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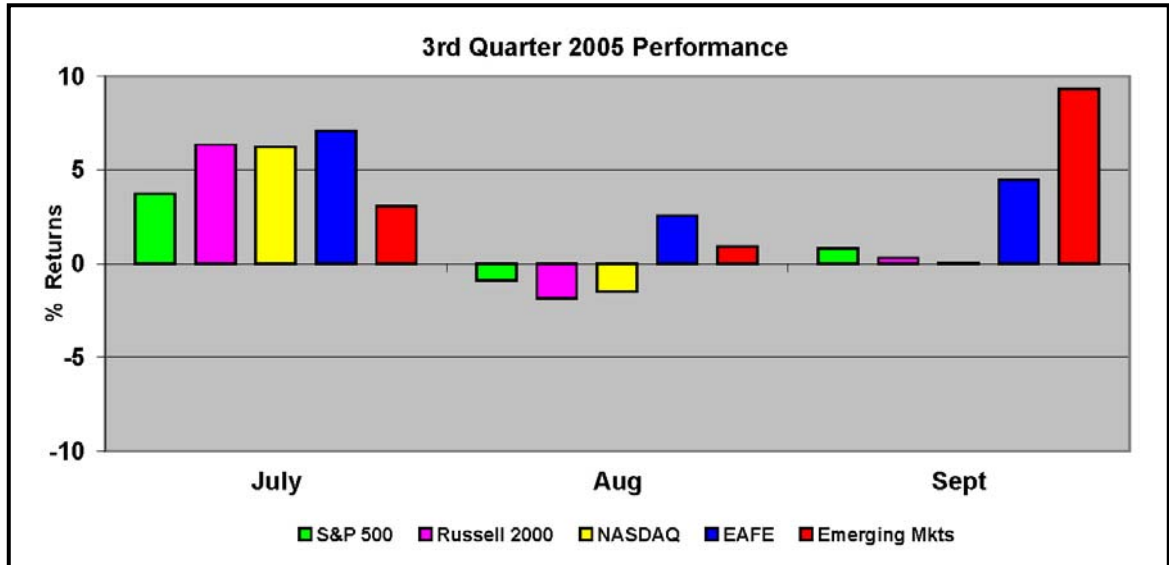
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## A Surprisingly Good Quarter

The third quarter of 2005 showed very good overall results for our clients' portfolios. Almost forgotten now, July was a very strong month across all equity asset classes, and the drop in domestic markets in August was offset by a decent eventual recovery in September. Meanwhile, overseas markets continued to perform exceptionally well throughout the quarter.



**Overseas Equities Prevail**

We continue to be generally optimistic about overseas investment performance. The recent election in Japan offers at least a glimmer of hope that the Koizumi reform agenda will succeed and, though still inconclusive, the German election demonstrates some willingness to depart, however begrudgingly, from the former pervasive welfare state economy. For the long term, even more significant, the role of China looms large and, we believe, ultimately, for the good. Jason Thomas offers several insights on China's major impacts in the article that follows.

**Still, Threats Abound**

For several weeks, it's been difficult to avoid the press about the collapse of the Bayou hedge fund, once again raising significant concerns about the risks of this broad category of investment vehicle. We continue to monitor each of the fund choices we've introduced to our clients and, before Bayou hit the headlines, we were conducting a thorough review of the attractiveness of this entire sector for our clients. For now, we do not fear excessive risk or inadequate gross return but are focusing attention on net returns and the issue of cost. Expect further comments soon.

High commodities prices, most notoriously for oil, could both crimp consumer spending and contribute to a rise in general inflation. The Fed's determined, meeting by meeting, increase in interest rates is intended to thwart that risk but could slow or even reverse economic growth in the process.

The double calamity for the Gulf Coast of Hurricanes Katrina and Rita, perhaps surprisingly, is expected now to produce relatively little near term damage to the US economy. The recovery and rebuilding could produce positive results for economic growth well into 2006. September's positive market results probably reflect this relief from the fears spawned by the initial disaster.

The costs of the federal government's aid in response, coupled with the ongoing costs of the war in Iraq have probably postponed any action on further tax relief for this year. Anticipated legislation to make previously temporary income tax reductions permanent and to drastically reduce the burden of the estate tax is now on hold. And Social Security reform seems completely off the current agenda. Nevertheless, we've heard several independent commentators insist that, in time, the White House and the Republican Congressional majority are determined to bring this entire tax agenda back to the fore. Whether that is ultimately good or bad depends to a large extent on one's political frame of mind. Still, there is little doubt that a failure to eventually make the 15% capital gains and dividend tax rate elements permanent would injure equity market values.

