BOONE FINANCIAL ADVISORS INC.

Helping You Shape Your Financial Future

Effective Financial Strategies

Whither the Economy?

One of the questions our clients are asking a lot these days is about the state of the economy. The news media is well known for reporting the negative and the sensational. As a result, it is hard for thoughtful people to get a handle on how things really are.

The budget deficits (trade and federal) are high. China's growth is pushing the price for most commodities higher. The price of oil has made everyone's wallet a little thinner. How much impact do these things have and what will be happening to the markets and the economy?

The Wall Street Journal Online recently published the results of a May survey of 56 private-sector economists. While these economists expect second quarter growth to be lower than was previously been predicted (largely because of oil prices) they see the second half of this year growing at a very healthy 3.7% rate and just under that for next year. Growth was 4.4% in 2004.

According to the survey, recent readings on productivity, employment and inflation all suggest that the country's underlying economic fundamentals are strong and will continue to be so for some time. Employment rates are expected to continue to improve, retail sales are up and labor hours worked are rising. All of these trends suggest a healthy and improving economy.

Recent economic readings generally suggest the country's underlying economic fundamentals are strong

The economic survey also provided a positive view of corporate profits. On average, the participants predicted profits will rise 10.6% in 2005 and 5.8% in 2006. This is an improvement over last year's projections.

The biggest area of concern expressed by the survey's economists centered around the possibility of rising inflation. While Fed officials have acknowledged this possibility, they've observed: "Pressures on inflation have picked up in recent months and pricing power is more evident. Longer-term inflation expectations remain well contained."

While markets can be unpredictable, we remain fundamentally sanguine about the market's direction. As a rule, the longer term trend of markets follows the economy. Recent economic numbers offer a reason to have an optimistic outlook.

Coming Changes at Boone Financial Advisors

Two important changes will be occurring at Boone Financial Advisors this year. First, our current lease on California Street in San Francisco terminates at the end of June. **We will be moving our office location** to a larger and better suited office just below Union Square in San Francisco.

Second, and more importantly, with the move, **we will be changing the name of our firm**. While Norm was the sole owner, it was logical to call the firm Boone Financial Advisors. Kevin Gahagan is now a principal with the firm. We expect others to attain that level in the future. We believe "re-branding" the firm makes sense for our company's longer term vision. This is not in any way a signal of changes in Norm's role or the company status. We see it as an opportunity to move the company onto the next stage of success.

Traveling Overseas This Summer?

REGISTER WITH THE U.S. EMBASSY BEFORE YOU LEAVE

The U.S. State Department has always advised international travelers to register their whereabouts with the nearest embassy or consulate. Following this year's tsunami tragedy in Asia, the State Department's suggestion has taken on much greater significance.

In the past, many travelers failed to register because of the inconvenience of having to find, and then stand in line at a U.S. embassy abroad. Now, thanks to a State Department program launched last July, travelers may register and log their itineraries online.

While natural disasters and terrorist attacks may be uncommon, the benefits of registering extend far beyond these situations. U.S. embassies and consulates help more than 200,000 American each year who are victims of crime, accident or illness, or whose families need to contact them. The department also can supply names of local doctors and lawyers, issue temporary passports and provide loans to destitute Americans. Although we hope our clients and friends don't need to call upon these services, it's good to know they exist.

Approximately 800,000 of us have entered local and home contacts, itineraries, passport numbers and other information through the State Department's website. To register your itinerary, log onto https://travelregistration.state/gov. One day you may be glad you did.

Common Life Insurance Mistakes

Common estate planning mistakes dealing with life insurance can be classified into four areas:

1. Adequacy of Amount

How much life insurance should you have? The right amount depends on the purposes for which the insurance is obtained. Life insurance is commonly purchased to provide estate liquidity or to replace important income should a breadwinner die prematurely. Subject to the variables involved, the amount of life insurance needed can be substantial. It is therefore important to carefully determine the appropriate amount of coverage. It is also important to recognize that this figure will change as your circumstances evolve.

2. Ownership Arrangement

Who owns the life insurance policy will determine whether the policy's death benefits are included in the estate of the deceased or even taxed as a gift. If the deceased owns the policy, the proceeds will be included in his or her estate — and subject to estate taxes. If the owner, insured and beneficiary are each different, the death benefit could be subject to a gift tax. There are two common ways to avoid making life insurance proceeds subject to estate tax. The simplest solution is to have someone other than the insured (often, the beneficiary of the policy) own the policy and pay the premiums out of their own funds (non-community property funds). A more expensive but possibly more appropriate solution is to create an irrevocable life insurance trust that will purchase the policy and pay its premiums.

