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Dialogues » WEALTH STRATEGIES FOR DISCUSSION

Whether you are focused on accumulating assets, preserving capital, generating income or transferring wealth to loved ones, count on us to help you develop an integrated financial plan for life's most important events. Our comprehensive approach to wealth management centers on creating a plan that addresses what is most important to you.

FIRST QUARTER
2009

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Approaching the Unpredictable

If you could predict the future, just think how different your life would be—you'd always know which day to bring an umbrella, you'd never have to grapple with tough choices like whether to accept that new job offer or buy that new house and you'd be hailed as a genius for your uncanny ability to pick the Super Bowl winner each year.

But you can't predict the future, so you do what everyone else does—you try to make the best possible decisions for your situation based on the information that is available. As a prudent investor, this approach should carry over to your investment portfolio, which is why you hear and read so much about the concepts of *asset allocation and diversification*.

The whole point of asset allocation (the spreading of funds across different asset categories, such as stocks and bonds) and diversification (the spreading of funds across different investments *within* each asset category) is to help smooth some of the surprising and turbulent price swings that are an inevitable part of life in the financial markets. By spreading out your investments, you also spread out—and possibly reduce—your overall risk. What's more, you may improve your longer-term returns as well, by giving your portfolio the opportunity to spend more time compounding and growing and less time trying to play the market's ups and downs.

A prudent, long-term investment strategy built on the sound principles of asset allocation and diversification may help your investment portfolio be more successful in today's uncertain world. We can review your current strategy and allocation to see if there's an opportunity to make your wealth work harder for you—and to do so with less risk.

And take comfort in knowing that life is much more interesting when it includes the occasional surprise. ■

Diversification does not ensure against loss.

By the Smith Barney Division of Citigroup Global Markets Inc.

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Seven Strategies for Investing

During Volatile Markets

The markets don't always behave the way we'd like them to: Geopolitical turmoil, natural disasters, interest rates and world events can have a profound effect on market movements. If recent market volatility has you concerned about the economy, you are not alone; this is a confusing time for many investors. Some have decided to stay the course, while others are sitting on the sidelines waiting for the market to rebound. However, since no one can predict how the markets will perform, it's important to develop an investment strategy that can help you stay on the right track to meeting your long-term financial goals. Here are some strategies that you can implement that may help to manage risk during these uncertain times.

Work with a Financial Advisor. There are a lot of do-it-yourself investment resources available to investors today. However, none of those resources can replace the experienced, personal service we can provide. We can offer an understanding of your complete financial picture, not just your investments. Additionally, in periods of market volatility when you need the most support, we can provide:

» Access to important decision-making research and information;

» Ongoing monitoring of your investment portfolio, while anticipating your changing needs; and

» A comprehensive market-volatility plan.

Have a plan. Developing a financial plan is one of the best ways to meet your long-term goals. Your plan should also include an action plan to address market volatility, which should be developed well in advance of a turbulent market. Having a market-volatility plan will help you to set realistic goals and appropriately manage your return expectations.

Invest regularly. It may not seem intuitive, but investing regularly—even during market downturns—can help to reduce your overall costs. Dollar cost averaging is one of the best ways to invest regularly, since you're investing a fixed amount on a fixed schedule, regardless of how the markets perform. Investing regularly can also have intrinsic benefits: It encourages discipline and may also ease the anxiety of daily market fluctuations.

Diversify. If you've ever heard the saying, "Don't put all your eggs in one basket," then you already have a basic understanding of diversification. Diversifying your portfolio can reduce risk and volatility if the assets have little or no correlation to each other.

Investing in mutual funds is one way to achieve portfolio diversification, since mutual funds are typically a diversified investment. There are also several other ways to diversify and potentially reduce portfolio volatility:

» Within an asset category, such as purchasing different types of mutual funds;

» Among asset categories, such as purchasing stocks and bonds; and

» Outside the United States, since some markets move opposite to the U.S. stock market.

Put volatility to work for you. Do you think of the glass as half empty or half full? Your perspective can affect the investment decisions you make during market downturns. Investors who view market volatility negatively can make irrational decisions. A down market can be an opportunity for you to build your portfolio and take advantage of lower unit costs.

Stay invested. You are probably anxious during times when the value of your investments has decreased. As a result, you may be tempted to move out of the market, sit on the sidelines and wait for the market to rebound. However, since no one knows how the markets will move, how do you know you're leaving at the right time? Also, how will you know when it is the right time to get off the sidelines and start investing again?

