

HWM ViewPoint

August 2008

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In an effort to educate, provide perspective and reassurance during this present *bear market* that we are in, we are pleased to announce a conference call featuring Patrick Sweeny, the president and co-founder of Symmetry Partners. Here are details for this important call:

Date: Wednesday, August 20, 2008

Time: 11:00 am - 12:00 pm

Call-in number:
866-469-3239

Attendee Access Code:
51880291

Hope you will plan to participate in this event!

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Thoughtful Bear Market Strategies

On the day that I write this - Aug. 4. - the Dow Jones Industrial Average is officially considered a "bear market", having decreased by more than 20 percent from its previous high. What makes the investing public nervous is wondering whether this current market will be a "baby bear," and recover soon, or develop into a full-fledged "grizzly."

History can offer some valuable lessons. A recent chart published by Legg Mason reveals that in the long-term period 1926-2006, stocks, as measured by the S&P 500 Index, have soared! On average, this index has produced returns of 10.43% per year during those 81 years. A closer look at year-by-year returns however, reveals how turbulent the market can be during short term periods. During those 81 years, two-thirds or 55 years of those calendar year segments, ended with positive performance, while one-third or 26 years, were negative. In other words, to enjoy that 10.43% average performance for the entire period, you had to exhibit patience.

Here is some general advice, taking historical lessons into perspective, for three types of investors:

1. You are years away from retirement.

Assuming you are a regular contributor to a retirement plan, look at the bear market as a stock market sale! The same dollar amount you've been contributing to your retirement plan each month, now buys additional shares. For many investors with a long-term horizon, a portfolio allocated 80% to stocks is recommended. However, no asset allocation policy should be enacted without a thorough review of one's risk tolerance and overall goals. Once an allocation is set (for example 80% stock, 20% bonds) we recommend spreading the risk across many types of stocks, (a.k.a. diversification) and re-balancing annually.

The world's foremost investor, Warren Buffet, has stated that only the most astute and well-studied investors should consider concentrating their positions into a few holdings. The rest of the investing public would be well-served to diversify.

2. Nearing Retirement.

Those within five years of retirement should be just as concerned with cash flow forecasts as performance. It may be time to tone down your stock holdings, possibly to the 50-60%, not based on market events, but due to retirement drawing near. With a potential 30 years in retirement, consider yourself a "long-term investor" and realize that your assets still need to work hard, especially if you plan not to!

3. You are retired.

Current retirees, those who are taking regular distributions from investment accounts, feel the most pain during a bear market. While young investors have cause to rejoice over buying additional shares at low prices, the reverse is true for those in retirement, since they must redeem additional shares to raise the same dollar amount each month. Two important questions retirees should consider could assist in a bear market: *Am I able to spend less during this time period? Do I have any other sources of ready cash that could be tapped?*

Actions taken by any category of investor should be based on changes in goals and not due to taxed emotions based caused by current events. Hopefully, you believe that Henry Wealth Management is providing you with long-term perspective and reassurance, and recommending changes based on thoughtful actions as opposed to emotional reactions! In the meantime, we'll hope that the "bull" will soon give way to the bull!

Rebalancing assets can have tax consequences. If you sell assets in a taxable account you may have to pay tax on any gain resulting from the sale. Please consult your tax advisor. Asset allocation and/or diversification do not protect against loss of principal. The Dow Jones Industrial Average is a popular indicator of the stock market based on the average closing prices of 30 active U.S. stocks representative of the overall economy. S&P 500 Index is an unmanaged group of securities considered to be representative of the stock market in general. Indexes are unmanaged and cannot be directly invested into.

Should a Destination Club Be Your Home Away from Home?

If you've thought about buying or building a vacation home, but have hesitated because you aren't sure that you want to limit yourself to a single location, there's an alternative you may want to consider: purchasing a membership in a destination club.

What are destination clubs?

Destination clubs are becoming increasingly popular. In return for a one-time membership fee and annual dues, destination club members are allowed to use a club's global network of luxurious properties for a certain amount of time each year, depending on their membership level. Club holdings are generally restricted to high-end properties--typically those with values of \$1.5 million to \$3 million. Accommodations are usually large, luxurious private homes, villas, and apartments that are located in travel hot spots such as cities and resort areas. They offer upscale amenities, and a host of personal services.

A destination club or a vacation home?