We'll be watching all of these developments closely as we approach the end of the year.

*Tim Kochis, Editor*

### Kochis Fitz Holiday Party Thursday, December 8

Please save December 8<sup>th</sup> to share holiday cheer with our clients and staff. Look for your invitation in early November.

### From The Chief Investment Officer

Cyclicality is in the nature of capital markets. As the news media careens from one threat-of-the-month to another, we try to focus on long-term opportunities and challenges. Very significant among these is the emergence of China as an economic powerhouse. In this *Commentary*, I discuss two aspects in particular: the pervasive (and surprising) impact of China on just about everything in the global economy and the recent buying (or bidding) spree of Chinese companies.

The nature of China's impact on the global economy is similar to the Baby Boom generation on the US economy – massive and pervasive, but sometimes subtle.

At some level, China is behind almost every important trend in the world economy. While politicians in the US are berating China for causing (untrue, anyway) a yawning trade deficit, measuring China's global impact in terms of its exports and its trade surplus misses the profound effects of its growing influence. Everyone knows that most TVs and T-shirts are made in China. But so, in some ways, are our inflation rates, interest rates, wages, profits, oil prices, and even house prices.

China is not the only fast-growing emerging economy, but it looms the largest. China's contribution to global GDP growth since 2000 has been almost twice as large as that of the next three biggest emerging economies – India, Brazil

and Russia – combined. Moreover, China's integration into the world economy is having a bigger impact because it combines a vast supply of cheap labor with an economy that is (for its size) unusually open to the rest of the world. The sum of its total exports and imports of goods and services amounts to around 75% of China's GDP; in Japan, India, and Brazil the figure is 25-30%. As a result, China's emergence is being felt more by rest of the world.

Richard Freeman, an economist at Harvard, suggests that the huge increase in the global labor pool caused by the entry of China, India and the former Soviet Union into the world economy has, in effect, doubled the global labor force (China accounts for more than half of this increase). This has increased the world's potential growth rate, helped to hold down inflation, and triggered changes in the relative prices of labor, capital, goods, and assets. With twice as many workers and little change in the size of the global capital stock, the ratio of global capital to labor has fallen by almost half in a matter of years: probably the biggest such shift in history. And, since this ratio determines the relative returns to labor and capital, it goes a long way to explain recent trends in wages and profits.

While average real wages have lagged well behind productivity gains in developed economies, profits are grabbing a bigger slice. Last year, after-tax profits in the US rose to their highest as a proportion of GDP for 75 years; the shares of profit in the euro area and Japan are also close to their highest for at least 25 years. This is exactly what economic theory would predict. China's emergence into the world economy has made labor relatively abundant and capital relatively scarce, and so the *relative* return to capital has risen. Good news for investors, but, lest we salaried types become despondent, we should note that, over very long periods of time, labor has captured almost all of the benefits of increased productivity.

So far, China's main impact on the world economy can be described as changing relative prices and incomes – the prices of the goods that China exports are falling while the prices of the goods that it imports are rising. For a fully developed economy with little excess capacity, this situation would be disastrous. China is coping quite well.

For the rest of the world overall, and, especially for the US, the upward pressure that Chinese imports of raw materials have put on the prices of oil and other commodities has been more than offset by the downward pressure of Chinese manufactured exports. As a result, another important aspect of the China effect is low inflation. A study by Dresdner Kleinwort Wasserstein estimates that China has knocked almost a full percentage-point off the US inflation rate in recent years. China is also partly responsible for the low level of long-term bond yields. To keep its exchange rate pegged to the dollar, China was the biggest buyer of US Treasury bonds over the past year and has supported America's mortgage market by buying vast amounts of mortgage-backed securities.

How long is this likely to last? By some estimates, China has almost 200 million underemployed workers in rural

areas, and it could take at least two decades for them to be absorbed by industry. As this process takes place, it will continue to subdue wage growth and global inflation. Profit margins could also remain historically high for a period (though not for ever, as stock market valuations in many countries seem to imply).

The flip side of global capital markets being increasingly driven by decisions in China is that US institutions, world views, and economic models will be less central. We should all hope that the Chinese political and business leadership learn from the painful economic experiences of other countries over the last century.

