



# DIALOGUES

FINANCIAL STRATEGIES FOR DISCUSSION<sup>SM</sup>



A comprehensive approach to wealth management begins with defining important goals and assessing your current financial situation. Next, we create a financial plan that's based on your values and goals. To help you meet your ongoing needs, let's schedule a time to discuss your objectives.

Courtesy of:

**Mitch Anderson, Jr.**  
Financial Advisor

**Mitch Anderson, Jr.**  
33400 Ninth Avenue South, Suite 100  
Federal Way, WA 98003

phone: 253-874-9989  
fax: 253-874-9999  
tollfree: 800-533-5660

[mitch.anderson@smithbarney.com](mailto:mitch.anderson@smithbarney.com)  
[www.fa.smithbarney.com/mitch\\_anderson](http://www.fa.smithbarney.com/mitch_anderson)

## Rethinking Risk in Retirement

Today, experts agree that longevity is the name of the game in retirement planning and investing, as life spans in the U.S. hit highs unprecedented in human history. According to AARP, actuaries now say that if a married couple is healthy at age 65, there's a 50 – 50 chance one of them may live to age 92.

Conventional wisdom says that as you near retirement, you should dial down portfolio risk and shift into bonds, known traditionally for their safety and dependability. But there's a consequence to that action: Tilting too far toward conservative holdings around age 65 may actually increase the risk of outliving your assets.

We're being challenged to adopt a new attitude toward asset allocation. The effect of this overall mix could be greater than, say, market timing or which company's stocks you choose—research published in 2000 by Yale finance professor Roger Ibbotson found that asset allocation could be responsible for up to 90% of a portfolio's returns over the long term.

Despite recent market volatility, long-term trends suggest that a sufficient allocation to equities is the best way, over the decades, to outpace inflation and keep up with the rising costs of living longer. Depending on your life expectancy, tilting the balance toward conservative bonds and cash equivalents may need to begin closer to age 75 than age 50.

We can help you determine how the assets in your portfolio should be allocated to help meet your specific needs and goals. How you deploy your funds is one of the most important decisions in your financial life—and quite possibly, one of the key factors to having your money last as long as you need it to.

Diversification does not ensure against loss. Bonds are affected by a number of risks, including fluctuations in interest rates, credit risk and prepayment risk. In general, as prevailing interest rates rise, fixed income securities prices will fall. Bonds face credit risk if a decline in an issuer's credit rating, or creditworthiness, causes a bond's price to decline. High yield bonds are subject to additional risks such as increased risk of default and greater volatility because of the lower credit quality of the issues. Finally, bonds can be subject to prepayment risk. When interest rates fall, an issuer may choose to borrow money at a lower interest rate, while paying off its previously issued bonds. As a consequence, underlying bonds will lose the interest payments from the investment and will be forced to reinvest in a market where prevailing interest rates are lower than when the initial investment was made.

By the Smith Barney Division of Citigroup Global Markets Inc.

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

# For Investors, Election's Winner May Not Matter:

## A Q&A With Washington-Based Analyst Tom Gallagher

Thomas D. Gallagher lives at the intersection of policy, politics and financial markets, interpreting Washington's actions—or lack of them—for the investment community. And he's done it extraordinarily well, earning a spot on *Institutional Investor's All-Star team every year for the last 15 years*. Tom is Senior Managing Director of International Strategy and Investment Group, which specializes in economic and political research.

### How would you characterize the 2008 election?

This is the sixth presidential election I have covered as a Wall Street analyst, and it is the most interesting and consequential because it has the highest stakes. The Bush tax cuts expire at the end of 2010, and what happens to taxes will be very important for investors. There are many other important issues—foreign policy, health care, climatic change, to name a few. And don't forget that the first baby boomer will become eligible for full Social Security and Medicare benefits in the next presidential term. The budget pressure from the boomer retirements is going to be enormous.

