or the near recession of 1994 and set us up for a strong rebound as has often happened. At anytime some investment types are doing good and others are doing poorly. Actually in volatile stormy times, expert investment managers can really shine if they pick the winners. Volatility causes much more performance difference between the ones who pick well and those who pick poorly Also whenever the market leadership changes, like it did change last year, then there is increased volatility, as the markets leave old favorites and look for new favorites. Storms can be, and usually are, good in weather for the renewal of the environment and in finance for healthy investment markets.

....HEALTHY
INVESTMENT
MARKETS CLIMB A
WALL OF WORRY.

There is an old saying that healthy investment markets climb a wall of worry. I agree with this. Also in markets where there is too much optimism and too little worry then very overpriced investments result and set themselves up for a fall. This of course just happened in real estate and home building and mortgage industries. It is happening in China and India now as their stock markets boom and become very overpriced. I could give you examples all over the world and throughout modern history. The common methods of successful investing involves using time proven methods of reducing risk, buying under priced investments and selling overpriced investments.

Once again last year, our clients all successfully earned more than benchmarks such as the S&P 500, bond fund indexes, balanced mutual fund indexes, etc. In past newsletters we explained that for 2007 we were overweighting large company and middle sized growth companies and underweighting "value stocks" and small company stocks. We also explained that we were avoiding corporate and mortgage bonds and overweighting foreign and energy and natural resource stocks in funds. We were correct in each of these decisions. Your performance reports or the fund yardstick chart can illustrate this for you. The only surprise which went against us was the poor performance of municipal bonds. There have been no real problems with municipal bonds paying dividends or principle. However the big sell off last year in sub prime mortgage bonds spilled over into corporate bonds and then into municipal bonds. Suddenly there were more sellers than buyers, from July through December, and many municipal bonds declined some 5 or 10% in value. We expect this problem to end in the next few months and municipal bonds to go back up in value. We believe that this is one of the best places to invest now, buying safe municipal bonds when they are down in price and they have hansom dividend yields. Currently it is easy to get 6 or 8% dividends on tax exempt bond funds which is really great.

Think about that. You can expect a high tax exempt dividend plus appreciation in a safe investment. It does not get much better than that. Much, much better than savings or a CD.



Lipper Stock and Bond Fund Benchmarks

Investment Objective	Performance					
	Dec.	4th Qtr.	1 Yr	-- Annualized --		
	3 Yrs	5 Yrs	10 Yrs			
Stock Fund Types:						
S&P 500 Funds	-0.74	-3.48	4.91	8.05	12.22	5.44
Large-Cap Growth Funds	0.10	-0.02	14.21	8.66	11.74	5.00
Large-Cap Value Funds	-1.06	-4.74	2.19	8.44	13.09	6.24
Small-Cap Growth Funds	0.10	-3.15	8.80	8.29	15.48	7.46
Small-Cap Value Funds	-0.67	-6.68	-5.53	5.39	14.97	8.82
Equity Income Funds	-0.93	-3.94	4.05	9.18	13.03	6.64
Utility Funds	0.54	5.07	19.81	19.25	21.13	9.33
International	-1.78	-1.65	12.41	17.18	20.83	8.80
European Region Funds	-1.55	-1.45	11.83	18.89	23.62	11.30
Emerging Markets Funds	0.63	4.38	36.42	33.33	35.58	14.13
Avg. U S Stock Fund	-0.39	-3.19	6.55	8.58	14.01	6.76
Bond Fund Types:						
General Municipal Debt Funds	-0.07	0.37	1.15	2.91	3.48	4.07
High Current Yield Funds	0.09	-1.46	1.46	4.55	9.38	3.99
Intermediate U.S. Government Funds	-0.09	3.91	8.84	3.93	3.99	5.27
Intermediate Investment Grade Debt Funds	0.04	1.80	4.71	3.47	3.88	5.18
Avg. Bond Fund	0.05	1.23	4.40	3.76	4.79	4.75
Balanced Funds (Stocks and Bonds)						
Conservative-Allocation Fund Averages (from Morningstar)	-0.47	-1.28	5.93	7.05	9.63	5.64
Averages (from Morningstar)	N/A	N/A	4.44	5.15	7.12	N/A

Source: Lipper Analytical Services, Inc., Summit, NJ 07901 and Wall Street Journal OnLine— JANUARY 2, 2008

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 objective is to match or beat the performance of the balanced stock/bond return. Check your quarterly report. How have we done?