### China Inc?

For those of us focused on the human and economic tragedy of Hurricane Katrina, it is hard to remember back to late June, when the China National Offshore Oil Company (CNOOC) made an \$18.5 billion bid for Unocal, a mid-sized oil firm. The debate over the bid and the appropriate role of the US government in the matter demonstrated a growing unease as more and more Chinese companies have looked abroad for expansion and technological know-how. Just days before the CNOOC bid, Haier, a Chinese manufacturer, bid \$2.25 billion for Maytag. In May, IBM sold its personal computer arm to Lenovo, a deal that also raised concerns in US political circles.

The furor is reminiscent of a similar period in the 1980s, when Japan was accused of seeking global economic domination as Japanese companies bought everything from trophy real estate properties to Hollywood movie studios. No one seems to remember that the threat proved transient, indeed was never really a threat at all. Chinese companies, flush with cheap cash, are only the latest set of challenges to US economic dominance.

Even before the latest row over the CNOOC bid, there were clear signs of China's mounting interest in acquiring companies and assets abroad. According to *The Economist*, the volume of transactions involving a Chinese buyer and an international target has jumped from \$2-3 billion in previous years to almost \$23 billion for 2005.

Does this amount to a carefully planned assault to dominate the world economy? From my reading of a wide range of political and economic analysis of China, the most likely answer is no. For all its appearance as a communist-directed monolith, China is ultimately fragmented. Unlike Japan's powerful Ministry of International Trade and Industry in the 1960s and 1970s, China does not appear to have a single agency powerful enough to orchestrate such a global economic assault.

Which is not to say that Chinese companies' acquisition spree has no political backing. To foster rapid growth and create jobs, China deliberately opened its domestic market to foreign competition relatively early in its economic development and political transition. The apparent quid pro quo in this strategy was that the government would support, both diplomatically and financially, Chinese companies overseas. But to what end?

The most obvious near-term goal, led by the big oil, metal and commodity producers, is to secure natural resources. A less obvious, but perhaps more important, second goal is the acquisition of the management skills, brands, and market access of international firms. Haier wanted the Maytag and Hoover brands because its own brands failed to break through in the US. Chinese managers see foreign acquisitions as a way to get their hands on the most modern internal processes, systems, and strategic thinking.

This is true in professional realms as well. Our CEO, Tim Kochis, currently serves as Chair of the Financial Planning Standards Board and it has just entered into an agreement with Chinese organizations to bring financial planning professionalism to China. A crucial next step is their creating a panel of international experts to assist them in designing the proper training, testing, and standards-enforcement apparatus. By the way, we're proud to announce that Tim has been asked to chair that international panel and we're hopeful that he and his colleagues can help the Chinese make this effort a success.

### But, Will It Work?

Although it seems clear what China wants, it is less clear that their buying spree and collaborations will prove successful. Chinese firms have a very low cost of capital, may be able to cut costs by relocating factories to China and have access to a potentially vast domestic market. Of these, the first is the most compelling. For state-sponsored firms (most big companies still have government links) that do not have to make a commercial return or perhaps even repay loans from state banks, the cost of capital is very close to zero. This gives them a huge advantage when it comes to competing with private-sector firms abroad.

But buyers without the discipline of budget constraints and capital market approval run the risk of buying poor quality assets at high prices. D'Long, a Chinese noodles-to-cement conglomerate, scooped up troubled foreign brands, including Murray lawnmowers and parts of bankrupt aircraft-maker Fairchild Dornier, before collapsing under its own debts last year. In an environment of regulatory inconsistency, corruption, and political patronage, Chinese companies have tended to pursue short-term returns and excessive diversification rather than long-term technological development. And rather than build networks of suppliers and customers, they have preferred to curry favor with bureaucrats and party officials. In this sense, they are somewhat different (and less potent, for the moment) than past challenges from Japanese *keiretsu* and Korean *chaebol*.

As noted above, China's emergence has generated significant (and generally underappreciated) benefits for the rest of the world, particularly the US. Our own self interest should cause us to hope for continued prosperity in China and, importantly, the spread of the latest management techniques, economic knowledge, and the enhancement of professionalism in all fields. While the headlines may cause unease, outreach by Chinese companies and organizations may be our best hope for peacefully integrating China into the world economy.

Jason Thomas, PhD.