3. Beneficiary Designation

If there have been changes in your family circumstances, you should review your life insurance policy to be sure the person designated as beneficiary is the one you would want to receive the benefits. The identity of the beneficiary of a life insurance policy can not only affect whether the insurance proceeds are taxable in the insured's estate, but also if proceeds are available for their intended purpose and whether a gift tax may be due when the proceeds are paid. For example, if the estate of the insured is either the named beneficiary or recipient of death benefits, the benefits will be included in the gross estate of the insured and thus be subject to estate tax. A similar pitfall is the failure to provide for contingent beneficiaries. This circumstance can result in increased probate costs since an alternate beneficiary will have to be determined by the court.

4. Transfer of Ownership

Finally, the transfer of ownership of an insurance policy can have important consequences. If the transferor retains some incidents of ownership (i.e. the right to determine who gets the benefits or the right to the benefits themselves) in the policy or in the trust to which the policy is transferred, the death proceeds may not be removed from the transferor's gross estate for estate tax purposes. Even after these retained rights are assigned or renounced, the transferor will have to survive for three additional years before the death proceeds are removed from their estate.

Is a Roth IRA Right for You?

The Roth IRA was created on January 1, 1998. The great advantage of the Roth IRA is that investment earnings completely escape taxation — now and in the future. The offsetting disadvantage is that you don't get a tax deduction when you contribute to a Roth IRA.

Figuring out whether the current tax deduction or the future tax-free withdrawal is more valuable not always easy. The answer depends on your personal situation and on your assumptions about the future.

- How long will it be before you withdraw money from your IRA?
- What will your tax bracket be at that time?
- What earnings rate do you anticipate in the account?

There are two other significant advantages to the Roth IRA. One is that the minimum distribution rules don't apply. Unlike a traditional IRA, with a Roth IRA you do not need to begin taking withdrawals at age 70½ . So long as you don't need the money, your earnings can continue to grow tax-free. A Roth IRA also allows you to take certain early distributions without paying the early distribution penalty associated with a traditional IRA. In short, the Roth IRA makes it easier to keep your money in, and also easier to take your money out.

Eligibility

You're eligible to make a contribution to a Roth IRA even if you participate in a retirement plan maintained by your employer. In 2005 and 2006, your contribution can be as much as $4,000 (if you'll be 50 or older by the end of the year, you can add another $500 for 2005, and $1,000 beginning in 2006).

There are two requirements for a Roth. First, you or your spouse must have compensation or alimony income at least equal to the amount you contribute. Second, your modified adjusted gross income can't exceed certain limits. For the maximum contribution, the limits are $95,000 for single individuals and $150,000 for married couples filing a joint return. The amount you can contribute is reduced gradually and then completely eliminated when your modified adjusted gross income exceeds $110,000 (single) or $160,000 (married filing jointly).

Best Uses for a Roth IRA

Among our clients, we see Roth IRAs used most frequently in two ways:

1. *Funding a child's account.* Let's say your 14 year old has a summer job and makes $1,000. She, of course, is going to want to spend it, but you could put $1,000 in a Roth account for her and give her a valuable leg up on saving for retirement.
2. *Conversions.* For a variety of reasons, in a given year, people sometimes have lower than usual income to report. In this kind of situation, you could elect to take some dollars out of your regular IRA and roll it over to a Roth. Should you take this step, you will pay additional income tax, but at a lower than typical rate. In later years when your income is higher, you'll be able to take money out of your Roth tax-free. Pay a little now for a nice benefit later.

Rules of Thumb for Conversions

You can convert your regular IRA to a Roth IRA (in other words, make a rollover to a Roth IRA) if (a) your modified adjusted gross income is $100,000 or less, and (b) you're single or file jointly with your spouse. You'll have to pay tax in the year of the conversion, but often, the long-term savings outweigh the conversion tax. Generally you shouldn't roll to a Roth IRA (from a regular IRA) if you 1) need to hold out some of the IRA money to pay taxes on the conversion (thus lowering your deferred amount) or 2) you are subject to the 10% early distribution penalty on the amount you hold out.