By Jordan Gary, CFP®

How Much Should We Help Our Grown Children?

A recent US News article “The New Parent Trap” (see our web site for the article) talks about a lot of parents who have been helping their grown children financially, when the parents cannot afford it and to their own future detriment. Many parents spend their retirement security to rescue grown children. The article asserts the factual idea that never before has a generation done so much to help grown children with advanced educations, new homes, cars, big weddings, medical bills, business ventures, etc. It sounds correct to me and it reminds me of my own family and many clients. My wife and I have four grown children, who we largely paid for two college degrees for each of them, some weddings and cars, etc. It feels good to be the provider and caretaker and sometimes the rescuer. However doing so often is bad for the children and the parents. So let me remind you of some key principals we need to live by.

The main goal we have had as parents is to raise great children who can be independent and successful and stand on their own two feet. You know, get them out of the nest prepared for life. I know from my own upbringing that having jobs in HS and College contributed so much to my character, self confidence, etc. When my kids really need something as adults, as they are out of work, I loan them money and then they pay it back from their next job income. This way they grow in confidence and self respect and our relationship is improved as it changes from being a parent-child relationship to a caring friend relationship.

Adult children have big life issues of selecting a mate, choosing a career, buying homes, going through sickness, getting a divorce, losing jobs, facing really big temptations and sins, etc. I want to be a friend who can offer them wisdom and encouragement but to throw money at their problems can do more harm than good. We can also offer them prayers, presents, and our presence, but they need to be running their own lives and taking the lumps and dealing with the consequences of their own decisions, sins, and actions. Dependent children are not happy children. Two years olds know that, and start trying to establish their independence.

Another principle that I believe is that being given money can harm children’s motivation, faith, and ability to learn life’s lessons. When we had small children, my parents took us on vacations a few times and paid much of the vacation costs. Those were gifts which brought us together and enriched our lives without any negatives. But if my parents had given us vacations and not gone along, then maybe my children would have thought less of me as a dad and provider and I would have thought less of myself. When parents are tempted to rescue adult children from gam-

bling debts, or other sinful problems, then they have very little chance of success in correcting the real problems. However I can believe that parents could help with medical debts or pay for a grandchild’s college education and be a true blessing and not corrupt the character or motivation of an adult child or family.

As I am writing this I received a telephone call from one of my brothers who is working on his will and such. We began to discuss family issues, as we still have our parents with us who are 85 years old, and we need to prepare more for their death as well as prepare more for our own deaths. Each of us are called by God to be faithful stewards of so many blessings that he gives us.... What a big issue that is, being a faithful and good steward of God and ending life after being a good and faithful servant.

I believe that servants help each other. And good servants help prepare the new servants and prepare the steward that will take their place when they are gone. So my parents prepared me to carry on the family faith and I prepare my children to carry on the family faith, traditions, wealth, possessions, etc. If a child becomes an unworthy and bad steward of God, then I believe that I should not give them possessions that will corrupt them. (That may be tough and require that they be clearly told why they receive family things but not family wealth.)

Please think about preparing your family members to be faithful stewards of your wealth. I am preparing my wife to carry on after me, and as children we are talking about carrying on after our parents die. Helping my grown children should be done with the big picture always in mind. Grandchildren should not only be taught how to love and receive from the family, they need to be taught how to give and care for the family. Grandchildren should be given responsibilities to care for grandparents when they need help. Imagine grandchildren helping a grandmother do things around the home which she is not able to do. Imagine grandchildren as well as children caring for grandparents at the end of life when health breaks and the caring actions of life reverse direction.

In pastoring I have often seen wonderful families be richly blessed as they care for each other and serve each other. In my judgment, the givers have the joy and blessing while the greedy takers have the unhappiness and jealousy and sometimes anger.