### The next president will have to tackle taxes. How would you expect that to play out under a President Obama?

Taxes will be the first order of business for whomever wins the election. What happens in part will depend on the state of the economy. We think the economy will be weak early next year and will be in need of fiscal stimulus, and I can foresee a bill that would cover such things as housing relief and infrastructure spending. Congress will pay for the bill by increasing taxes on upper-income taxpayers.

### How much of an increase?

Most Democrats did not vote for the Bush tax cuts and, by policy and political inclination, they are looking to undo them. To give you an idea, the House recently passed a bill that goes back to the 2000 tax rates for the highest-income taxpayers. That's a marginal rate of 39.6%; on top of that, there is a 10% surtax, taking the top rate to about 44%.

### And if McCain wins?

As a senator, McCain voted against the tax cuts. As a presidential candidate, he's backing them, and I expect him to stick to that position if he wins. But he doesn't have a strong hand. Remember, the Democrats can raise taxes to 2000 levels by taking no action, allowing the tax cuts to expire. Rather than let that happen, McCain will have to compromise. So taxes would go up, but not as much.

### What about capital gains, dividends and the alternative minimum tax (AMT)?

The 15% capital gains rate goes back to 20% in 2011. But if there is no action on dividends, the maximum rate is the highest tax rate on ordinary income. For most investors, the dividend tax will at least double. Everyone wants to fix the AMT, but it's everyone's second priority. You'll probably see more temporary measures. Only in broad tax reform is a permanent solution likely.

### So who will be our next president?

I see the election this way: Can personal attributes trump the public's sentiment for change? Can John McCain, a war hero who has an image as a maverick be seen as delivering more and better change than Barack Obama? I don't know. The Republican brand is on the decline, and issues like Iraq and the economy will be working against him. That makes Obama the favorite, but not overwhelmingly so.

First published in *On the Markets*, June 2008.

### The Presidency and Your Portfolio: More Insights and Analysis

One of the benefits of being a Smith Barney client is that you have an entire team of seasoned analysts working on your behalf examining the trends and issues that could affect how hard your wealth works for you. With the 2008 presidential election now squarely on the horizon, it's an ideal time to get a better sense of what a victory by either party could mean for your investment portfolio.

Smith Barney has two in-depth research reports that may be of interest to you:

**1) A Populist Presidency? Potential Investment Implications of Populist Platforms:** An in-depth research report that examines the populist platforms embraced, to varying degrees, by both presidential candidates—and the potential implications for your investment portfolio.

**2) Back to the Future? The End of the Populist Pause:** An extension of our original Populist Presidency paper, this report includes an examination of the candidates' most recent policy announcements in the areas of taxes and fiscal policy, health care, and energy policy and climate change.

Talk to us today to request your complimentary copy of these reports. Forward-thinking analyses like these are just one way we at Smith Barney find smart ways to put your wealth to work for you as times change.

# Addressing the Wealth Management Needs of Women Investors

Despite the fact that the great majority of women will be in control of their household finances at one point in their lives, some women may lack the confidence or knowledge to make wise financial decisions alone.

Although patterns are changing, a woman will generally spend more time out of the workplace, earn less and live longer than her male counterpart. With less money needing to last longer, women need to be prepared to handle all of their own financial decision-making.

## Getting Started

It's never too late—or too early—to start taking an active role in your finances. If you haven't been involved in your family's finances to this point, becoming organized is a good place to start. Everyone, both men and women, should keep an organized, updated record of all assets owned in their name, their spouse or partner's name and their minor children's name. This record should contain account numbers, institutions where accounts are held, approximate value and legal ownership. This information will be helpful should an unexpected event occur, such as the death of a spouse or divorce.

In addition to keeping an organized record of assets, you should begin reading financial publications and meeting with your Financial Advisor. Your Financial Advisor can help answer any questions you might have about your individual circumstances.

## When Things Do Not Work Out

A sad fact of American life is that the majority of married couples will at one point separate or divorce. With this in mind, it is important to try to keep a clear head when it comes to finances, even during this emotionally trying time. Your organized record of family finances should help make the process of dividing property a little smoother. Some steps to consider once a divorce seems inevitable:

- Set up your own checking, savings and credit card accounts if you did not maintain these separately during your marriage. Many experts advise husbands and wives to maintain some separate accounts during their marriage.
- Close or freeze joint accounts.
- Update your will and any beneficiary designations that will change because of your divorce.

