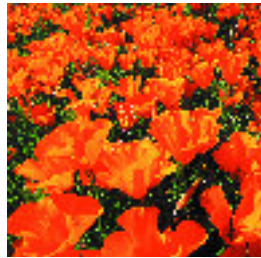




AT SMITH BARNEY

DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSIONSM



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How Much Money Do You Need for the Next Phase?

It depends on the kind of retirement you envisioned.

These days, "What's my number?" is a question millions of baby boomers are asking themselves, as in, "How much money do I need to stop worrying about retirement?" Figuring out that magic number has never been more challenging—or more important.

You have to figure out how to fulfill your retirement goals without sacrificing a comfortable life. Your money has to last, but you don't know how long your retirement will last (today, the average American can expect to live nearly 78 years). And longevity isn't the most remarkable aspect of baby boomers heading toward retirement—it's what they plan to do with those years. Golf and grandchildren still have their place, but people retiring today are just as likely to be balancing tee times and family visits with a second career, entrepreneurship, world travel or pursuing an advanced degree. How can a person possibly fit it all in—and afford it?

Talking is a good start. You may be surprised to learn that your retirement expectations differ from your spouse's. Perhaps you want to stay put in your suburban house, while your spouse envisions a move to the city. As you work out compromises, each decision will help you assess how much money you will need to finance your retirement.

Identifying your shared goals is vital to successful planning; but crunching the numbers definitely plays a role since the amount of income you'll need in order to live comfortably once you retire may be higher than you think. So, doing the math and finding your number sooner rather than later are definitely key steps.

Your number is as unique as your set of aspirations and needs. Together, we can work to clarify your priorities and calculate your number—and then help convert this number from a daunting prospect to the retirement you always wanted.

INVESTMENT AND INSURANCE PRODUCTS: NOT FDIC INSURED • NO BANK GUARANTEE
NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY • NOT A BANK DEPOSIT • MAY LOSE VALUE

Will Your Kids Inherit the Wealth Ethic or the Work Ethic?

Help your children and grandchildren learn financial values so they'll become responsible adults.

Growing up affluent is a double-edged sword. Having your children not have to struggle each day for economic survival is a blessing. Yet, it is easy for them to fall prey to the expensive and frivolous.

More than eight in ten parents surveyed in a Smith Barney Working Wealth poll¹ said raising financially responsible children was deeply important, and that they felt more successful and accomplished when their children understood the value of money. Yet 70 percent admitted that having wealth makes the task of teaching that value more challenging. Many expressed fear that they weren't passing down a strong work ethic.

It takes skill to manage money, even with professional help. It also takes character—a wisdom that grows out of virtue and care for others. Your Financial Advisor can help you find the best way to teach those skills. To impart financial values to your children or grandchildren, consider these expert tips for every stage of childhood.

Up to Age 11

Setting limits is one of the most valuable practices. "It's key in wealthy families to be able to say, 'There are ceilings,'" says Judy Barber, a licensed marriage and family therapist with Family Money Consultants LLC in San Francisco. She says that when you "help children learn the difference between needs and wants" you are building a lifelong foundation. Setting limits also prepares kids for a common occurrence in life: Cash flow, even in wealthy families, goes up and down.

1. Explain what you do: Talk to children about money in an age-appropriate way. Explain how you make decisions about buying things and where money goes when you give it away. Explain why you care for others' needs. If they don't see it, they won't know—so bring children along to the neighborhood center where you volunteer, or at holiday time, bring toys to a local homeless shelter together.

2. Keep it simple and immediate: Young children think concretely, so experts say to keep lessons tangible. Get the child a piggybank and when he or she receives money, talk about using some for spending and setting some aside for savings. Saving for goals can begin in elementary school. But if saving takes too long, many children lose interest. That's okay. Some kids are ten before they're able to do long-range planning. Don't rush it.

3. Learn through play: Preschoolers can learn by pretending to shop or run a store. Encourage games with receipt books to tear off, paper money or a cash register. By elementary school, a pet is an excellent tool for learning money management.

4. Make allowance reliable: Whether allowance is tied to chores or not is a parent's decision, but experts concur that families should avoid docking a child's allowance for bad behavior. "Young people need a consistent amount," Barber explains. A study she ran found children whose allowance was reliable were, a decade later, notably more fiscally responsible. Some experts suggest dividing the allowance into separate jars for saving, spending and charitable giving.