## New Staff Member

We are very pleased to announce that **Phillip K. Parkerson** joined our firm in mid-August as Senior Investment Operations Specialist in our Investment Operations department. Phillip has over ten years of experience in the industry, including nine years at Charles Schwab & Co., Inc. Phillip replaced Tim Chan who left the firm after five years to relocate to Chicago.

Please join us in welcoming him to our team.

*Young Kim,  
Investment Operations Manager*

## Medicare Part D: Important Information about the New Prescription Drug Benefit

Those eligible for Medicare will be able to participate in the new prescription drug benefit plan beginning January 1, 2006. Even if you do not currently consume a substantial amount of prescription drugs or you have retiree coverage that includes prescription drug benefits, you should sign up for Medicare Part D as soon as you are eligible in order to avoid higher premiums down the road.

### Timeline

October 1, 2005:	Insurers can begin marketing drug policies.
Fall 2005:	All seniors eligible for Medicare Part D will receive the "Medicare & You 2006" handbook in the mail.
November 15, 2005:	Enrollment for the drug benefit begins.
November 15, 2005:	Retirees receiving employer health coverage benefits will have received notification as to whether their benefits qualify as "Creditable Coverage," (see below).
January 1, 2006:	Drug coverage begins for those who have signed up on or before December 31, 2005.
May 15, 2006:	Last day to sign up for drug benefits without a penalty (i.e. higher premiums).

If you receive notice from your former employer that your retiree benefits are as good as the standard Medicare drug benefit (meaning you have "Creditable Coverage") then you don't need to sign up for Medicare drug benefits now. Still, many employers are dropping retiree coverage in order to cut costs; if you lose "creditable" retiree coverage at some point in the future you can then sign up for Medicare drug benefits without penalty.

### What costs are involved?

Medicare's "standard drug coverage" has a monthly premium (approximately \$35), and pays 75% of drug costs after a \$250 deductible up to \$2,250 of total annual

prescription drug costs. The coverage then pays 95% of costs after annual out-of-pocket spending reaches \$3,600 to protect against very high drug costs. That gap, from \$2,250 to \$3,600 is often called the "doughnut hole." This coverage will be subsidized by Medicare but will be provided under commercial insurance policies. Some of those plans may charge higher premiums to cover additional prescriptions, but no plan can have an annual deductible higher than \$250 per year.

### How do I choose a plan?

To begin, you first need to consider your current prescriptions. Drug formularies (i.e. lists of eligible drugs) differ by plan, and you need to find a plan that can cover as many of your costs as possible. The "Medicare & You 2006" handbook will list Medicare Prescription Drug plans available in your area. You can get free personalized information online at [www.medicare.gov](http://www.medicare.gov) or by calling 1-800-MEDICARE (1-800-633-4227).

### Alternatives: Medicare Advantage & Medigap Policies.

Medicare Advantage Plans combine Medicare (Part A and Part B) with private (HMO) coverage. Previously called Medicare + Choice, the plans are envisioned to reduce healthcare costs by encouraging seniors to shift to managed care. Medicare Advantage provides some drug benefits but the policies aren't available in all states.

Much more common are Medigap policies; 10 million seniors have Medigap policies, also known as Medicare supplemental insurance, that cover deductibles and out-of-pocket costs not covered by Medicare. The plans offer benefits at levels designated by the letters A through J. Plans H, I, and J currently offer prescription drug coverage. Beginning in January 2006, companies will not be able to sell new Medigap policies with drug benefits; however enrollees who already have a policy with drug coverage will be able to keep them if they choose. If you keep your H, I, or J Medigap policy and later decide you want to sign up for Medicare drug benefits later, you will pay a penalty of 1% per month of your eligibility since January 1, 2006. A better option seems to be to shift to a Medigap policy, A through G, right away *and* also sign up for one of the stand-alone Medicare drug benefit plans.