If your retirement tax bracket will be 15%, avoid paying 25% or higher on your rollover. Taking a partial rollover may permit you to avoid being pushed into a higher tax bracket in the year of the rollover.

Roth IRA vs. Alternatives

If your employer provides a matching contribution in your 401k, use that option at least until you fully maximize your company's match.

If you're eligible, a Roth IRA is always better than a nondeductible contribution to a traditional IRA.

Roth IRAs are not always the best way to go, but when they work well, they are quite attractive. Whether the alternative is a regular taxable investment account or a regular IRA, understanding the pros and cons requires some careful consideration.

Call us if we can be of help.

Around the Office ...

At the Podium … Norm Boone and **Linda Lubitz** will be speaking to the Financial Planning Association of the East Bay on June 1 about why using Investment Policy Statements as part of the investment process is good for clients and good for business. In March, **Kevin Gahagan** spoke to the American Association of Individual Investors on "Hedge Funds—The State of Industry." **Kevin** also spoke at the University of San Francisco where he addressed students in the graduate finance program on "The Evolution of the Planning Profession and Emerging Industry Trends."

Education a Continuing Affair … Spring is "conference season" for us. Seven of us spent two days in May attending classes at the excellent 30th annual conference of the Northern California Financial Planning Association (FPA). Topics ranged from behavioral finance, to taxes and estate planning, to current insurance issues. **David Lawrence** recently completed a course at Golden Gate University on Retirement and Benefit Planning and is now signed up to take a graduate course on Estate Planning at the American College over the summer. David is hoping to sit for the CFP exam this fall. **Kevin Gahagan** spent a fruitful four days in Tampa at the National Association of Personal Financial Advisors annual conference. **Sabrina Lowell** attended her first FPA Retreat in Tampa in May. **Sabrina** is also taking the first two classes towards a Master's in Taxation through Golden Gate University in San Francisco. **Holly Gillian Kindel** attended her first Nazrudin retreat in New Hampshire, where she focused on issues related to holistic "life planning." In March, **Holly** completed the first course toward attaining a CLU Chartered Life Underwriter designation. In May, **Norm**, **Linda** and **Juliet Wisdom** attended a two day National Advisors Trust Company conference in San Diego. **Susan Morse** spent two days in Santa Monica attending a training sponsored by Dimensional Fund Advisors. **Robert Petersen** and **Alda Ng** completed classes on Advanced Excel and the Organized Assistant.

Furthering the Profession … Throughout April and May, **Holly** continued her work pairing up CFP students and low-income folks in need of financial planning through the UC Berkeley CFP certificate program and the Earned Asset Resources Network (EARN). Holly, **Sabrina** and four other CFP mentors worked with forty UC students who provided advice to six EARN members. Topics addressed in these consultations included purchasing a first home, investing a recent inheritance and running newly formed businesses.

Giving Back to the Community … Susan Morse continues to work on promoting financial literacy in high schools through her involvement with the Security Analysts of San Francisco's Financial Literacy Committee. **Juliet** ran in the Sugar Bowl marathon in New Orleans in February to help raise money for the SF AIDS Foundation. She and **Robert** are scheduled to run the Rock and Roll Marathon on June 5th. This will be Robert's first marathon. **Susan** recently participated in a weekend retreat as part of her Board of Directors' responsibilities at the Olympic Club. **Kevin** was re-elected to the board of the Estate Planning Council of Mount Diablo.

Employee Spotlight — David Lawrence

David joined us in January and has been busily learning "the ropes" of our financial planning business. David currently splits his time between the investment and financial planning departments. He works as Dave Cowles' right-hand, processing trades, conducting research and preparing investment reviews. The other half of his time, David works under the direction of Holly Gillian-Kindel— assisting in plan preparation, participating in client meetings and working with the advisory team in following up on required actions.

David, who was born in Michigan and spent six years of his childhood in Australia, graduated from Hamilton College in upstate New York. He brings a wealth of experience to our firm. His background includes experience with Arthur Anderson— working in their Economic and Financial Consulting group, and a number of years working as an investment analyst for the investment management arm of one of the leading family offices in Southeast Asia. In all, David worked in Hong Kong nearly ten years covering the markets of China and Southeast Asia.

David and his wife Donna have a 2 1/2 year old son Henry, and a 1 year old daughter Mary. He and Donna enjoy mountain biking, gardening and spending their available time with their children.

Who's Who in the Office?