5. Invite a child to give: Giving has its own inherent value, and brings the giver joy. It also carries lessons about responsibility and decision making. Perhaps allow a child to hand over a donation when possible—and help children find causes that matter to them. Sabin says, "It invites them to see how they can be responsible for making financial choices. The lesson is the power of your actions can make the world a better place."

When you "help children learn the difference between needs and wants" you are building a lifelong foundation. Setting limits also prepares kids for a common occurrence in life: Cash flow, even in wealthy families, goes up and down.

Tweens and Teens

Emotions run high with independent-minded adolescents, so matter-of-fact education is key. Skip the tales of your youthful privation. "Saying 'Be like me' will fall on deaf ears," says Dan FitzPatrick, CEO of Citi Trust. "Young people have to find their own basis for a sense of self-worth. It's extremely important in families of wealth." So mix objective education with a continuing emphasis on values—which teens can now begin to apply.

1. Enlarge allowance—and responsibilities: It's probably time to discuss increasing tasks and upping allowance to \$25 per week or more, as well as increasing the number of items the young person must buy, many experts say. They might include toiletries, birthday gifts, or clothing. Barber cautions, however, against loading that duty onto a highly pressured, tightly scheduled child. It may be too much responsibility.

2. Ratchet up the terminology: By middle school, introduce more sophisticated terms, like "compound interest" and "mutual funds." In order to give them a larger picture, expose kids (calmly) to financial unpredictability. Offer assurance that you could weather a downturn. "Explain that you get advice from experienced financial planners and the value of that," Stewart says. Consider visiting a Financial Advisor together. If you have a college investment account, look together at how it's doing. Explain what college costs and what your current savings will buy.

3. Encourage employment: Some students are too overloaded, but if you have a business or a local office, encourage your adolescent to do some filing, errands, repairs or data entry. It will be harder to squander money that's taken time and effort to earn.

4. Shape a wise consumer: Continue explaining your thought processes—now at a higher level—ahead of big purchases, and help with research. "My daughter began shopping on the net for clothing," says Stewart. "No one could believe it when she found a beautiful, barely worn homecoming gown for \$24." When children blow their money, don't bail them out. Mistakes are learning opportunities.

5. Preserve volunteering time: Allow time for and encourage volunteerism. Research shows that charitable activity makes kids happier as they help others find happiness and teaches self-esteem, teamwork and financial and analytical know-how. Direct involvement also helps kids connect to the fate of others. If your child or grandchild isn't interested, sit tight; it can take time for a young imagination to spark.

Cyber Finance, KID Style

Kids don't have to look far for a seasoned guide through the world of finance. At the Young Investors Network (smithbarney.com/yin/home), the ins and outs of investing, budgeting and saving come in jargon-free, easy-to-grasp digital doses with real-life examples and fun hands-on tools—including video games. The site helps young people think through their immediate short- and long-term financial goals and provides a "goals calculator" to formalize the experience. After mulling over what they want, they can even use a savings and budget calculator to figure out how to get there.

Getting the terms: One part of the neon-bright Web portal introduces young investors to the terms and meanings of stocks and dividends through a scenario in which a teenage character, Mandy, starts a company selling old clothes from her grandmother's attic and pays her investors small dividends from her earnings.

Taking part: Young investors can get involved more actively by creating their own "cyber portfolio" for a taste of stock investing. There's a quick lesson on the difference between short-term investing (saving for your first car, say, over one to three years) and how that can be accomplished with bonds,

versus funding an immediate need, such as a laptop, by investing in cash equivalents like money-market funds.

Understanding time: Finally, the merits of long-term (more than five years) investing are noted, such as funding college tuition with growth vehicles like stocks. When it comes to college, there's also a college-cost calculator. Along the way, they learn the tradeoff between risk and return. There are discussions on philanthropic experiences, risks and rewards and the downside of getting too deeply in debt. And so you don't miss out, there are areas geared toward parents and classroom teachers as well.

College and Young Adults

This is the time when the important pieces can fall into place. Take some sophisticated financial and values-oriented education, add technology and expert guidance from the pros (Financial Advisors, trustees, philanthropic mentors) and emphasize the importance of giving and you will have a young adult capable of understanding the sacrifice that earning money entails—one who's serious about treating it with care.

