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BEWARE… *(continued from previous page)*

requested information is not provided.

Some of these phony messages feature logos and design elements that appear to be legitimate. Recipients are often instructed to click on a link that will direct them to a web page that looks official. We encourage you to ignore their instructions.

Most of the companies we use would not request this type of personal information by e-mail.

We STRONGLY urge you to call our office if you receive any e-mails or regular mail requesting personal information, especially if they make some threat like freezing or closing your account if you do not respond.

American Funds has a website regarding e-mail security if you wish to have more information. The website is www.americanfunds.com .

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BATES Briefings

Summer 2007

from George's Desk

There are so many important subjects that I have been reading, studying, and attending meetings about lately that I hardly know where to begin. In addition, each of the subjects could be a column by itself. So I will select two and write briefly about one in this column and one in another article in this issue.

First, the subject of the stock market. The 400 point decline in the Dow Jones Industrial average late in February was possibly the beginning of a market correction that I have been anticipating, but did not know when it would occur.

Historically, market corrections are declines of 5% to 15% that have occurred on average two or three times a year for the last hundred years or so. What made this unseemly and surprising was that we have not seen too many of these in the last four years. Fortunately, these corrections do not normally last very long and recover in a matter of weeks or a few months.

I do not want to be guessing what the short-time performance of the market will be, nor for that matter, the long-term either. I think we can take comfort in the fact that based on valuation benchmarks such as price to earnings ratio, the current levels are at or below historic levels, especially if you take into account the current inflation rate of 2% to 3%.

I would like to counter the prevailing feeling and media reports that the economy is not doing well by citing some important facts. By historic standards, interest rates are low, unemployment of about 4.5% is considered full employment by most labor experts, and inflation seems to be in check. Further, workers real income (meaning adjusted for inflation) has been increasing and energy prices seem to be drifting down but in a "yo-yo" pattern. Also, most reports now suggest that the housing industry may have reached bottom sooner and higher than most experts thought six to nine months ago.

Suffice it to say, I am optimistic that the economy will do reasonably well this year and next. There is incredible economic growth in the developing countries. I see this continuing for many years. It is important to say that it does not mean the stock markets will only go up. Rather, it is a very healthy thing when occasionally the market goes down because it stops to "take its breath" before climbing to the next level.

To request a copy of the information which was given out at Client Appreciation Day '07 during the FBI presentation, please contact our office.

SAVE THE DATE!
Client Appreciation Day is April 19, 2008

HOW FULL IS THE GLASS?

by George D. Bates, J.D., CFP®

The problem with the glass half-empty/half-full analogy and investment markets is that the glass is never full. In many ways it would appear that the glass is full when measuring many of the popular benchmarks. Recently, many celebrated a new milestone when the Dow Jones Industrial Index broke 13,000 for the first time ever. Other major indices are also reaching their all time highs while others have yet to recover since the markets began their declines in 2000. Below I am presenting certain performance information regarding several major indices through the period ending March 31, 2007 before any fees, costs or other expenses:

INDEX NAME	1 Yr.	5 Yr.	10 Yr.	15 Yr.
Dow Jones Industrial Average	13.83%	5.86%	8.60%	11.07%
S&P 500	11.83%	6.26%	8.20%	11.91%
MSCI EAFE	20.69%	16.24%	8.67%	11.61%
Lehman Brothers Aggregate Bond	6.58%	5.35%	6.45%	8.58%
Consumer Price Index	2.78%	2.81%	2.53%	3.29%

I have had several discussions with other financial professionals about what similarities they see if any to the current markets. The responses have been varied and not unexpected. What continues to surprise me is the hesitation, if not fear, of having no more than approximately 15% of one's investment portfolio in international investments.

Lately, the media's fascination is attempting to predict whether the DJIA will reach 14,000 or whether there will be a BIG market pullback. To reiterate my message of the last several newsletters and each of my presentations at our annual client appreciation day, I am cautiously optimistic about the economic and stock market performance outlook. The biggest problem looking forward is dealing with client's expectations. In some ways, this reminds me of 1998 or 1999. However, right now we do not have Y2K implications, and further, I do not believe we have the ridiculously high stock market valuations that existed in 1998 or 1999.

So if the investment markets are compared to a glass and you see the glass as half-full or a full glass that needs pouring into a new and bigger glass, be prepared for more to come.

WHAT THE PENSION PROTECTION ACT MEANS TO YOU

Article by Capital Bank & Trust Company

The Pension Protection Act of 2006, signed into law on August 17, focuses primarily on pension plans but also includes provisions affecting IRAs, 529 plans, and defined contribution plans.

In particular, the new law affects several provisions of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001, which were slated to expire after 2010. Here are some specific points you may wish to know about.

