The Successful Investor

A Quarterly Publication of Runyon & Bowes Financial Consulting — Summer 2007

Runyon & Bowes provides **personal financial consulting** services. Every client engagement begins by understanding your personal situation and objectives. Our services include comprehensive financial and insurance consulting, retirement planning and investment management services. We are available for a single consultation or can work with you on an on-going basis. Whether you are building assets for the future — or seeking to protect, enjoy and pass on those you already have — Runyon & Bowes is ready to help with objective, professional advice.

Investing should provide a means to an end — and **help you achieve your dreams**. Runyon & Bowes exists to understand each individual's goals and to develop a personal road map to get you there. Whether that's retiring early or ensuring your assets last a lifetime, we are here to help you develop and implement a realistic plan to meet your long-term financial goals

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Welcome!

We are happy to announce that Runyon & Bowes LLC is combining forces with Brenner Financial. Founded by Gabriel Brenner, Brenner Financial is a premier boutique financial planning and investment management firm based in Burlingame on the San Francisco peninsula. Gabe will be the third principal in Runyon & Bowes LLC and brings a strong background in complex financial planning issues and analysis. He will enhance our capabilities in both areas and complements the skill sets already in place at Runyon & Bowes. We welcome Gabe and all the clients of Brenner Financial to the Runyon & Bowes family and look forward to personally introducing each of them to our firm.

Runyon & Bowes and Brenner Financial share a common vision of client service, focused and disciplined investment process, and detailed planning to ensure our clients achieve their hopes and dreams. The integration should be seamless to existing clients and will only require a limited amount of paperwork for Brenner Financial clients.

We are excited about this integration and feel it makes our firm even stronger, deeper and more capable to meet the demands of our clients. Although the firm continues to grown rapidly we want to ensure that our high level of customer service is not only maintained but enhanced with each step we take.

As always we hope you enjoy this edition of The Successful Investor, and if you should ever have a topic you would like addressed in future issues, or have any questions, please do not hesitate to contact us. We welcome your comments and suggestions. R&B

Ed Runyon, Principal

Chuck Bowes, Principal

Gabriel Brenner, Principal

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Going Global With Your Portfolio Requires Careful Consideration

Chuck Bowes, Principal

No investment article by Runyon & Bowes could begin without a reminder to "stay focused on what you can control" and international investing is no exception.

A fundamental question to ask is "should we invest outside the United States?" And if the answer is yes, why?"

Most people answer yes to the first question and are somewhat puzzled by the second question. The most common answer to the second question has something to do with getting a higher rate of return. In fact, as discussed below, in recent years international markets have returned far more than the S&P 500.

However over long periods of time the developed international markets and U.S. markets returns are very similar. From 1970-2006 the S&P 500 Index had an annualized return of 11.23 percent and the MSCI EAFE (Developed International Markets) had a return of 11.59 percent. So if Developed International Markets don't give us any significant extra return, why bother?

The answer is risk reduction. You can lower the overall risk of your portfolio by owning international companies without sacrificing any returns. And who does not want less risk while getting the same return?

As you can see from the table below during the same 1970-2006 time frame by adding a 30 percent allocation to international equities you actually slightly increased your return *and* lowered the overall risk (volatility) by 8 percent. The statisticians in the crowd will quickly point this out because of the less than perfect correlation between U.S. and foreign stocks, which is true but we'll save that for later. And yes it is true the correlation between U.S. and foreign markets has been increasing, but we still believe the benefits are there for well-diversified portfolios.

	1970 -2006 [1]	
	Portfolio A (100% S&P 500)	Portfolio B (70% S&P 500) 30% MSCI EAFE
Annualized Return	11.23%	11.59%
Risk (Standard Deviation)	15.20%	13.98%

And while these simple examples may not overwhelm you, the benefit of going global grows with a more detailed approach that includes emerging markets, international real estate, small cap and value tilts. Beyond the statistical rational outlined above is the common sense factor. Well over half of the global economic activity is outside our borders and we should position ourselves to benefit from the global economy.

How much of your portfolio should you invest abroad? Well that's a good question with a myriad of answers.