1. Offer independence slowly: ATMs can teach discipline: by 17 a young adult is ready for an ATM card linked to an account with a fixed amount of money in it, earmarked for certain expenses for a month—or even a quarter. That teaches budgeting and impulse control, ahead of the real independence of college. Another useful tool is tax-planning software: ask a high-school senior to track his or her spending using tax-planning software for one semester to learn where the money goes. Then, send a college student off with only as much as he or she can handle. And when they err, dispense with harsh judgments. Have a talk about how to avoid it in the future.

2. Withhold financial support until age 30: Between 21 and 30 “is a tender time in the development of one’s identity as it relates to work,” Barber says. It may be fine to fund post-graduate studies (or make a loan, in a businesslike way, to an entrepreneurial child). But if you just hand over money, you can remove the motivation to earn. Your Financial Advisor may be able to set up a fund that controls the amount available to your adult child, or even include it as part of an estate-planning process.

3. Use trusts to teach: “The majority of parents or grandparents don’t think about the boundless opportunities a trust presents as a teaching tool,” says Steven Chill, a trusts and estates attorney at Golenbock Eiseman Assor Bell & Peskoe LLP in New York. Lessons include how to grow assets to stay ahead of inflation, balance a portfolio to manage risk and choose the right investment manager. Sometimes parents

“enroll” their children in financial education by having “lessons” written right into the language of the trust itself. But Chill says families get much more flexibility—to respond to changing circumstances and their children’s different personalities—when they simply tell the trustees to impart instruction, without the constraint of written mandates.

4. Ramp up philanthropic involvement: Beginning in college, young people are ready to participate more actively in philanthropy, whether that means spending time volunteering or attending annual family-foundation meetings. This is a great age for them to participate in independent charitable work, when they have energy, time and expertise to spare. If there is a family foundation, their interest areas should also be considered for grants. This is a good way for the to learn about governance, family values and other relevant matters.

5. Keep wealth from overshadowing personal choices: Some young people feel their world overshadowed by a wealthy family tree, Barber says. They may feel they can never live up to that greatness, or sense they won’t be loved or valued if they choose a low-paying path. Another tension: When a family requires prenuptial agreements, it can seem like a personal insult. For young adults to find out who they really are, the family—including its money—should stay on the sidelines, says Barber. “You need to figure out what’ll get you up every day, what’s meaningful and important—even if your parents disagree.”

Building financial responsibility requires parents with a value system, children who rise to the occasion as their money duties increase and families that put good tools in place. But experts agree that the most fundamental element is parents’ actions. “Children learn by what we do, not what we say,” says author Sabin. “You teach your children by walking the walk.”

[†]The Smith Barney Working Wealth poll was conducted with investors who have at least \$100,000 in financial assets (excluding real estate and employer retirement plans), a definition that describes approximately 25% of all U.S. households. Investors with \$1 million or more represent 44% of the interviews.

2007 Small Business Tax Act: Kiddie Tax Changes

Recent Tax Laws Affect Many College Savings Strategies

Recent changes in tax legislation has thrown a wrench into the college savings plans of many parents who are finding that their children with unearned income are suddenly being hit up for higher taxes.

The Small Business and Work Opportunity Tax Act of 2007 ("2007 Small Business Tax Act") that was passed on May 25th has extended the kiddie tax to those who are 18 years old or who are full-time students under age 24. The expanded kiddie tax rules apply only to dependent children who have income on investments and whose earned income does not exceed one-half the amount of their support. This provision is effective for most families as of January 1, 2008.

Congress has changed the rules on the kiddie tax twice in the past two years. First there was TIPRA (The Tax Increase Prevention and Reconciliation Act of 2005) that made the kiddie tax applicable to children under the age of 18 (up from 14). Now the 2007 Small Business Act ensnares a good number of parents with college-age dependents who had planned on using appreciated stocks or the earnings from custodial accounts to pay for higher education expenses. The new legislation is meant to prevent parents from shifting unearned income to children who are in lower tax brackets.

This tax change makes custodial accounts a less attractive way to save for college education and other long-term expenses.

As a reminder, the kiddie tax, even in its expanded version, exempts the first \$850 of unearned income, and the next \$850 of unearned income is taxed at the child's rate. Any financial plan that included UGMA/UTMA custodial accounts as part of a family's education funding strategy will not reap the expected benefit of lower tax rates assessed on assets

gifted to minors. Annual income over \$1,700 that is generated in these accounts will now be taxed at the parent's highest marginal tax bracket. Furthermore, the 0% capital gains tax rate for low-bracket individuals that would have been a boon for custodial account owners in 2008, 2009, and 2010 has been eliminated.