If you have worked with a Financial Advisor, your investment strategy was developed to help you meet your long-term goals. Timing the market could potentially jeopardize your financial plan—and your future goals.

Be patient. There will always be uncertainty in the markets; market volatility is a natural part of the investment cycle. Although it may take some time, markets do rebound.

In the meantime, call us to help you develop an action plan for market volatility and continue to focus on your long-term investment goals rather than short-term market moves. ■

Playing Catch-Up with Retirement Savings

Lost Time Does Not Mean Lost Hope

You finally decide to sit down and take a serious look at your retirement savings, and what results is a bit of panic.

You did not prepare as well as you thought, and now you are afraid you might not be able to afford the lifestyle you love after you retire. The question now: Is there anything you can do at this late date?

You are not alone. With many pensions frozen or nonexistent and Social Security providing only a fraction of pre-retirement income, many people nearing retirement are wondering how they will supplement these traditional sources of retirement income. In fact, in 2006 the Center for Retirement Research estimated that 36% of high-income households won't be able to live as well in retirement as they do today. But even if you are a late saver, your Financial Advisor can show you how to pad your nest egg, whatever its current size.

First, you need to know how much you need for retirement alongside your current assets. Your Financial Advisor will help you tally your current expenses and estimate what they're likely to be during retirement. He or she may ask for paperwork on any pension income or expected distributions from employers and your personalized Social Security statement, which gives an estimate of your monthly benefits. Then they will put it all together in the retirement analysis on the Common Proposal System, leaving you with a documented picture of your estimated retirement income, funds available to cover these expenses and how much you may be able to save over just a few years.

Where Do Leading-Edge Boomers Stand Financially?

Age 55 to 64	Income	Retirement Savings
Top Earners	$345,149	$481,925
Upper Income	108,412	272,155
Upper Middle	70,990	112,792

Where Do Continuing Workers Stand?

Age 65 to 75	Income	Retirement Savings
Top Earners	$339,356	$716,891
Upper Income	103,925	281,710
Upper Middle	67,894	143,920

Notes: All figures are averages. Savings include retirement plans and the value of pensions among those who save.

Data Source: Federal Reserve Survey of Consumer Finance as of 2004.

> "The fastest way to build up retirement funds is to contribute the maximum amount each year to tax-deferred company plans and IRAs. Annual catch-up provisions allow employees age 50 or older to contribute $20,500 in 2008, versus $15,500 for clients under 50."

CATCH-UP STRATEGIES

If you are facing a shortfall in retirement funds, there are three major steps you can take:

1. Max out employer retirement plans and IRAs.

The fastest way to build up retirement funds is to contribute the maximum amount each year to tax-deferred company plans and IRAs. Annual catch-up provisions allow employees age 50 or older to contribute $20,500 in 2008, versus $15,500 for clients under 50. For example, if you are 50 or over and are able to contribute the maximum catch-up amount to a 401(k) and earn 8%, after ten years your retirement nest egg could have a sizeable balance of $320,733. If you are also able to max out your retirement savings with ten years of annual contributions of $6,000 to an IRA, you would have the potential to add another $93,873.

2. Automate IRA contributions.

Yes, it's only an annual contribution of $5,000 (or $6,000 if you are age 50 or older), but if you have an IRA, making sure you fund it annually will significantly add to your nest egg. Rather than risk forgetting annual contributions, ask your Financial Advisor to set up an automatic funds transfer into your IRA for the beginning of every year. Then your current annual contribution is guaranteed, and if limits go up and you are given an opportunity to save even more, your Financial Advisor will contact you and adjust your transfer amount accordingly. Plus, if you didn't contribute last year, you still have until April 15 to make a deposit, and nonworking spouses can add a matching amount in a separate IRA, thus doubling a couple's savings.

3. Contribute to a Roth IRA, if eligible.

Unlike traditional IRAs, Roth IRAs allow clients to receive 100% tax-free distributions during retirement. For 2007, clients can make full Roth IRA contributions if their modified adjusted gross income does not exceed $156,000 on a joint return or $99,000 on a single return. Starting in 2010, that income ceiling is eliminated, allowing anyone to convert a traditional IRA to a Roth IRA. Even if you don't plan to convert an existing IRA, you might consider opening a new traditional IRA account now in anticipation of converting in 2010. Taxes will be due on the conversion, but assets can grow tax free thereafter.