International and emerging market investments have been downright hot since early 2003. Predictably, and well after the fact, financial commentators and investment advisors have begun calling upon clients to increase their exposure to overseas markets. Where conventional wisdom once allocated 10 to 20 percent of equities overseas, increasingly we see admonitions to allocate 20 to 30 percent or more overseas. We judge this to be classic returns chasing behavior. When good times turn, as periodically they must, bandwagon investors lacking core beliefs may be chagrined and looking for a panicked, costly exit.

Clearly our clients' goals and dreams cannot be best achieved by ignoring the dynamism and wealth creation that occurs outside of our national borders. In making this choice, recent market returns are irrelevant to our formulation of long term strategies. In 2005 the United States held 41.6 percent of the world stock market capitalization and recent trends show that share slipping further.[2]

Even as recently as 1998, the United States accounted for only slightly more than 50 percent of world stock market capitalization.

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So does that mean we should have 60 percent of our equity portfolio invested outside the United States? Simple answer: No.

While each client's situation is different, we have traditionally felt, an international allocation around 30 percent of overall equities held was appropriate. With the increasing growth in international economic activity we now believe that a long range target in the 40 percent range is appropriate for many clients.

For a vast majority of clients the most effective way to achieve this increase is with future cash contributions to the portfolio. For other clients this will happen naturally with market performance or during regular rebalancing activities. We do not see a need to create any taxable transactions to achieve this strategic shift.

Why not allocate 50 percent or more internationally given the growth rates of these markets? First and foremost, some foreign countries lack the rule of law and modern accounting transparency we require to trust in free, fair and efficiently functioning markets (China and Russia are examples).

Second, emerging markets, in particular, dole out considerable risk for their enhanced returns. And excessive volatility is not in our clients' best interests.

Fascinating Financial Facts

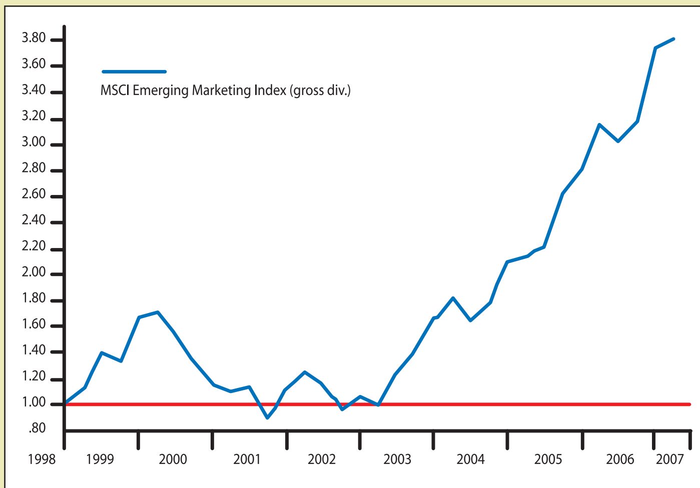
$100,000: Based upon the 2004 tax year, individual returns with at least $100,000 of adjusted gross income make up 12% of all returns and paid 65% of all federal income tax (source: IRS, btn 03.26.07).

$500,000: One out of every 196 individual income tax returns (i.e., Form 1040) has an adjusted gross income total of at least $500,000 (source: Internal Revenue Service, btn 04.09.07).

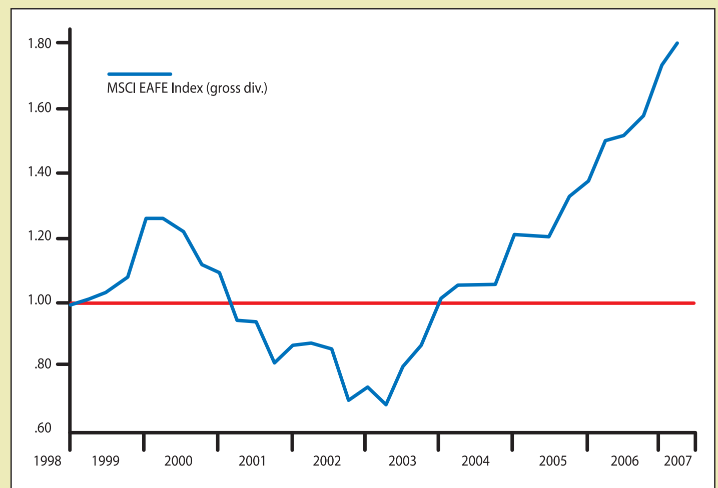
$328,049: An adjusted gross income level of at least $328,049 is required to rank in the top 1% of US taxpayers (source: Internal Revenue Service, btn 04.09.07).