The several options and their varying characteristics may seem overwhelming. Kochis Fitz is ready to assist you in evaluating your alternatives and helping you find the most cost-effective plan that provides the coverage you need among the long list of alternatives:

- New Medicare Part D subsidized, commercial insurance coverage
- "Creditable" employer's retiree coverage
- Medicare Advantage Plans (HMO's)
- Old Medigap Plans: H, I, or J

*Sarah Bailey and  
Linda Fitz*

## Roth 401(k) Plans

Beginning in January, a new type of 401(k) plan contribution will become available at many companies. This account, called the "Roth 401(k)" works just like traditional 401(k) plans except that contributions occur *after-tax*, (i.e. no deduction for the contribution) and retirement distributions from the plan are tax-free. The tax-free growth that occurs in Roth 401(k) plans makes them a potentially powerful long-term wealth accumulation vehicle. This is particularly true if participants can afford to avoid distributions during retirement (unlike other plans, no *minimum* distributions are required for *Roth* IRA's and *may* not be required from these new Roth 401(k)'s). Instead, well-to-do clients will often be able to pass these accounts intact to their heirs, who could then benefit from tax-free distributions over their lifetimes.

The Treasury department is expected to issue final regulations governing Roth 401(k) plans before year-end, which will clear up some questions about how these accounts are distributed during retirement. We'll address this topic again in our fourth quarter Commentary and provide specific recommendations to clients.

Greg Schick

## Avoiding Identity Theft

Chances are you've read stories recently touting identity theft as the fastest growing crime in America. Are consumers becoming *more* careless with their personal information? Are companies becoming *more* careless with the personal information they compile from clients and customers? Are identity thieves becoming *more* sophisticated?

The main reason identity theft *seems* to be running rampant and companies seem to be getting more careless with personal information is the result a California law passed in 2003. It requires companies doing business with California residents to inform all of their California customers if the company loses *any* names and personal information (Social Security numbers, driver's license numbers, credit card or debit card numbers) or if someone steals this information from the company. Data theft and data loss, of course, occurred before the California law. Now, however, companies must report it publicly. In the wake of the law, Boston College, the University of California at Berkeley, ChoicePoint, Lexis-Nexis and Bank of America, to name but a few, all reported either losing personal information from their data bases or having third parties tap into their databases to access personal information.

In order to steal an identity, a thief needs information: a credit card number, a Social Security number, a date of birth, a driver's license number. Other than bad luck or negligence on the part of companies who have your personal information, how else can thieves obtain your personal information? Though the image of an identity thief is usually high-tech (someone with the know how to hack into your

personal computer for instance), in reality identity theft happens most often the low-tech way. A thief steals a wallet or purse, rummages through your mailbox, takes packages left on your doorstep or finds carelessly discarded bills, account statements or other documents with the necessary information on them.

How can you protect yourself against identity theft?

Here are some cautions that re-emphasize the discussion of this topic in our book on *Wealth Management*. First of all, there are two *types* of identity theft:

- **"Account takeover"** Someone acquires your *existing* account information, such as a credit card number, and uses it to withdraw money or purchase products and services.
- **"Application fraud"** Someone acquires your Social Security number or other personal identifying information to open *new* accounts in your name or to create a whole new identity for themselves.

Of the two, application fraud is more onerous because the fraud is covert. It is also much less frequent. Some estimates indicate application fraud only affects about 1% of Americans (but, that's still 3 million people!). Imagine how difficult it is to discover accounts that you didn't open and, therefore, don't know about, especially when statements aren't being sent to your address. Victims of application fraud typically don't learn of the problem until a collection agency comes calling or creditors decline to offer further credit.

For compromised credit card numbers, however, which make up the majority of account takeover thefts (in turn these make up the vast majority of identity theft cases), if you are reasonably vigilant and report the loss or theft within two days of *discovery* Federal law limits your liability to \$50. In many cases the credit card company will even waive that. The biggest problem with account takeover is inconvenience...waiting for your new credit card to arrive and reestablishing automatic payments linked to your former credit card can be a hassle.

We mention this to try to put the broader category of identity theft into context. If someone steals your credit card number (account takeover) you will have a much easier, though still inconvenient, time recovering from it than if somebody takes your identity and creates a parallel you (application fraud). In that case, you could spend the next several years trying to recover.

## Fear Sells

In light of the popular fear over identity theft, it isn't surprising that identity theft "protection" schemes have proliferated in recent years. Credit monitoring services and identity theft insurance – two products frequently offered by credit card companies and homeowners insurance companies – will not prevent identity theft any more than auto insurance will help you avoid accidents. Moreover, the benefits they *do* provide

are meager and, appropriately, are relatively inexpensive (a few hundred dollars per year). If subscribing to an inexpensive identity theft insurance or credit monitoring service gives you peace of mind, it could be worthwhile. The only real harm would be relying on them for *substantive* help in preventing or recovering from identity theft.

