

THE SUCCESSFUL INVESTOR

A QUARTERLY PUBLICATION OF RUNYON & BOWES FINANCIAL CONSULTING

WINTER 2008



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Do you know that Gabe and Chuck can sing Beethoven's Ninth Symphony in German? It's probably not the most useful thing they learned when they attended the Financial Planning Association's annual conference in Seattle but maybe the most memorable.


The conference was just part of Runyon & Bowes' efforts to stay on the cutting-edge of the wealth management business. Those pretty pie charts and fancy folders you get just scratch the surface of what we are doing for our clients. We are diligently working to better educate ourselves in an effort to better serve our clientele.

And our clients are at the top of their game as you'll see when you read about Dan Callahan on page 4. Dan has been described as a bull-dog litigator and humble servant. These titles are not easily earned or lived

up to but somehow he seems to make sense of them.

Speaking of making sense of things, get ready for a potentially tough tax season. Allen Bosso, CPA, talks frankly about some potential stumbling blocks to watch out for; you can read his insightful column on page 5.

Tax day isn't until April, so what's going on with the market today you ask? Well, Runyon & Bowes is here to talk you through the market turmoil and offer some sage advice on how to weather the storm. Read all about it in Chuck's column on page 2.

If you still have questions, our partners are always available and ready to talk to you about how to keep your dreams and goals in check. Please feel free to contact any of us, at any time. 



Ed Runyon, Principal



Chuck Bowes, Principal



Gabriel Brenner, Principal

"Taxes are what we pay for a civilized society."

— Oliver Wendell Holmes Jr., U.S. Supreme Court Justice

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Market conditions uncomfortable? Yes. Unusual? No

R&B offers sound strategies to get you through the tumultuous market



Chuck Bowes
Principal

The recent turmoil in the global financial markets, highlighted by the sub-prime mortgage meltdown, can make even the most experienced and steely investor a bit queasy. And for good reason; as of mid-January 2008, the S&P 500 Index is down roughly 11 percent over the last three months.

We can all agree it is uncomfortable and provides for scary headlines, doomsday talk from TV hosts and a general feeling of fear among many investors. Though the recent drop in the market is disconcerting, it is not unusual. In the last 10 years alone (1998-2007) there have been 18 three-month periods with market swings of 11 percent or more. Interestingly during nine of those periods, the market rose 11 percent or more; the other nine times it dropped 11 percent or more.

This recent market decline is just the latest reminder that the stock market is risky.

“Trying to sit out the bear market and jump back in at the right time is likely a recipe for failure.”

Risk is one reason that the annualized long-term return for the S&P 500 Index is 10.45 percent (Jan. 1926 – Dec. 2007) while the return over the same time period for five-year U.S. treasury notes is only 5.45 percent. So if you want returns greater than 5 percent, you must be willing to take these short-term wild rides in the market.

Risk and return are forever linked. It's important to understand that stock market risk is much greater in the short run than the long run. That means your chances of losing money over one-, three-, and five-year periods are much higher than over longer periods. For example, the biggest 12-month drop in the S&P 500 (Jan. 1926-Dec. 2007) was negative 67 percent starting in July 1931. However, there has never been a negative return over a 20-year (or 240-month) period.

Hopefully the above treatise on stock market risk has settled your stomach to some degree. But you may still be reaching for the Roloids, so let's take a look at the Runyon & Bowes investment process and how it takes advantage of times of high volatility.

You can call it making lemonade out of lemons, but really it's about the basic execution of our fact-based investment process. The core of our investment process is based on a few simple, but powerful steps during times of uncertainty.

Managing emotions

Money is emotional. High emotions and good financial decisions are like pairing Corona and caviar. Both are tasty and have their place in a well-rounded kitchen, but they should never be paired. Our experience tells us that our biggest value to clients in times like these is helping them stay focused on what is most important to them: family, career and life, and letting us worry about the markets and investments.