37%: The top 1% of US taxpayers (based upon adjusted gross income) pays 37% of all federal income tax. Twenty years ago (1987), this top income group paid 25% of all taxes (source: IRS, btn 04.23.07).

So we get uncomfortable and more likely to make poor decisions the farther from these benchmarks our portfolios are.



International Markets*



Emerging Markets*

Third, is our understanding that your behavior as an investor has more to do with your investment results and overall investment experience than anything else.

I've yet to hear any mainstream news program give global market numbers as part of their regular programming. They may mention it when there is some major move in the foreign markets, but the Dow Jones Industrial Average (30 stocks!); S&P 500 and the Nasdaq still dominate the messages we all hear.

And like it or not we all to some degree or another compare our perception of our investment results to these U.S. benchmarks.

This slight increase in our target exposure to international markets is the latest in our ongoing effort to find ways to help you achieve your goals and objectives — and have a successful investment experience.

We will be working with each client individually as part of our regular investment management process to discuss your international allocation and make thoughtful, cost effective and tax efficient changes over time. R&B

[1] S&P 500 Data provided by Standard & Poor's Index Service Group; Jan. 1970 to Dec. 2006 Monthly. All rights reserved. MSCI Data provided MSCI; Jan 1970 to Dec. 2006 Monthly.
[2] World Federation of Stock Exchanges, World Bank Data and Cumberland Advisors.
* Quarterly: 01/1999 - 03/2007: MSCI data copyright MSCI 2006, all rights reserved.

R&B Client: Deborah Lage, A Woman of Passion

Deborah Lage, or Deb as most people refer to her, is nothing if not passionate. Whether you are watching her train dogs, listening to her tales about working in health care or catching her before a sailing competition, Deb lives life to the fullest.

Deb's modern ranch home above the Oakland Zoo is actually a mini-zoo filled with dogs, sheep and ducks. She has five dogs including Adi, Chloe and Sailor (all Shetland Sheep Dogs), Pirate (a Border Collie) and Sparky (a Schipperke). Deb competes with her dogs once or twice a month in agility or herding competitions. She also commutes to a weekly class at PowerPaws Agility in San Jose to work with top trainers.

"I love animals, especially dogs" says Deb with a contagious laugh. "My dogs are what ground me. They are the reason I don't pick up and sail around the world."

Well, dogs and the realities of life are what keep her local. An Oakland native, Deb is an occupational health nurse/case manager. She has worked as a corporate occupational health nurse for several Fortune 500 companies, setting up compliance programs and training and also worked in hospital-based occupational health clinics.

Deb enjoys her career but because of her busy schedule she never felt she had a handle on her finances. When both of her parents died, she knew a nest egg would be coming her way and she realized she needed some guidance.

"I appreciate Deb's enthusiasm and zest for life," says Chuck Bowes, principal with Runyon & Bowes LLC. "First we helped Deb identify and document her financial goals. Now we are working with her to meet those goals."

The process has been an enlightening one for Deb. She knew she needed to secure her financial future and strategize for her retirement but didn't quite know where to start.

"I worry about my future and since I don't have any family I needed someone I could trust and Chuck is 'that person' in my corner," says Deb.

That corner is a big one to fill. In addition to a busy career and a herd of animals, Deb manages to find time to sail.

"Sailing is my alter ego," an athletic Deb explains. "I love the water and adventure and sailing feeds that part of me."