#### *Credit monitoring services*

These services vary in their features, but all share the common feature of alerting you when an account has been opened in your name, a big red flag if you in fact have not opened any new accounts. Companies typically charge a monthly fee between \$10 and \$20 for the service... an interesting irony given the fact that they, credit card companies, not you, have the most to lose in credit fraud! Some of them even provide insurance if you become a victim of application fraud. Good thing because the monitoring service only detects when an identity thief has already *opened* an account in your name.

However, a credit monitoring service typically monitors only one of the three credit reporting agencies, leaving the other two unmonitored. In cases where the monitoring service offers to monitor all three credit reporting agencies it is usually for only the first report. Otherwise, you will have to subscribe to three different credit monitoring services or pay more for an “upgrade” to have the monitoring service monitor all three. They also do not provide an alert if your current credit cards or bank accounts are being fraudulently accessed...only your careful monitoring can catch that. Moreover, if you have the time and inclination, all of the information you need to do a thorough review of your credit reports is available for free. Keep reading for more details.

The big selling point of a credit monitoring service for the less affluent, and one having nothing to do with protection against identity theft, is the opportunity to check one’s credit score. So, for example, if your adult child pays a little more for a premium service, he or she can play what-if scenarios to see how the credit score changes as credit accounts are opened or closed.

#### *Identity theft insurance*

Credit card companies and, increasingly, homeowner’s insurance policies, offer identity theft insurance coverage for a nominal additional fee of \$75 - \$200 annually. The coverage typically includes reimbursement for lost wages (usually limited to \$5,000 or less), notary and attorney fees (prior consent from the insurer required), long-distance charges, and certified mailing costs, with total reimbursement under most plans limited to \$25,000 or less. Most of our clients can effectively self-insure against these potential expenses.

#### **Avoiding Identity Theft. An Ounce of Prevention...**

The most effective steps for *preventing* identity theft are quite mundane. We believe you should engage in the following precautions. Regrettably, some of them are rather inconvenient:

- *Be stingy with your personal information.* Lost, stolen or carelessly discarded personal information is a potential gold mine for a thief, so limit the amount of information you consciously or unconsciously give to third parties. For example, while most physicians’ offices ask for Social Security numbers, many don’t actually *require* it.
- *Secure your home.* Identity thieves commonly start their “research” in their victims’ trash, so get into the habit of placing credit card applications, convenience checks, brokerage account statements and other useful-to-an-identity-thief data into a paper shredder. Mail theft is another common technique employed by would-be identity thieves, so use only a locked mailbox. And secure highly sensitive documents – Social Security cards and birth certificates, for example – in a home vault or bank safe deposit box, because they are frequently targeted during home break-ins and, increasingly, by domestic assistants.
- *Avoid carrying important documents on your person.* If you routinely carry your Social Security number, or a family member’s Social Security number with you and it is lost or stolen, what might have ended up at worst as an account takeover type of identity theft (where the thief goes on a spending spree with your credit cards) can quickly turn into more serious application fraud.
- *Protect your credit card.* Credit cards are a favorite target of petty thieves around the world, so when traveling overseas consider leaving your credit card behind and instead taking a prepaid debit card. Also get into the habit of closely reviewing credit card charges, as sophisticated thieves with access to your account number may only charge a few items a month, hoping to fall “under the radar.” Receive credit card statements (and pay bills) online rather than through the mail, where your information will pass through many hands. Finally, instead of signing your credit card write “photo ID required.”
- *End pre-approved credit card solicitations.* How many pre-approved credit card solicitations do you receive each week? Identity thieves frequently use these to open accounts, but you can stop them (and win your mail carrier’s eternal gratitude) by calling (888) 567-8688 or visiting [www.optoutprescreen.com](http://www.optoutprescreen.com).
- *End telemarketing calls.* To avoid telephone solicitations (and reclaim your dinnertime!), register with the national “Do Not Call” list by calling (888) 382-1222 or visiting [www.donotcall.gov](http://www.donotcall.gov). This is an especially good idea for elderly, or otherwise gullible, family members who are disproportionately at risk for falling victim to telemarketing scams. Sadly, perhaps, this “opt out” doesn’t cover government, non-profits, or businesses you are already a customer of.
- *Stay secure online.* Protect yourself from electronic fraud by keeping your operating system, web browser and anti-virus software up-to-date with the latest security patches and virus definitions. Install a firewall on your

home network and don't transmit sensitive information over an unsecure wireless network. Never respond to emailed inquiries from service providers requesting personal information (be stingy), as these may be sophisticated data gathering scams (known as "phishing"). You can verify the legitimacy of emails by typing in your service providers' website addresses manually rather than taking an emailed link.