Please let me know if I can help you with any of these issues. We offer coaching and planning about these life issues and would love to meet with you and help you deal with these weighty and important issues.

...NEVER BEFORE HAS A GENERATION DONE SO MUCH TO HELP GROWN CHILDREN...

...BEING GIVEN MONEY CAN HARM CHILDREN’S MOTIVATION, FAITH AND ABILITY TO LEARN LIFE’S LESSONS.

Cost Basis Reporting to IRS for Security Transactions



By William
Niles, CPA

As if we didn't have enough problems with the IRS, now they are asking Congress to require brokerage houses to report on the cost basis of securities they sell for their clients. The basic idea might perhaps have merit, at least it might appear that way to someone who has never owned and sold investment securities. But we all know better. The proposals currently before Congress take a very simplistic approach to the problem by requiring a broker to include the customer's adjusted basis for each security that the customer sells during the year. The Secretary of the Treasury is given the authority to require additional information and provide for exemptions in regulations or other guidance. We all are familiar with the 1099-B forms that brokerage houses send out at the end of the year to report on sales of securities. This would be a modification of that reporting.

In the simple situation, a taxpayer acquires a security through a broker, holds the security for a particular period of time, and then sells the security through the broker. The broker should have little difficulty tracking basis in this scenario. In fact, many brokers already provide basis information of this type to their customers. It is typically reported on an average cost basis.

Life, however, is typically more complex than that, and the Internal Revenue Code, of course, adds even more complexity. Basis starts with cost, but then there are inherited securities, gifted securities, basis derived from dividend reinvestment programs, stock splits, and mergers and acquisitions.

Then there are securities that are transferred from one broker to another or transferred internally from one owner to another, load allocation rules, and returns of capital. Add to this the complexities added by the Internal Revenue Code, with wash sale rules that can change basis retroactively, and alternative forms of basis identification: specific identification, first-in first-out, or average cost for mutual fund shares. Brokers in many instances will have even less information available to them than taxpayers for purposes of determining the historical basis of securities.

What worries many taxpayers and brokers is that the legislation and subsequent regulations will propose mass basis reporting, most of which is inaccurate and will lead only to significant expenditure of government and taxpayer resources to

straighten out the mess. The broker industry is proposing provisions in the regulations that would greatly increase the likelihood of accurate basis numbers at the expense of creating significant exemptions from the basis-reporting requirements where the broker cannot be confident of accuracy. The reality of this proposal would be numerous sales with no reported basis.

The main enhancement over current broker reporting abilities would be in the area of increased ability of brokers to share basis information and to transfer that information from one broker to another. Brokers do not want to be responsible, however, for accurate basis information where the unsubstantiated information can only come from the customer.

There is also a concern that Congress and the IRS will try to improve the accuracy of basis reporting by eliminating some of the current provisions in the Code that could contribute to the inaccuracy of reporting. These might include eliminating some of the options for determining basis associated with a particular sale of securities. They might also include elimination of Code provisions that permit tax calculations not tied to basis (for example, charitable contributions of appreciated property).

And so, the natural question to be asked is can this actually work. And the answer is yes, but only for some security transactions. Over the long term, and in somewhat limited circumstances, broker reporting of basis could be very helpful. It could provide third-party reporting to give the government confidence that compliance is high where basis is being reported. It could ease taxpayer record keeping deficiencies by having the broker records as a back-up. It could provide brokers with an additional customer service to their clients while reducing the frantic calls at tax time to help customers or their tax return preparers determine basis.

For this successful outcome, however, it will also mean that, to prevent the possibility of a flood of inaccurate Forms 1099, many security transactions will still be exempt from basis reporting. The very transactions in which taxpayers are likely to need the most assistance in determining accurate basis, long-held securities that may have even passed from one generation to another, are the transactions in which the brokers will be least likely to provide assistance.

Proposals before Congress now would be a modification of the 1099-B reporting by brokerage houses.