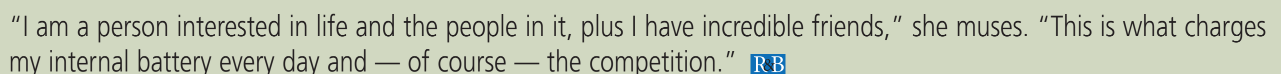
She took up sailing in 1989 and within six months she bought her first boat. After that she acquired her captain's license and taught sailing.

"I'm very passionate about whatever I choose to do," explains an upbeat Deb, who also finds time to swim twice a week.

She competed in the Masters Mariners Regatta in San Francisco Bay on Memorial Day weekend with an all-women team. She has raced in this regatta before and this year her team placed 1st in Division M4.

Despite her busy schedule and full life, Deb also enjoys just having time to relax and hanging out on her back porch.

"I am a person interested in life and the people in it, plus I have incredible friends," she muses. "This is what charges my internal battery every day and — of course — the competition." R&B



Recent SEC Ruling Brings Higher Standard

R&B Already Holds Fiduciary Standard of Client Care

Gabriel Brenner,
Principal

"When you get married, you bet your life," my father-in-law used to say. And a business partnership is very much a marriage. That is why I am so excited to be joining the Runyon & Bowes team. Chuck and Ed exemplify the client centric pursuit of excellence that brought me into financial planning in the first place. Beyond the compatibility of investment beliefs and planning approaches, I simply like these guys. They hold family and children above all else. They are humble. They are curious. They make my days that much more enjoyable. I look forward to meeting their clients and vice versa.

I am also thrilled to be able to tell you about a major legal victory for individual investors. Chuck, Ed and I very purposefully choose to be held to a fiduciary standard of client care. It has always burned my britches that major Wall Street firms such as Merrill Lynch, Smith Barney and UBS hold themselves out as disinterested and objective but very purposefully choose to be governed by what is, in my opinion, an inferior set of rules and regulations.

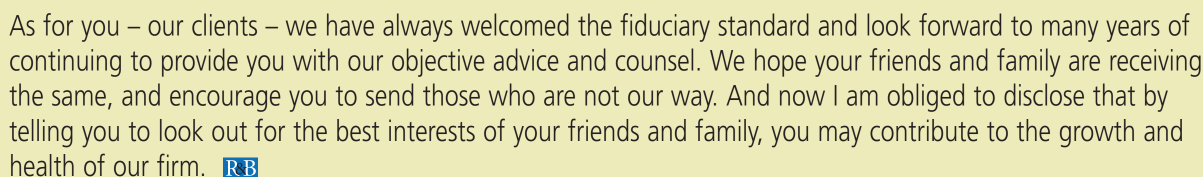
Runyon & Bowes is regulated under The Investment Advisor Act of 1940. As such, we are required to put our clients' interests ahead of our own and to disclose conflicts of interest. I hear you saying, "Big deal. That is the least we expect." And I agree with you. Who wouldn't? Amazingly, the vast majority of financial services providers don't.

On March 30, 2007, the United States Court of Appeals decided in favor of the Financial Planning Association (of which we are proud members) in its lawsuit against the Securities and Exchange Commission. The strongly worded opinion held that all firms providing financial advice should be regulated under the same statutes and laws, The Investment Advisor Act of 1940.

For decades the SEC has flouted congressional intent by allowing brokers to market themselves as advisors and to give extensive personalized investment advice without subjecting them to the requirements of the advisors act. That has made it virtually impossible for investors to make an informed choice among different types of investment services providers and has exposed them to hidden conflicts of interest in what they rely on as disinterested advice.

The critical issue the court identified is that consumers do not understand the impact of the difference between a "suitability" standard and a "fiduciary" standard. Prior to this ruling, brokers merely had to provide that their recommendations be suitable and not necessarily in the client's best interest. I cringe every time I read news accounts of clients who have placed their trust in an advisor, only to later lament that far better alternatives were available. No fiduciary, by the definition of the word, would ever make such a self interested recommendation.