We have worked very hard with each of you to develop an overall financial strategy that expects market conditions like we are experiencing, and we continue to monitor not only your investment portfolio but your overall financial strategy to ensure you are on track to meet your goals and objectives. In short, we expect and plan for volatile markets and, while there are no guarantees for the future, we have gone to great lengths to stack the odds heavily in your favor.

Saving Taxes

One of the key ingredients to our lemonade is the tremendous opportunity to save on taxes in 2008 and potentially for many years to come. Keep in mind that all of the tax savings we are talking about here apply to assets held in taxable accounts.

“Tax Loss Harvesting” is a term you may be familiar

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with or hear lots of talk about these days. It simply means selling an asset at a loss so you can offset current or future gains on other assets and save on your tax bill as a result. The implementation of a well-thought-out tax loss harvesting strategy can get complex and we strive to balance the benefits of taking tax losses with the cost of the transactions involved and the ability to keep your portfolios properly deployed. When done properly it can mean significant tax savings for many years to come.

For example, you are probably aware that mutual funds make both long-term and short-term capital gains distributions each year, which are taxable even if you reinvest those distributions. Of course, we take tax efficiency seriously when it comes to selecting the mutual funds for our portfolios, but even the most tax-efficient funds make distributions.

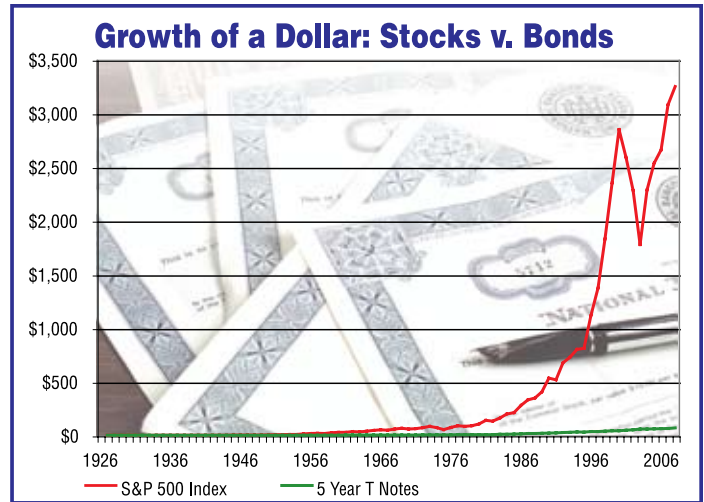
Let's take a look at one very simple example. We often use the DFA International Large Cap Fund (DFALX). The estimated 2007 long-term capital gain distribution per share for International Large Cap is about 35 cents. So for every 10,000 shares you own (roughly \$230,000 given the recent price of \$23.01), we estimate you will see a \$3,000 long-term gain on your tax return for 2007.

Our tax loss harvesting efforts would look to identify the opportunity to sell another asset and generate a \$3,000 loss – maybe a position in a U.S. REIT? This would, in effect, wipe out the gain from the DFALX distribution and save you about \$700 in state and federal long-term capital gains tax. Now each client situation is unique and we don't always have the opportunity to make such moves, but today's volatile markets can provide these types of opportunities.

Keep in mind that selling at discount prices to harvest losses — while a savvy move — does reduce your exposure to the stock market, which is not necessarily a good idea. So if you sell one stock or mutual fund at a loss you should purchase another similar fund or stock immediately so you are positioned to capture future gains. Trying to sit out the bear market and jump back in "at the right time" is likely a recipe for failure. Markets tend to bounce back very rapidly from big sell-offs and nobody can predict when that will happen. So take the loss and stay invested.

Balancing Your Pie Charts

The second key ingredient to the lemonade is rebalancing. Successful long-term investors know that the No. 1 factor determining their long-term rate of return is the percentage of the portfolio invested in each asset class. Think of an asset class as a "basket" of similar investments, such as U.S. stocks or funds, international stocks or funds, bonds and cash. The fancy term for deciding how much to put into each basket is "asset allocation" (think multicolored pie charts). Asset allocation is the most important decision you make.