As we've grown, there are many more of us working to serve you, ready to assist when you need help. Since it's sometimes difficult to remember whom you should call about what. Here's a guide:

Management:

- Norm Boone is our president and tries to always be available if you have a concern or a suggestion. Nboone@BooneAdvisors.com. Ext 13.

Client Services: This group coordinates opening new accounts, processes account transfers, deposits, withdrawals, and title changes, and handles a range of other account paperwork and activity.

- Juliet Wisdom (Juliet@BooneAdvisors.com ext 11) is our office manager and also heads Client Services.
- Robert Peterson (RPeterson@BooneAdvisors.com ext 22) assists in this area as well. Robert also sets up appointments for our advisors.

Investments: Our Investment Department conducts the research on our investments, monitors your accounts for activity and rebalancing, and makes recommendations to the advisory team on changes needed in your portfolio.

- Dave Cowles (dcowles@BooneAdvisors.com ext 15) is our Director of Investments.
- David Lawrence (DLawrence@BooneAdvisor.com ext 23) assists Dave with day-to-day activities and the trading function.

Financial Planning: The planning staff reviews and compiles client data and prepares much of the analysis associated with your planning. Along with participating in our client meetings, the planning staff work with our advisory team in helping to develop planning recommendations, and coordinate post-meeting follow up.

- Holly Gillian Kindel (Holly@BooneAdvisors.com ext 19) manages the department.
- Sabrina Lowell (Sabrina@BooneAdvisors.com ext 18) is a key member of the planning team.
- David Lawrence also works with the team

Administration: Supervised by Juliet, our admin group answers our phones, processes the mail, greets clients and visitors, and scans all of the documents for our electronic filing system. Handling these duties are:

- Alda Ng (ANg@BooneAdvisors.com ext 10)
- Asif Sheikh (ASheikh@BooneAdvisors.com ext 17)

Advisors: Our advisory team assumes the primary responsibility for working with our clients and directing the services and advice we provide.

- Norm leads the advisory team in San Francisco
- Linda Lubitz (Linda@BooneAdvisors.com ext 41) manages our Oakland activities.
- Kevin Gahagan (Kevin@BooneAdvisors.com ext 20) and
- Susan Morse (Susan@BooneAdvisors.com ext 16) work primarily in San Francisco.
- Mary Ballin (Mary@BooneAdvisors.com ext 40) works with Linda in Oakland.

Did You Know?

- Only 2% of investors knew that **rebalancing a portfolio** involved selling your investments that were up and buying investments that were down. (source: American Century Funds).
- The Supreme Court voted unanimously in April to **protect assets in IRAs from creditors in a bankruptcy filing**. Before the vote, the status of IRA assets in a bankruptcy proceeding was determined by state law. All Americans will now have their IRA assets protected if they get into financial difficulty.
- Americans are expected to pay federal, state and local taxes equal to **29% of income** in 2005. Twenty five years ago (in 1980), the level of taxes relative to income was **30%**. (source: Tax Foundation).
- 65% of American workers are confident **they will have sufficient assets set aside for their retirement** by the time they stop working. However, only 21% of workers have at least $100,000 in retirement funds already accumulated. (source: Employee Benefit Research Institute).
- 55% of bankruptcies are directly related to unexpected **medical expenses** from injury or death. (source: Health Affairs).
- For the 2004 tax year, there were **6 different marginal brackets,** the highest of which was 35% beginning at $319,000 of taxable income on a joint return. Twenty years ago (in 1984), there were **14 different marginal brackets,** the highest of which was 50%, effective at $162,400 of taxable income on a joint return. (source: IRS).
- Less than 2% of deaths lead to the payment of estate taxes. In 2005, every person can pass onto heirs $1.5 million — free of any estate tax. This exemption amount is scheduled to increase in the years ahead.

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Catch us on the Web!
www.BooneAdvisors.com

Financial Planning & Investment Management

In This Issue:

You should not confuse your career with your life. —**Dave Barry**

My philosophy is that not only are you responsible for your life, but doing the best at this moment puts you in the best place for the next moment.—**Oprah Winfrey**

I must admit that I personally measure success in terms of the contributions an individual makes to her or his fellow human beings.—**Margaret Mead**

Don't be afraid to take a big step if one is indicated; you can't cross a chasm in two small jumps.—**David Lloyd George**

We cannot all do great things, but we can do small things with great love. —**Mother Theresa**