It is unclear exactly how this ruling will impact the clients of the major brokerage firms. The ruling is being appealed. But you can be sure that the big Wall Street firms will fight hard to come up with ways to avoid being held to the higher standard. Let's hope this ruling leads to real reform and better advice for everyone.



As for you – our clients – we have always welcomed the fiduciary standard and look forward to many years of continuing to provide you with our objective advice and counsel. We hope your friends and family are receiving the same, and encourage you to send those who are not our way. And now I am obliged to disclose that by telling you to look out for the best interests of your friends and family, you may contribute to the growth and health of our firm. R&B

Avoiding Mistakes On IRA Rollovers

Ed Runyon
Principal

When you change jobs, you can make a tax-free rollover of your 401(k) to an IRA. Often, that's a good idea. IRAs generally offer broader investment choices than you get in a 401(k). Moreover, if you switch jobs several times during your career, your retirement savings will be easier to manage if you consolidate the money in one place.

Yet while a rollover often makes sense, rules governing such transfers are among the most complicated in the tax code. Make a mistake and you could pay penalties and taxes and negate the benefits of moving to the IRA in the first place. Consider these pitfalls.

Failing to do a direct rollover. It's your last week at work, and when your personnel department asks what to do with your 401(k) balance, you request a check. As long as you redeposit the account's full value in an IRA within 60 days, you won't owe income tax or a 10 percent penalty for withdrawing retirement money before age 59. (If you're at least 55 when you leave your job, you can keep the money without penalty.)

However, your employer must withhold 20 percent on the amount of your check — and if you have, say, $500,000 in your 401(k), that means your check will be for just $400,000. Yet to avoid taxes and penalties, you'll have to deposit the full $500,000 in your rollover IRA. Where will the extra money come from? Unless you have that much sitting in a bank account, you may have to sell investments in a taxable account to raise the cash, and that could generate capital gains taxes. Assuming you do meet the 60-day deadline, you'll eventually get back much of the $100,000 your employer withheld, but not until the following year, after you've filed your federal taxes. (Whether you get the full amount depends on your overall tax situation for the year.) A better way: You could direct your company plan to roll over the money directly to your IRA and avoid this problem.

Rolling over company stock. Stock in your company that's held in your retirement plan is often eligible for special treatment when you leave a job. So moving the shares to a taxable account may be better than cashing out and rolling over the proceeds to an IRA. If you take the shares, you'll owe regular income tax on what you paid for them. And if you are under 59 , you will also owe a 10 percent IRS early-withdrawal penalty.

Assuming you are over 59, in the 35 percent tax bracket, and that your original cost for the stock was $100,000, you'll owe $35,000 if you withdraw the shares and place them in a taxable account. But suppose the shares are now worth $200,000. That, as well as any further appreciation, could be taxed at the more favorable long-term capital gains rate of 15 percent — and only after you sell the stock. So your tax on the appreciation would be just $15,000.

And if you never sell, your heirs get a step-up in basis on any appreciation in the stock that occurred after the transfer to the taxable account. If you roll over your shares to an IRA, however, their full value will eventually be taxed as income. So your total bill on the IRA withdrawal, again assuming a 35 percent rate, would be $70,000 instead of $50,000.

Borrowing from the wrong account. Sometimes people with a temporary cash crunch use the 60-day rollover window to withdraw cash from a former employer's plan, returning it to a rollover IRA. Yet because of the 20 percent withholding requirement, this strategy may only exacerbate problems. A better idea is to take the money from a rollover IRA you've already established (rather than a 401(k)).

Here, too, you have 60 days to return the money without penalty, but there's no withholding. You're allowed to make such a transaction once a year.

In these and many other rollover-related transactions — including, for example, the nightmare scenario of splitting a rollover in a divorce settlement — it's all too easy to get it wrong. If you're considering a rollover, we can help you avoid mistakes and chart a course that fits your financial situation. R&B

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"Have you met the ***new principal at R&B****?"*

"How much of your portfolio should ***go overseas****?"*

"Do you know how to ***avoid IRA rollover mistakes****?"*

"Did you know ***R&B clients*** *get a fiduciary standard of client care?"*

*"****Who is*** *Deb Lage?"*

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