The upshot: This tax change makes custodial accounts a less attractive way to save for college education and other long-term expenses. If you have custodial accounts set up for minors or are thinking of gifting appreciated securities to these accounts, be sure talk with your tax advisors before year end to determine if you can take advantage of any potential tax benefits for 2007.

We can help identify alternative tax-advantaged ways to save for a child's college education and help you make sense of your entire financial picture.

Here are some college savings strategies you may want to consider:

- **Recent legislation also boosts 529 College Savings Accounts** as the preferred choice for college savings. Funds within a state-sponsored 529 plan grow tax-free, and if used for qualified college expenses, the funds come out of the account tax-free as well. Many states also offer state tax deductions for contributions to a 529 plan. Families with UGMA or UTMA accounts may want to explore the potential benefits and tax implications of transferring these assets to a 529 plan. We can provide you with information about the specific risks of investing in 529 plans, including the potential for investment loss.
- **Another tax-free savings option for funding qualified college expenses is the Coverdell Education Savings Account.** However, the annual contribution limit on a Coverdell is just \$2,000 and the amount you can contribute starts to drop at \$95,000 (in adjusted gross income) for single filers or \$190,000 for married filers.

Time for Your Annual Wealth Management Check-Up

Too many people wait until they file their income-tax returns to evaluate the preceding year's finances and plan for the next. You should really begin much sooner, though, perhaps before year-end. This will give you plenty of time to analyze what you have accomplished and to plan for what you hope to accomplish. A checklist of questions might help.

- 1. What are your financial goals?** Before you do anything with your money, you should decide how you want to spend it. You should itemize what you have presently, what you need for the year ahead, and what you hope to have ten, twenty, or thirty years in the future.
- 2. Over the past year, have you made progress toward achieving your goals?** You should probably compare the performance of your investments to the goals you've established with regard to those investments for the year. The results of this analysis will help you decide whether or not you should alter your investments.
- 3. Are any changes about to occur that will affect either your immediate needs or your long-term goals?** A job change, for example, may drastically alter your income and your lifestyle. Other circumstances that may affect your finances might include buying a new house, financing an education, or paying for a wedding. Planning at least a year in advance will help you to adjust to these changes financially.
- 4. What can you do to reduce your taxes?** A general rule for tax purposes is to defer income to the next year while accelerating deductions for the present year. To defer income, you might postpone selling assets or you might also purchase Treasury bills or other investments that will mature the following year. To accelerate deductions, you might double up on your charitable contributions, pay your state taxes before year-end (if you are not subject to alternative minimum tax), or invest in a tax shelter.

Quite often people (who qualify) will also make contributions to their Individual Retirement Accounts at the last minute for an additional deduction. However, in the long run it's much better to make your IRA deposits early in the contribution year rather than wait until you file your income tax return for that year to take advantage of tax-deferred compounding.

- 5. Do you need any additional help to implement your plans for the future?** A lawyer, an accountant, a stockbroker, or a trust officer can be a tremendous help in any financial matters. If you're not progressing, as you would like, or if you find you don't have the time to manage your money properly, you might consider hiring a professional. It could be the one investment that makes all the difference.

Before you do anything with your money, you should decide how you want to spend it.



Equity Gains in 2008

With a Caveat

By Tobias Levkovich, Chief U.S. Equity Strategist, Citi Investment Research

Each year around this time, we initiate our preliminary targets for the end of the coming year. For nine months, we have been suggesting that the second half of 2008 is likely to be far more challenging for investors than the present environment.

In particular, concerns spurred by US presidential elections, trade policy, possible tax increases, a post-Olympics Chinese economy and, more recently, trepidation surrounding margin trends indicate to us that conditions could prove difficult for equity investors in 2008. That being said, we still envision respectable upside-appreciation potential from current Standard & Poor's 500 Index levels.

We are setting a 2008 year-end objective for the S&P 500 of 1,675, which is slightly lower than our midyear target of 1,725. Our 2007 year-end goal is still 1,600, although it is plausible that the index will come in a tad shy of that number due to volatility that will likely be sustained through the end of the year. In addition, we anticipate that the Dow Jones Industrial Average will reach 15,100 by the end of 2008, slightly below our 15,500 midyear target.