For example, your long-term goal may be to have 60 percent of your portfolio in stocks, 35 percent in bonds and 5 percent in cash. Now is the time to revisit your pie charts and see where you stand. Given the recent drop in stocks and rise in many bonds, our example portfolio might now comprise 50 percent stock, 45 percent bonds and 5 percent cash.

A straight-forward strategy would be to sell 10 percent of your bonds (high relative price) and put that money into the stock market (lower relative price) and bring your portfolio back into balance. Without much math or emotion, you just followed the most basic rule of successful investing: buy low and sell high. Pat yourself on the back!

Concentrating on other things

The final ingredient in the lemonade is relaxation. We realize that many clients during times of volatility and uncertainty feel a strong desire to take action. That is a very natural instinct. There are some smart steps we are taking on your behalf, but often it is much better to channel that desire for action into other areas: a round of golf, a family excursion to the playground, or getting your garden ready for spring.

We hope we provide our clients with the peace of mind to turn off the talking heads on CNBC, not read the doom-and-gloom headlines and simply smile and nod during cocktail party conversations (or mention our name!). This is a great time to have that Corona we mentioned above and reflect on all the planning we have done together.

You can feel confident that recessions come and go, the dollar fluctuates from strong to weak and back again, presidents get elected, and financial crises flare and then subside. But in the long run the market will reflect the long-term returns of the global economy, which has always been and almost surely always will be very rewarding for those who have a plan and stay calm. So enjoy the caviar and call us with any questions! [R&B](#)

R&B Client: Lawyer Dan Callahan, top of his game

High-powered trial attorney. Husband and father. Bulldog litigator. Humble servant. Daniel Callahan, founding partner of Callahan & Blaine, has been called a lot of things, but no one will argue that he's at the top of his game.

His Santa Ana-based firm specializes in complex civil and business litigation, as well as traumatic brain and serious personal injury litigation.

Callahan has won a series of high-profile, high-stakes lawsuits that have changed the legal landscape.

In 2003, Callahan won a \$934 million verdict in Beckman Coulter vs. Flextronics. This was the largest verdict in the Golden State that year and the largest in Orange County history.

Callahan is known for impeccable preparation, sound confidence and a keen understanding of juries.

In a 2004 article in Orange County METRO Magazine, Superior Court Judge Gregory H. Lewis, who presided over the Flextronics case, praised Callahan.

"Dan Callahan can think on his feet," Lewis says. "He prevailed because he was on top of his game."

And Callahan went on to land more record-setting verdicts.

Just last fall, Callahan secured a \$50 million settlement on behalf of two women who were rendered quadriplegic when they were struck by a motorist while jogging in the bike lane in the City of Dana Point. This is the largest personal injury settlement ever in the history of our nation.

But Callahan, who grew up in a middle-class Irish Catholic family in Chicago, didn't succeed in the legal world without working hard.

After some time as a construction worker, Callahan attended Western Illinois University where he earned his BA, magna cum laude, in 1976. He went on to UC Davis School of Law where he graduated in 1979 with honors after serving as Editor of the Law Review.

Callahan may have a slew of academic and professional accolades, but he also has a deeper, soulful side.



Lisa and Ed Runyon with Maureen and Dan Callahan (l to r). In October, the Callahans hosted the R&B client appreciation event in their home.

Dan: By the numbers

\$1.25 billion: Amount Callahan has obtained in verdicts and settlements in the last five years.

3: The number of years — 1994, 1997 and 2004 — that Callahan has been recognized by "California Lawyer" as a "Top Trial Lawyer in California."

2000: The year Callahan was identified as one of the four top trial lawyers in Orange County. He competed with three other top trial lawyers in a Top Gun contest presented by the Orange County Bar Association. Callahan was overwhelmingly voted the Top Gun.

2004: Callahan named both "California Business Attorney of the Year" and "Top 10 Trial Attorney" in the United States.