- *Keep a record of what you carry with you..* Photocopy the contents of your wallet and keep it in a safe place. In the event that your wallet is stolen this will help you facilitate the quick closure of accounts.

### **Review your own credit reports for free**

Taking these steps will dramatically reduce your chances of becoming the victim of identity theft, but will not entirely eliminate the risk. As an added measure of protection, we recommend obtaining your credit reports from the three primary credit reporting agencies – Equifax, TransUnion, and Experian – on an annual basis. Under recent federal legislation meant to reduce the incidences of identity theft, you can obtain one free report from each of the three credit reporting agencies each year by going to [www.annualcreditreport.com](http://www.annualcreditreport.com). Reviewing your credit reports is the only way that you can confirm that you haven't become the victim of fraud. You can view all three at once or, for an additional measure of protection, stagger the reports so you receive one report every four months during the year. In either case, we recommend that *each adult family member* obtain his or her reports from *all three* agencies each year.

If you've never seen your credit reports before, you may very well be bewildered by the amount of data (especially the amount of incorrect or outdated information) that spans 10 or more years of your credit history. The website provides tips for making sense of the reports' numerous abbreviations and codes. Once you are oriented to the reports, make sure that you recognize all of the credit accounts listed. You may see a number of open, but inactive, accounts (e.g., retailer charge cards), which you can close by calling each credit card issuer.

It is estimated that one in four credit reports contains a serious error, such as listing data from someone else's report or showing delinquent payments that you, in fact, made on time. The website provides useful tools for disputing any incorrect data. After the initial review of your reports, and the subsequent work to clean up any errors and close inactive accounts, you'll find that future reviews are much easier.

### **Put your credit on deep freeze**

While the common sense steps above help minimize the risk of identity theft, they are not foolproof. Residents of California and a few other states (Texas, Louisiana, Vermont, Washington, Nevada, Connecticut, Illinois, Maine, and Colorado) who prefer a higher level of protection can put

a "freeze" on their credit reports. This will greatly diminish the likelihood of becoming a victim of application fraud by preventing *all* credit lenders from looking at your credit report without your explicit permission. This can stop would-be identity thieves in their tracks.

If you are a victim of identity theft *and* you have filed a police report, you can freeze your credit reports free of charge. For everyone else, it costs \$10 to freeze your credit report at each of the three credit reporting bureaus (\$30 total). Each of the three credit reporting agencies will issue a PIN that enables you to temporarily unfreeze your reports for a specific date range for \$10 (\$30 total) or for a specific creditor for \$12 (\$36 total).

To place a freeze on your credit reports send a letter with your full name, home addresses for the past five years, Social Security number, date of birth and two proofs of residence (copy of a utility bill, bank statement, driver's license) including credit card information to pay for the freeze (type of card, credit card number, expiration date) via *certified mail* to:

TransUnion  
Post Office Box 6790  
Fullerton, California, 92834-6790  
Phone: 1-800-888-4213  
[www.transunion.com](http://www.transunion.com)

Experian  
701 Experian Parkway  
P.O. Box 9554  
Allen, TX 75013  
Phone: 1-888-397-3742  
[www.experian.com](http://www.experian.com)

Equifax  
Post Office Box 105788  
Atlanta, GA 30348  
Phone: 1-800-685-1111  
[www.equifax.com](http://www.equifax.com)

If, despite your best efforts, you suspect that you have become a victim of identity theft, please contact us immediately. We'll take appropriate steps to protect access to your investment accounts and walk you through the other steps you may need to take. But with a little effort now, that's a call you'll probably never need to make.

*Brett Gookin and  
Greg Schick*

## Planning for Year-End

As the end of the year approaches, we remind you of certain year-end transactions that we stand ready to help you execute...as conveniently as possible, and, on time:

### Retirement Plans

Retirement Plans for the Self-employed – If you have self-employment income (from consulting services or corporate or non-profit boards), you are eligible to contribute to your own retirement plan. If you haven't already established a specific retirement plan, we can help you decide which of the several plan choices is appropriate for you. Most of these plans must be established no later than December 31 even if funding can occur later.