If you've ever fallen in love with a vacation spot, you know that there are some places worth going back to. You may be happy to own a home in a favorite locale and travel to it year after year. One of the main advantages of owning a vacation home is that you're in the driver's seat. You can use the property as often as you like, invite friends or family members to use it, or even rent it out. You can also customize your home and decorate it as you wish. But no matter how much you enjoy owning a vacation home, there's no escaping the fact that it's a big responsibility. You have to worry about maintaining it, and you must handle all expected--and unexpected--expenses.

The hallmark of a destination club, on the other hand, is flexibility. Joining a destination club allows you to travel to many different places and stay in homes spacious enough to accommodate your family and friends, without the hassles of owning vacation property.

Comparing costs

To compare a destination club membership financially with the purchase of a second home, you have to consider the upfront and ongoing costs of each. Some costs may be similar. For example, maybe you're considering a destination club with a one-time membership fee of \$300,000 and annual dues of \$25,000. Alternatively, you could buy a comparable property, let's say one that's worth \$1.5 million. If you opt to finance the home,

your \$300,000 (20%) down payment would be equivalent to the destination club's membership fee, and the amount you'll spend annually on home maintenance and utility costs could be equivalent to the destination club's annual dues. (Of course, financing the remaining \$1.2 million of the home's purchase price will also mean making significant monthly payments.)

Costs can vary widely, however. Initial membership fees for a destination club typically range from \$100,000 to \$1 million or more, and annual fees typically range from \$10,000 to \$75,000 or more. Home ownership costs may include mortgage expenses, taxes, insurance, utilities, and maintenance (which may be offset somewhat by any rental income you receive).

Another variable to account for is what you'll get for your money. Destination club memberships entitle you to a certain number of days of use annually, whereas you can use a vacation home as much as you'd like. You'll also need to take into account home values. For example, joining a destination club may entitle you to stay in a home worth much more than one you could afford to buy (and will also give you access to personal concierge services), but it depends on the specifics.

As a vacation home owner, you can decide when to sell your property, and you'll benefit from any appreciation in value. Destination clubs, on the other hand, are frank about the fact that becoming a member should be viewed mainly as a lifestyle decision, rather than as an investment decision, although some do allow you to benefit directly or indirectly from any appreciation in the club's property values. Most destination clubs also have provisions that enable you to "cash out" your membership at your request. For example, you may be allowed to cash out your membership for a specified percentage of the membership fee being charged at the time (generally 80% to 100%). If that's the case, you might benefit if you cash out at a time when the club's holdings have risen in value and membership fees are higher than when you joined.

Do your homework

When you join a destination club you're committing a substantial amount of money. So, make sure that the club is financially sound. Get information about the club's finances, and carefully read materials and contracts before you sign on the dotted line.



Destination clubs vs. residence clubs

With a residence club, you're generally buying a share in a specific property. Destination clubs, while similar in many respects, offer memberships that tend to be more flexible, and are not tied to any specific property.



Annuity Maximization: A Strategy to Leave More to Your Heirs

What if you're living comfortably in retirement and find that you don't need a deferred annuity you bought years ago? Instead, you want to leave it to your heirs at your death. What you may not know is that transferring your deferred annuity at death may subject it to both estate and income taxes. A strategy that can minimize the impact of these taxes is called annuity maximization using permanent life insurance.



Some background

When you die, the portion of the annuity death benefit received by your beneficiaries (either in a lump sum or as periodic payments) that exceeds your investment in the annuity is includible as taxable income to your beneficiaries.

In addition, the full accumulation value of your deferred annuity is includible in your gross estate at your death. If your estate is large enough to owe federal and/or state estate taxes, your deferred annuity will be subject to those taxes as well.

The combination of estate and income taxes can erode a significant portion of your annuity's value. The result is that your beneficiaries may receive an annuity worth much less than you anticipate.

How annuity maximization works

Here's the basic way this strategy works: you exchange your deferred annuity for a single premium immediate annuity (SPIA) that provides an income stream to you for the rest of your life. You then obtain permanent life insurance with you as the insured, and use the SPIA distributions to pay the insurance premiums. At your death, the SPIA payments stop and the insurance proceeds are paid to your beneficiaries.

Alternatively, if you prefer to retain the deferred annuity instead of converting it to an SPIA, you may be able to take penalty-free withdrawals from your deferred annuity, which also can be used to pay the insurance premiums. However, annuities vary as to penalty-free withdrawal availability, so for complete

details, be sure to check with the annuity issuer, or review your annuity contract or prospectus.