The main enhancement... would be in the area of increased ability to share basis information and to transfer that information from one broker to another

Understanding the Lingo



By Oscar Jackson III

When you look at your portfolio, do you see I am frequently asked about the difference in stock sizes. By this, I mean large cap, mid cap and small cap. In fact, these are essentially picked arbitrarily depending on who is making the decision on how large a company should be in order to be called large, mid, or small cap. For our discussion, let's assume a value of between \$300 million and \$2 billion for small cap stocks. These figures may be found at "www.investopedia.com" where they also identify mid cap stocks as having a value of between \$2 billion and \$10 billion. Almost everyone agrees that large cap stocks have a value above \$10 billion.

Next, how is the capitalization (capitalization is the cap in large, mid and small companies) of a stock determined? Stocks have a value which is determined by buying and selling on the open market. There is the New York Stock Exchange, the American Stock Exchange, the Nasdaq, to name a few, where stocks can be bought and sold. There are also some indexes or standards from which to determine values in the market which can be compared day to day in order to determine the growth or loss in the overall market (The Dow Jones Industrial Average, the S&P 500, Nasdaq 100 and many more). Large cap stocks are

found in the S&P 500, which is the 500 largest capitalized companies in the U.S. All of these companies issue shares of stock and sell these shares in the open market to raise \$ or capital for their company. On December 31, 2007 Home Depot (HD) closed at a price of \$26.94 and the number of shares of the company is 1.69 billion shares. When you multiply 1.69 billion times \$26.94 you get a company value of around \$45.53 billion. It is more than \$10 billion, therefore, it is a large cap company.

Some examples of large cap companies include Home Depot (HD) at \$45.53 billion, Best Buy (BBY) at \$22.05 billion, and Lowe's (LOW) at \$33.08 billion. Southwest Airlines (LUV) is at \$8.95 billion and that would make it a mid cap company. In 2007 American Airlines (AMR) changed from a small cap to a mid cap company with a capitalization of \$3.49 billion. Again, some have different evaluations for what is a small cap and what is a mid cap. The lines between these two can sometimes be a little fuzzy. An example of a small cap company is Del Monte (DLM) at \$1.9 billion or Texas Roadhouse (TXRH) at 770 million.

That is enough of that. I hope this article has been informative and, if you would like to go into this even further, please give us a call. We would love to hear from you. Educating you in what you need to know is a large part of our job.

Client Questions Answered

BY SARAH BEREND EADS

The response from our survey was wonderful and we appreciate your effort in making it a success. Over the next year I would like to take the time to answer the questions you posed concerning newsletter content.

What are the reasons for the ups and down in the stock market last year?

December wasn't what experts hoped for. The fourth quarter was filled with turbulence and volatility. However, most of our client accounts finished about where they started the quarter. When you looked at the news, existing home sales were up. Christmas was coming and the economy should have been positive but, we were still plagued with uncertainty. Why?

In 2002, the Nobel Prize in Economics was won, not by an economist, but by the psychologist Daniel Kahneman. With the help of [Amos Tversky](#), he countered the belief of the 'rational investor', or the belief that emotion has nothing to do with the market. What this means is there are times many investors are led by emotion instead of reason. Look at bonds last summer. Bonds invested in subprime (high risk) mortgages lost values, but all bonds dropped in price. Most bonds were

just as safe as before but were caught up in the emotional sell off. So emotions and worry caused a lot of volatility in the stock and bond markets last year.

Another factor has been a change in the equity leaders. Think of a relay race, large cap value has held the baton for a number of years but is now passing it off to the next runner in line. Growth is next up but the hand off was not smooth, leading to fluctuations in the market. It almost always takes volatility and uncertainty in the investment markets for leadership to change.

Also, many of the losses were localized, such as Citibank which fell nearly by half and Countrywide which dropped from \$43 at the beginning of the year to a close of \$9. In fact the financial sector as a whole suffered, but this was counteracted by technology and companies with strong international interests which went up in value.

This is why diversification is important and how informed active management benefits the investor.

If you have other questions you would like to see answered in the newsletter, please contact me at sarah@investmentplanner.net or call (940) 761-2527.



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