## Preparing for the Unexpected

While death is an inevitable event, no one likes to think about it. Having a plan in place will make handling financial

arrangements much easier should you find yourself suddenly widowed. Again, the key to a good plan is knowing what you and your husband have. An organized record of all accounts, including retirement, insurance and social security benefits will help you quickly settle accounts and continue to receive the income you are entitled to. For most communication with institutions that your husband had accounts with, you will need to provide a copy of his death certificate. Some important steps to take right away include:

- Keep all accounts current. Pay all of your husband's bills on time.
- Complete paperwork for multiple copies of death certificates.
- Notify the administrator of his IRA accounts, your insurance agent and his employer if he was still working or had a pension through them.
- Contact Social Security. They will need to be notified of your status as a widow to continue receiving benefits.
- Change ownership on all accounts and real estate. Any assets that were held jointly will need to be changed to sole ownership in your name for future estate planning.

## Taking Control of Your Finances

Taking an active role in your finances is an important step for many women. While preparing for the unpleasant

**Everyone, both men and women, should keep an organized, updated record of all assets owned in their name, their spouse or partner's name and their minor children's name.**



possibility of divorce or becoming a widow is not something you want to do, it can help ease some of the stress should one of these events occur. Continuing to work with a Financial Advisor you can trust can help you prepare for the unexpected and gain confidence in your financial decision-making.

# Market Trends

	Recent 2008-08-29	1 Year Ago 2007-08-31	% Change	5 Years Ago 2003-08-29	% Change
<b>DJIA</b>	11,543.50	13,357.70	-13.58	9,415.82	22.60
<b>S&amp;P 500</b>	1,282.83	1,473.99	-12.97	1008.01	27.26
<b>NYSE Comp</b>	8,382.08	9,596.98	-12.66	5,660.16	48.09
<b>Amex Comp</b>	2,079.22	2,248.60	-7.53	976.45	112.94
<b>Nasdaq Comp</b>	2,367.52	2,596.36	-8.81	1,810.45	30.77
<b>Russell 2000</b>	739.50	792.86	-6.73	497.42	48.67
<b>Prime Rate</b>	5.00	8.25		4.00	
<b>Federal Funds Rate</b>	1.63	3.00		0.94	
<b>3-Month Treasury Bill</b>	1.71	4.11		0.97	
<b>10-Year Treasury Note</b>	3.81	4.53		4.46	
<b>30-Year Treasury Bond</b>	4.42	4.82		5.22	
<b>Municipal Bonds *</b>	4.68	4.70		5.07	
<b>Corporate Bonds **</b>	5.99	5.75		5.23	

*Rates here are guidelines to general trends. They do not represent actual transactions or individual securities.*

*These rates have been obtained from sources believed to be reliable. No guarantees are offered as to accuracy.*

*\*20-Year General Obligations A1-Rated (Source: The Bond Buyer)*

*\*\*10-Year Industrial A-Rated (Source: Smith Barney)*

Unless you are otherwise advised in writing, Smith Barney is acting as a broker-dealer and not as an investment advisor.

Citigroup Inc. and its affiliates do not provide tax or legal advice. To the extent that this material or any attachment concerns tax matters, it is not intended to be used and cannot be used by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

© 2008 Citigroup Global Markets Inc. Member SIPC. Securities are offered through Citigroup Global Markets Inc. Smith Barney is a division and service mark of Citigroup Global Markets Inc. and is used and registered throughout the world. Citi and Citi with Arc Design are trademarks and service marks of Citigroup Inc. and its affiliates, and are used and registered throughout the world. Working Wealth<sup>SM</sup> is a registered service mark of Citigroup Global Markets Inc. Citigroup Global Markets Inc. and Citibank are affiliated companies under the common control of Citigroup Inc.