If you are approaching retirement, undoubtedly the question "How much is enough?" is on your mind. Ask your Financial Advisor today, and by tomorrow you could have some answers and a plan in place to help you have enough when the time comes for you to begin to rely on your retirement savings. ■

IRA Strategies for Each Decade of Life

Whether you have ten years to catch up on retirement savings or 40 years to lay a solid foundation, the fastest way to build funds is to use the tax-deferred compounding that IRAs offer to anyone with earned income.

50s and beyond: If you are in this group, the first years of your retirement beginning to appear on your horizon can look like a time to buy a boat, embrace many of the leisure activities you never had time for before or travel. But, it is important to be careful not to let this enthusiasm create hardship down the road when day-to-day expenses need to be covered. Contributing to an IRA ten to 15 years before retirement can create a "honeymoon account" that enables you to fund the activities you've been looking forward to without raiding serious retirement funds. For example, a 50-year-old who contributes $6,000 annually for the next 15 years would end up with a $176,000 "honeymoon account" at retirement.*

40s: In your peak earning years, you probably contribute fully to a company retirement plan and believe the accumulated savings will be enough to support you during retirement. But you may be able to afford to contribute more, giving you a potentially larger nest egg down the road. Your Financial Advisor can perform a retirement analysis and show how saving an extra $5,000 annually can impact your cash flow. For example, a 40-year-old who contributes $5,000 annually for the next 25 years (not accounting for catch-up contributions) could end up with $395,000 at retirement.*

30s: If you are in your thirties, you are likely building a career, juggling children, upgrading your home and worrying about college funding. This may make saving for retirement not seem like a priority, and it is tempting to put it off. But borrowing to finance a home or college is often better than sacrificing retirement savings. Also, money in an IRA is not locked in. While not typically recommended, the IRS allows investors to remove funds from an IRA for a first home purchase or college expenses.

20s: With the exception of pre-IPO Googlers, few twenty-somethings have any assets for retirement, though starting now could help you retire as a multimillionaire. You can significantly increase your quality of life down the road by establishing an automatic funds transfer into an IRA. For example, you could transfer funds from a checking, savings or other account into a Traditional or Roth IRA. Assuming you're eligible for a Roth IRA, contributions can be withdrawn free of taxes and penalties five years after opening the account.

*Examples assume 8% annual rate of return.

Staying at Home

Shouldn't Mean Leaving Retirement Behind

Today, it's increasingly common for women (and men!) to spend time outside the workforce for any number of reasons—such as to raise children, care for a parent or even write a novel. On top of the many emotional issues often associated with this decision, there are important financial aspects to consider beyond the loss of income and need for day-to-day belt tightening.

Leaving the workforce often means putting your 401(k) or other company-provided retirement plan on hold. It also means a smaller Social Security benefit in the future because that benefit is dependent on how much you earn and how many years you work. And if you are married or have a domestic partner, you now face funding two retirements out of one income, all of which can have significant implications for your cash flow in retirement and thus for your lifestyle in retirement. Fortunately, there are a few simple steps you can take to help keep your retirement savings on track.

MAX OUT YOUR 401(K) PLAN

If you are currently working but expect to leave the workforce in the future, maximize what you are contributing today to your 401(k), 403(b) or other employer-provided retirement plan. Remember, if you are age 50 or older, you are entitled to make an additional contribution of up to $5,000 in 2008. Similarly, open an IRA now and make the maximum annual contribution permissible. Your Financial Advisor can help you determine an appropriate type of IRA for your situation. And, if you decide to go back to work, try and contribute the maximum to your retirement plan each year thereafter.

> "Successful retirement planning is a family affair and should take into consideration the individual goals and needs of both the working and nonworking spouse."

Once you decide to leave the work force, don't cash out your 401(k) or other employer-sponsored retirement plan. Your Financial Advisor can help you evaluate whether to leave the money in your employer's plan or transfer the funds to a rollover IRA. Remember, a trustee-to-trustee transfer typically is the best way to avoid unintended tax consequences.

EXPLORE A SPOUSAL IRA

If you are married and not employed, work with your spouse and Financial Advisor to set up a spousal IRA. A nonworking spouse can make an IRA contribution of up to $5,000 in 2008 if under age 50 (or $6,000 if age 50 or older), as long as the couple files a joint return and the working spouse has enough earned income to cover the combined total of both spouses' IRA contributions. So, if you contribute $5,000 to one IRA and you want to contribute another $5,000 to a spousal IRA, then you need to have at least $10,000 in earned income to cover both contributions.