In 2003, OC Metro named Callahan to its "Hot 25" most influential citizens in the county based on his contributions to the community.

For example, he helped victims of the 1993 Laguna Beach fires review their insurance policies, and he has represented severely injured and developmentally disabled persons pro bono.

"I don't know Dan as a high-profile attorney. I know him as a humble servant whose heart goes out to people," Pam McCrea, CEO and president of Good Shepherd, told OC METRO in 2004. "He donates his time and resources. He doesn't expect anything in return. That's just Dan Callahan." [R&B](#)

IRS anticipates challenging 2008 filing season

The IRS and many tax professionals are expecting a challenging 2008 tax return filing season. The IRS has warned that the lateness of the AMT patch passed by Congress is likely to delay return processing and refunds. The IRS recently announced that the late enactment of the 2007 AMT patch will specifically delay the start of the upcoming filing season by about one month for some 13.5 million taxpayers filing five AMT-related forms.

AMT patch

The AMT is, as many people know, just what its name says: an alternative tax. Congress created it nearly 40 years ago to prevent roughly 200 very wealthy individuals from evading their federal taxes. Congress made one mistake. It forgot to index the AMT for inflation. Over time, inflation has eroded the value of the dollar bringing more taxpayers within the reach of the AMT.

This is where the "patch" comes in. The patch does not fix the AMT, it merely prevents it from expanding. The patch gives taxpayers higher AMT exemption amounts. The patch also allows taxpayers to use most of the nonrefundable personal credits to offset their AMT liability. The patch will keep as many as 25 million Americans from paying AMT, according to the U.S. Treasury Department.

Congress passed the patch on Dec. 19, 2007. That's good news. However, because it was so late in 2007, the IRS did not have enough time before the start of the 2008 filing season to reprogram its computers for the patch. When the 2006 patch expired, the IRS' computers defaulted to the old law, without the patch. The IRS predicts it will need seven to 10 weeks to reprogram its systems for the patch. The IRS has promised to process returns accurately and to issue refunds as quickly as possible.

Planning for delays

In the meantime, the filing season has started. The first spike of the filing season typically occurs in late February and early March. The IRS is advising practitioners not to stockpile returns and not to switch from electronic filing to paper filing. In a recent news release, the IRS said that it has been able to reprogram its systems to start

processing most returns in mid-January. However, the IRS announced shortly after passage of the AMT legislation that it expects that some 13.5 million taxpayers using AMT-related forms will have to wait until approximately Feb. 11, 2008 to file. In particular, the IRS announced that taxpayers filing any of the following forms (manually or electronically) must wait until Feb. 11, 2008 to file Form 8863, Education Credits; Form 5695, Residential Energy Credits; Form 1040A, Schedule 2, Child and Dependent Care Expenses for Form 1040A Filers; Form 8396, Mortgage Interest Credit; Form 8859, District of Columbia First-Time Homebuyer Credit.

Taxpayers filing these forms will have to delay filing in order to allow the IRS time to reprogram its computer system. Other AMT-related forms, such as Form 6251, Alternative Minimum Tax-Individuals, will be processed beginning on Jan. 14, 2008.

Forms

The IRS is revising many of its forms for the AMT patch. Electronic forms can be revised simply but printed forms have already been sent to the printer. Among the forms that must be revised are Form 6251 - Alternative Minimum Tax; Form 1040, Schedule R - Credit for Elderly or Disabled; Form 1116 - Foreign Tax Credit; and Form 2441 - Child and Dependent Care Tax Credit. The IRS has indicated that it will not need to reprint the 2007 Forms 1040.

Extenders

In other news, Congress also did not pass a package of extenders. These are temporary tax cuts that many people take advantage of. They include the state and local sales tax deduction, the teachers' classroom expense deduction and the higher education tuition deduction. Fortunately, you can claim them for 2007. Although these and other popular and temporary cuts have expired, it is very likely that Congress will renew them for 2008.