INDIVIDUAL RETIREMENT ACCOUNTS (IRAs)

- **Contributions** – The phased increases of regular and catch-up (for those age 50 and above) contribution limits introduced in EGTRRA are now permanent.

Contribution Year	Annual Limit	Catch-up Limit
2006	$4,000	$1,000
2007	$4,000	$1,000
2008	$5,000	$1,000

** After 2008, contribution limits will be adjusted for inflation in $500 increments.*

- **Required minimum distributions (RMDs) to charities** – For the 2006 and 2007 tax years only, an IRA owner age 70-1/2 or older can make a tax-free donation of up to $100,000 to a charity instead of taking a distribution.
- **Rollovers by non-spousal beneficiaries** – Effective in 2007, non-spousal beneficiaries of qualified retirement plans, 457, or 403(b) plans can roll their distributions into an inherited IRA instead of having to take a lump-sum payment.

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- **Direct rollover to Roth IRA** – Effective in 2008, retirement plan participants who retire or leave their employer can roll their account balance directly into a Roth IRA without having to roll it into a traditional IRA first.

529 COLLEGE SAVINGS PLANS

- **Tax-free withdrawals** – Federally tax-free withdrawals from 529 plans for qualified education expenses introduced in EGTRRA will not expire in 2010, as previously scheduled.

DEFINED CONTRIBUTION PLANS

- **Contributions** – The phased increases of contribution limits introduced into EGTRRA will not expire in 2010.

Plan Type	2006 Annual Limit	2006 Catch-up Amount
401(k)	$15,000	$5,000
403(b)	$15,000	$5,000
457	$15,000	$5,000
SEP	$15,000	$5,000
SIMPLE	$10,000	$2,500

* *After 2006, limits will be adjusted for inflation in $500 increments.*

- **Roth 401(k)s and 403(b)s** – Plan sponsors can now offer Roth 401(k) or 403(b) plans, which feature tax-free withdrawals, without worrying that these plans might expire after 2010.
- **Automatic enrollment for 401(k)s** – Effective in 2008, plan sponsors will have the ability to automatically enroll employees in their plan at a specified contribution rate. Participants will be able to opt out of the plan or choose a different contribution amount.
- **Faster vesting** – Effective in 2007, employer non-elective contributions must vest on a six-year graded schedule or completely after three years of service.
- **Employer stock diversification** – Effective in 2007, plans must allow elective deferrals and after-tax contributions in employer stock to be diversified at the time of purchase. Employer matching contributions in employer stock must be diversified within three years.

BEWARE OF E-MAIL FRAUD

American Funds Newsline Newsletter

Fake e-mail messages sent by scammers called “phishers” are causing problems for some mutual fund shareholders.

These phony messages frequently contain a notification of a “problem” with the recipient’s account or a request for information due to a “system upgrade”. They often warn that the account will be frozen or closed if the

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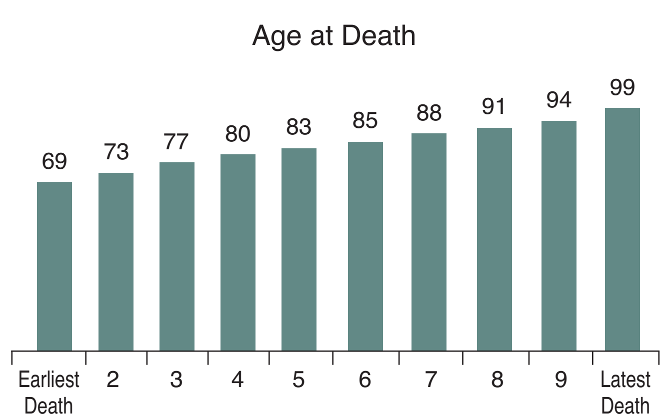
A Brief History of Life Expectancy

by George E. Bates, CFP®

Recently, I read some interesting statistics about life expectancy. From as far back as 1300 B.C., life expectancy was 25 years. From 1300 B.C. to 1400 A.D., it increased five years to 30. From 1400 to 1800 it gained another seven years. From 1800 to 1900, it gained another ten years due in part to the great leap in science by famous scientists such as Jenner, Lister, Pasteur and Koch. In the century from 1900-2000, life expectancy leaped up 30 years to age 77. In a span of time from about when my father and mother were born to a hundred years later, life expectancy jumped over 60 percent.

I recently attended a meeting in New York City on the subject of retirement income planning and one of the speakers used the following chart to show the average life expectancy of a 65 year old person. That chart (shown below) indicates that 10% of the current sixty-five year olds are going to live to an age between 94 and 99.



This kind of information reminds me and my colleagues how enormously important it is that we “get it right” in helping our clients invest prudently and spend wisely so that they do not outlive their money.

So far we have been doing that successfully for several decades, but it is imperative that we continue to work diligently to continue meeting that objective.