The deductibility of the spousal IRA contribution depends on a couple's adjusted gross income, so you should consult with your tax advisor about your situation. One thing to keep in mind: Even though you are using your spouse's earned income to qualify, the account will be in your name. Also, if you opened an IRA while employed, you can use it for your spousal IRA contribution.

REVIEW YOUR LIFE INSURANCE

Regardless of where you are today, make sure that your family has adequate life-insurance coverage. Many of us are reluctant to talk about certain "what ifs" because we worry that just saying the words will make them a reality. So, we assume that our spouse or partner has taken care of things, and we turn a blind eye to stories about families left in desperate financial straits after a tragedy. Women in particular should pay close attention to life insurance, as they are statistically more likely to live longer and be left responsible for managing their family's finances. The general rule of thumb is that life-insurance coverage should equal eight to ten times the total household income. However, you should consult with a knowledgeable professional to determine an appropriate level of coverage for you and your spouse or partner given your family's situation.

Successful retirement planning is a family affair and should take into consideration the individual goals and needs of both the working and nonworking spouse. Your Financial Advisor can help you develop a plan that fits your family's needs and work with your tax advisor to help you take advantage of all applicable tax provisions. ■

This article is courtesy of Women & Co., a financial-education program that addresses the specific financial needs women face over the course of their lives. Women & Co. is a division of Citigroup Inc., a registered service mark of Citigroup Inc. and an affiliate of Smith Barney. As a Smith Barney client, you or your spouse may be eligible for a complimentary membership. For more information about Women & Co. or to enroll, go to www.womenandco.com/sbenroll or ask your Financial Advisor.

Ten Things You Should Know About 529 College Savings Plans

As a consumer, you are probably aware that the cost of living is steadily increasing, and college costs are no different.

As a matter of fact, many Americans cite paying for college as one of their top financial concerns, second only to saving for retirement. There are several options available to help you prepare for this important milestone; however, 529 College Savings Plans have revolutionized the way investors save for college. The plans offer both flexibility and control and provide benefits that other education savings programs don't offer. Here's what you should know if you are considering a 529 savings plan:

1. THEY'RE NOT JUST FOR KIDS.

Although most 529 savings plans are used to fund higher education for children, they are ideal for anyone with college funding needs. Whether you're a retiree who wants to pursue lifelong learning or a professional who is returning to school to advance your career, 529 savings plans may have a place in your investment portfolio.

2. IT'S THE ONLY COLLEGE SAVINGS VEHICLE THAT ALLOWS TAX-FREE ACCUMULATION OF SAVINGS AND TAX-FREE WITHDRAWALS.

Money in a 529 savings plan accumulates free of federal taxes, and as long as funds are used for qualified college expenses, the withdrawals from your account are also tax-free.

3. YOU MAY BE ELIGIBLE FOR ADDITIONAL TAX BENEFITS BY OWNING THE 529 SAVINGS PLAN OFFERED BY YOUR STATE.

Many states offer tax deductions to residents who contribute to their own state's plan, but may only allow you to invest in an out-of-state plan with after-tax dollars. A few states offer a state tax deduction, regardless of which 529 plan you invest in. Your Smith Barney Financial Advisor can help you select the right plan from the available options.

4. IF YOU'RE THE ACCOUNT OWNER, YOU HAVE COMPLETE CONTROL OVER HOW 529 ASSETS ARE USED.

Some education funding vehicles require that the assets be turned over to the beneficiary at a certain age. With a 529 plan you maintain control. This means that if the beneficiary decides not to go to college, you can choose another beneficiary or use the plan for yourself.

5. PLANS HAVE HIGH MAXIMUM CONTRIBUTION LIMITS, WHICH ALLOWS YOU TO SAVE MORE FOR HIGHER EDUCATION EXPENSES.

Most 529 plans have contribution limits in excess of $200,000 per beneficiary[1]—much higher than any other education funding option available today.

6. CONTRIBUTING TO A 529 PLAN CAN REMOVE TAXABLE ASSETS FROM YOUR ESTATE, WHICH MAY REDUCE YOUR TAX LIABILITY.

Although your contribution is treated as a gift to the named beneficiary (for gift-tax and generation-skipping transfer-tax purposes), it also qualifies for the $12,000 annual gift-tax exclusion, allowing you to make fairly large contributions without incurring the gift tax. What's more, if you make a contribution between $12,000 and $60,000[2] for a beneficiary, you can elect to treat the contributions as if they were made over a five-calendar-year period for gift-tax purposes. This means the money gets out of your estate faster than if you made contributions each year. And the best part? Even though the asset leaves your estate, it doesn't leave your control if you are the owner of the 529 plan.[3]

7. THEY'RE NOT JUST FOR IN-STATE COLLEGES AND UNIVERSITIES.

Whether the goal is to spend a semester abroad or pursue a degree stateside, you can use a 529 savings plan at any in-state, out-of-state or international institution, as long as it's used with an accredited program.