Caution: *Annuity distributions before age 59½ may be subject to a 10% federal tax penalty. Annuity guarantees are based on the claims-paying ability of the annuity issuer.*

The annuity maximization strategy may pose some income tax issues for you. SPIA payments and annuity withdrawals may be taxable to you. A portion of each SPIA payment you receive is subject to income taxes and a portion is considered a nontaxable return of premium. Conversely, withdrawals from your deferred annuity (for annuities issued after 1982) are taxed as income first, meaning the entire withdrawal is includible as income until all of the annuity's earnings are withdrawn, after which withdrawals of principal are not includible as income.

Why annuity maximization works

Instead of getting the deferred annuity at your death, your beneficiaries receive the life insurance proceeds, income tax free. And you can effectively remove the value of the deferred annuity from your estate by converting it to a SPIA. Since the SPIA payments cease at your death, the SPIA is not included as an asset of your estate.

In addition, the life insurance can escape estate taxes if the policy is not part of your estate at death. To achieve this goal, you can't own the policy; it must be owned by another (e.g., your child or an irrevocable life insurance trust). You then make gifts to the policy owner equal to the annual insurance premium. However, gifts may be subject to both federal and state gift taxes, so you should consult your tax professional before making such gifts.

The bottom line

If you own an annuity that you want to transfer to your heirs at your death, a significant portion of its value may be lost to estate and income taxes. Annuity maximization is a strategy that lets you replace part or all of a taxable asset (your deferred annuity) with an asset (permanent life insurance) that may be subject to neither income nor estate taxes at your death. This approach may effectively allow you to increase the amount you pass on to your beneficiaries.

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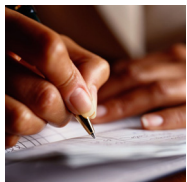
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Ask the Experts



Will the current credit crunch impact my child's ability to get a student loan for college?

It's hard to say whether the credit crunch will prevent students from obtaining the financing they need to pay for college. According to the College Board, last year students and their families borrowed nearly \$60 billion in federal loans and \$17 billion in private loans for college. In order to understand the current student lending market, some background is helpful.

Federal student loans. Under the Federal Family Education Loan Program (FFELP), private lenders receive subsidies from the federal government to issue federal student loans at reduced interest rates. But last year, Congress slashed subsidies to FFELP lenders. This, coupled with tightening credit and near paralysis in the secondary debt markets, created the perfect storm--a student lending market in potential turmoil due to the unwillingness and/or inability of some private lenders (to date more than 50) to make, package, and sell federal student loans.

The problem was big enough to attract the attention of the federal government--legislation passed in May allows the Department of Education to buy billions of dollars in federal student loans from private lenders to keep money flowing into the widely used FFELP. The consensus is that there will be enough federal student loan money--Stafford, Perkins, and PLUS Loans--in the FFELP to go around for the 2008/09 academic year.

Private student loans. Over the past decade, the use of private student loans to finance college has soared as federal student loans fail to keep up with rising costs. This year, college students in need of private loans are expected to face higher interest rates and more stringent credit checks. Unfortunately, this means that some students who qualified for a loan last year may not this year, or they may have to pay a higher interest rate. The federal government has not proposed buying private student loans, so lenders will be on their own to raise the necessary capital.

What is a Parent PLUS Loan?



A Parent PLUS Loan is a federal student loan available to parents with good credit histories who want to help pay for their dependent child's undergraduate education. (A similar Graduate PLUS Loan is available to graduate students.) Under the program, parents can

borrow up to the full cost of their child's college education each year, less any financial aid received. For example, if college costs \$30,000 this year and a student receives \$10,000 in financial aid, parents would potentially be eligible for a \$20,000 PLUS Loan. To qualify, students must be attending an eligible school at least half time.

PLUS Loans aren't based on financial need; parents need only pass a credit check. Under new federal legislation passed in May, parents who are delinquent up to 180 days on their home mortgage or medical debt will still be considered creditworthy to borrow under the program.

The interest rate on all PLUS Loans issued on or after July 1, 2006, is capped at 8.5%. (For PLUS Loans issued before this date, the interest rate is variable, adjusted each July, and capped at 9%.)

Interest begins accruing upon the first loan disbursement, but thanks to the recent legislation, parents have the option to defer repayment of the loan for up to six months after their child leaves school. Previously, repayment was required to begin within 60 days of the last loan disbursement for that year.

PLUS Loans can be made either by private lenders who participate in the Federal Family Education Loan Program (FFELP), or directly by the federal government under the William D. Ford Federal Direct Loan Program. The federal government recently took steps to pump liquidity into the FFELP market due to turmoil in the general credit markets, so fund availability isn't expected to be a problem.