Leading up to a presidential election, the prevailing mindset is that the sitting administration will prime the economy—and potentially fuel stock performance—in order to boost its party's political chances.

Leading up to a presidential election, the prevailing mindset is that the sitting administration will prime the economy—and potentially fuel stock performance—in order to boost its party's political chances. History supports this view, but for the first time in 80 years both the sitting president and vice president are not up for re-election. Thus, unfortunately, there is no personal motivation for the current executive-office holders to bolster their own chances for re-election by providing an economic lift.

Margin trouble on the horizon. One of the critical issues restraining our enthusiasm about the second half of 2008 remains our lead indicators for margins. We have found impressive correlations between price- and wage-increase intentions and reported margins with a two-year lag. Therefore, based on our price and wage expectations, our work suggests that by the second half of 2008 margins should see a meaningful dip, which we think could pressure equity markets.

Keep in mind that we are not forecasting a recession in our outlook. Recent data seem to support that view, despite weak August employment numbers and persistent housing-industry woes. In particular, the recent Manpower survey data for fourth-quarter hiring intentions remain upbeat, as were the latest data from the National Federation of Independent Business.

Clearly there are risks to our outlook, including the potential for a recession, a sharper-than-expected fall-off in corporate margins, a severe decline in the value of the dollar, and the subsequent wariness of foreign investors, substantially higher energy prices and any trade-related dislocation, as well as the ever present trying geopolitical backdrop.

Conversely, there is also the possibility that a stock market breakout to the upside will attract uncommitted individual investors who, according to mutual-fund flow data, have shunned domestic, in favor of international, equities. Such a shift in investing preferences could generate a more substantial upward move in US equity prices that—though in our opinion not sustainable by their underlying fundamentals—could take the indexes beyond our targets.

In conclusion, we still envision equity market gains this year and next. However, those gains are likely to be less robust than we had previously thought, and in our opinion the probability of weakness in the second half of next year continues to increase. Thus, while the next six to nine months hold a likelihood of respectable equity appreciation, investors may have to pay even more attention to their tactical asset allocations later on in 2008.

Did You Know?

One Day Does Not Make A Market

Each year, there are roughly two-hundred-and-fifty trading days on the major U.S. stock exchanges. For the average investor, that translates into over 19,500 trading days over the course of an average lifetime.

What should investors do when the inevitable unnerving downturn occurs? Investors should try to maintain a long-term perspective and avoid making impetuous investment decisions influenced by emotional impulses. After all, one day in the market does not a long-term investment strategy make. History reveals that over the long run, the stock market is quite resilient. From wars to natural disasters to

economic meltdowns, the stock market has demonstrated the remarkable capacity to bounce back over time.

The table below identifies some of the worst one day trading sessions ever recorded in history as measured by percentage declines in the Dow Jones Industrial Average, one of the most widely followed stock market indices. The table also shows—with the exception of the Great Depression era, that more often than not, the markets tend to recover over the long run.

So, the next time the market turns down, don't let it turn your stomach upside down. Do your best to keep your emotions in check and for reassurance, consult with us.

Greatest Dow Jones Industrial Average Daily %Losses of All-Time 1896 – August 2007

Rank	Date	Close	%Change	Close 1 Year Later	%Change	Close 3 Years Later	%Change	Close 5 Years Later	%Change
1	12/12/1914	54.00	-25%	96.13	78%	67.30	25%	103.73	92%
2	10/19/1987	1,738.74	-22%	2,137.27	23%	2,520.79	45%	3188.00	83%
3	10/28/1929	260.64	-12%	194.95	-25%	63.09	-76%	93.01	-64%
4	10/29/1929	230.07	-11%	190.73	-17%	63.09	-73%	92.53	-60%
5	11/06/1929	232.13	-9%	180.72	-22%	61.53	-73%	96.06	-59%
6	12/18/1899	58.27	-8%	66.52	14%	61.18	5%	68.73	18%
7	08/12/1932	63.11	-8%	97.47	54%	128.00	103%	187.62	197%
8	03/14/1907	76.23	-8%	65.15	-15%	93.10	22%	85.12	12%
9	10/26/1987	1,793.93	-8%	2,165.18	21%	2,436.14	36%	3244.11	81%
10	07/21/1933	88.71	-7%	94.71	7%	165.23	86%	141.92	60%

Past performance is no guarantee of future results. Source: www.DJIndexes.com, Smith Barney

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