Allen Basso

Allen Basso, CPA, is a partner with Smith Linden & Basso LLP (www.slb-cpa.com) in Newport Beach. He specializes in proactive business planning and consulting, structuring of mergers and acquisitions, tax planning and business entity reorganization, restructuring and formation.

What's happening behind the scenes at R&B. . .

Runyon & Bowes recently published a white paper, **The Informed Investor**. This publication discusses our comprehensive approach to your financial life, which utilizes five key concepts for financial success. If you want to learn more about our consultative process, you can download a copy from www.ruynonbowes.com or request a hard copy from one of our partners.



Ed was quoted in the **Orange County Business Journal** on Jan. 7, 2008 in the feature "Do You Have Your Act Together?" (As we all know, Ed does, in fact, have his act together.)



Gabe has taken a position as a **financial planning instructor** at The Edward S. Ageno School of Business at Golden Gate University. This program prepares students for managerial and professional careers in a broad range of fields through innovative programs that integrate theory with practical experience.

Chuck's input to the financial planning industry's most-read newsletter — Inside Information by industry guru Bob Veres — was recognized for the **innovations of Runyon & Bowes' approach to planning**.

Runyon & Bowes launched a new Web site, **www.ruynonbowes.com**. (Thanks in large part to Gabe's efforts.) It has a wealth of information about our partners, our philosophy and our firm. Take a peek or refer your friends and colleagues to get more information about our services.



Ed was featured in the Jan. 17, 2008 edition of The Aliso Viejo News about a reunion with his "little brother." Ed was a mentor for Jeremy Bearden through **Big Brothers Big Sisters** in the 1990s. The two have kept in touch via e-mail and their face-to-face meeting was the focus of the article. "[Ed] became one of my closest friends when I was growing up," Bearden told The News. "I spent time with him, we developed a trust between each other and he helped me whenever he could."

Chuck has become a **contributing columnist** to The Healthcare Journal of Northern California. This new quarterly publication is distributed to nearly 40,000 health care professionals throughout California. You can read Chuck's columns at www.healthcarejournalnorcal.com or www.ruynonbowes.com.

In September Chuck and Gabe attended the **Financial Planning Association's annual conference** in Seattle. Among the reams of information they learned to help clients, they also walked away with the ability to sing Beethoven's Ninth Symphony in German thanks to Benjamin Zander, renowned conductor of the Boston Philharmonic Orchestra. Just ask them and they'll share their new-found talents with you.

Chuck hit the **soccer field** many Saturday mornings this fall as a volunteer coach for his 6-year-old son C.J.'s soccer team, The Blasters. [R&B](#)

Fascinating Financial Facts

5%: Americans own 40% of the globe's wealth but make up less than 5% of the world's population.

Source: BusinessWeek, Census Bureau.

Top 3: The three most competitive economies in the world, according to a Switzerland-based think tank, are:

- 1) The United States of America
- 2) Switzerland
- 3) Denmark

The U.S. has been top-ranked for the last three years.

Source: World Economic Forum, Financial Times

4%: Only 4% of American companies export their goods and/or services outside the USA.

Source: The Federal Reserve Bank of St. Louis

75 years: The last recession in the United States ended in November 2001. The six years since that date represent the fifth-longest economic recovery in the nation in the last 75 years.

Source: NBER

For More Information...

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Home phone: _____ E-mail: _____
Question/Comment: _____

Runyon & Bowes recently published "The Informed Investor" which discusses our comprehensive approach to your financial life and utilizes five key concepts for financial success. If you'd like to learn more about our consultative process, please send us your information and we'll share a copy with you.



Yes, please send me a copy of the Informed Investor

Name: _____
Address: _____
City: _____ State: _____ Zip: _____
Home phone: _____ E-mail: _____
Question/Comment: _____

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“Did you know Gabe is a *financial planning instructor*?”

“Wondering how to respond to the *market turmoil*?”

“Are you ready for a *tough tax season*?”

“*Who is Dan Callahan*?”

Find Out More Inside...