8. THERE ARE NO INCOME OR AGE LIMITATIONS.

Some education funding vehicles have age and income restrictions, which limits the amount you can save. Generally, anyone can fund or use a 529 savings plan for education purposes.

9. PLANS ARE PROFESSIONALLY MANAGED AND OFFER A RANGE OF INVESTMENT OPTIONS.

With 529 savings plans, you have access to professional money managers with years of experience managing assets. Most plans also offer several investment options, such as age-based portfolios that become more conservative as the beneficiary nears their college attendance date.

10. ONLY A SMALL PERCENTAGE OF 529 ASSETS ARE INCLUDED IN FINANCIAL AID CALCULATIONS.

Although the rules may vary slightly by state, generally a 529 account owned by a parent for a dependent student is reported on the federal financial aid application (FAFSA) as a parental asset and is assessed at a (maximum) 5.64% rate in determining the student's Expected Family Contribution (EFC).

As you can see, 529 savings plans have many features and benefits that can address your education funding needs. Call your Smith Barney Financial Advisor to help you develop a comprehensive education-planning strategy that may put you on the right track to meeting your goals. ■

[1] Contribution limits vary by state. Refer to the individual plan for specific contribution guidelines.

[2] Contribution limits double for married couples to $24,000 annually or $120,000 over a five-year period.

[3] Please remember that funds not used for qualified educational expenses are subject to applicable taxes and penalties. If the donor dies within five years of making the contribution the estate will recapture a portion of the assets.

Investments are subject to market risk and may fluctuate in value.

Please consider the investment objectives, risks, charges and expenses associated with municipal fund securities before investing. The offering statement contains this and other important information. To obtain an offering statement, please call your Financial Advisor or visit www.smithbarney.com to locate a Financial Advisor in your area. Read the offering statement carefully before investing.

Before investing, investors should consider whether tax or other benefits are only available for investments in the investor's home state 529 college savings plan.

Yearning for Learning: Send Yourself Back to School Using a 529 Plan

A few years ago, retirement used to be about—well, retiring. Moving to Florida, buying a condo and enjoying the slow, relaxing pace of retirement were the things to do. These days, retirement has taken on a whole new meaning.

Just ask one of the 77 million baby boomers who will begin retiring in 2008. Some will start businesses, some will travel the world and others will pursue new hobbies. What's more, an increasing number of boomers list "continuing education" or "lifelong learning" as one of their retirement goals. In fact, the number of college students 40 to 64 years of age has increased by almost 20% in the last decade[1] and is expected to continue growing.

Of course, boomers want to remain competitive in their current careers, and that can mean going back to school. But their higher rate of enrollment is also about what they want to do when that part of their life is over. Some use retirement as a springboard into a new career altogether, while others return to college to pursue degrees they put off getting when they were younger. Marketers have caught on to this trend. Many online schools now offer programs that are designed for older adults, and many adult communities that once might have been built around a golf course now are popping up on or near college campuses.

If you are looking into returning to school, then you will definitely be interested in the 529 College Savings Plan. Traditionally, 529 plans have been used to help fund a child's or grandchild's education—but now the 529 plan is a great option for meeting your own educational needs. Also, if you have a plan in place for one of your children or grandchildren and they receive a scholarship or decide not to go to college, you can put that money toward your own continuing education.

Whether you want to get an advanced degree, enter a professional program like nursing or teaching, take a cooking class or learn a new language, a 529 plan can help provide the funding you need.[2] Ask us about education-funding options—it just might help you get to the head of the class. ■

[1] "Heading Back to College" by Kim Clark, *U.S. News & World Report*, Oct. 26, 2007.

[2] Student must be enrolled at an accredited school to use 529 assets to pay for qualified higher-education expenses.

State tax laws and treatment will vary. Earnings on nonqualified distributions will be subject to income tax and a 10% federal-income-tax penalty tax.

Investors should consider the investment objectives, risks, charges and expenses carefully before investing. The offering statement contains this and other important information—read it before investing. Consider any tax or other benefits only available for investments in the home state's 529 College Savings Plan. Smith Barney does not provide tax or legal advice; it is important to consult with a tax or legal advisor before investing.