Roth IRA Conversion – If your adjusted gross income is less than \$100,000 (whether for single individuals or married couples filing jointly), you can convert part or all of your traditional IRA to a Roth IRA by December 31. Taxes must be paid on the conversion but subsequent earnings and distributions are tax-free in a Roth IRA. We can help you determine whether this opportunity is available to you and, if so, to decide whether it's right for you.

Catch-up 401(k) and Deductible IRA Contributions – Individuals over age 50 and those who turn 50 during 2005 are eligible to make "catch-up" contributions to retirement plans. The 401(k) catch-up contribution is \$4,000 and the traditional and Roth IRA catch-up contribution is \$500. If you meet the eligibility requirements and haven't already made the 401(k) catch-up contribution, please contact your 401(k) plan administrator to make the election as soon possible so the extra contribution is made before the year-end. IRA base and catch-up contributions can be made as late as April 15, 2006.

Required Retirement Plan Distributions – Clients who turn 70 ½ this calendar year are required by law to take a first minimum distribution from their retirement accounts. The first required minimum distribution must be taken no later than April 1 of the year following the calendar year in which one turns 70 ½, so, "first timers" *could* wait until April 1 of next year, 2006. Still, it is almost always best to get this done by December 31 of the current year so that you are not required to take *two* distributions in the following year. If you are in this situation, we have been or will be in contact with you soon to coordinate distributions.

### Income Taxes

Year-end State Tax Payments – As part of our routine practice, we will forward year-to-date tax information to your tax preparer in early December. We will also be in touch with your tax preparer about any other issues that should be taken into consideration when preparing tax projections and determining your optimal tax payment schedule. In addition, we will forward tax information for the full year 2005 to your tax preparer in February 2006. Please remember to forward any 1099s, K-1s, and other tax records you receive to your tax preparer. If you changed your tax preparer since last year and/or have not already provided us with your 2005 tax preparer's contact information, please do so as quickly as you can.

Charitable Contributions – Appreciated long-term capital gain assets, such as stock or mutual fund shares you've owned for more than a year, are ideal assets to contribute to charities because you can deduct these assets at fair market value without paying tax on the appreciation. If you have charitable intentions but have not yet identified the charity you wish to benefit, you can donate securities to a "donor advised" charitable gift fund, like ones available at community foundations or custodians like Fidelity or Schwab. By doing this well before the absolute December 31 deadline (December 19<sup>th</sup> would be a good *practical* deadline), you can secure your charitable deduction for this year and direct the gift at a later, more convenient time.

Donations of *cash* remain sub-optimal for most clients despite the recent KETRA, 2005 legislation.

Gifts to Family Members – The current tax law allows each person to make gifts of \$11,000 per recipient, each year, without gift tax. Thus, a married couple can give up to \$22,000 per recipient per year, free of tax. If a recipient is in a very low income tax bracket, it may make sense to give highly appreciated investments rather than cash since the recipient can sell the investment and may only pay 5% capital gain tax. However, a cash gift is still the best if you want to maximize the benefits to the recipient. Many clients with young children or grandchildren may be able to give up to \$110,000 (for a married couple) to fund Section 529 Education Funding Plans. These gifts use the same \$11,000 per person, per recipient annual gift tax exclusion but permit a 5-year "bunching" to get to a much greater initial amount.

We look forward to working with you to *plan* for and then *execute* these transactions as early as possible.

Young Kim

## PERFORMANCE RESULTS

		3 <sup>rd</sup> Quarter 2005	12 Months to 9/30/05	3 Years Annualized to 9/30/05
<b>Fixed Income</b>				
<i>Short-Term (Taxable)</i>	Benchmark Index: Lehman Brothers 1-5 Year Gov/Corp Bond			
	Benchmark Fund: Vanguard Short-term Bond Index	-0.2%	0.9%	2.4%
*	DFA Two Year Global Fixed Income	<b>0.3%</b>	<b>1.3%</b>	1.6%
	Vanguard Short-term Investment Grade	<b>0.2%</b>	<b>1.8%</b>	<b>3.0%</b>
<i>Intermediate (Taxable)</i>	Benchmark Index: Lehman Brothers Aggregate Bond			
	Benchmark Fund: Vanguard Total Bond Market Index	-0.8%	2.7%	3.8%
*	DFA Five Year Global Fixed Income	<b>-0.5%</b>	2.1%	2.9%
*	PIMCO Total Return Institutional	<b>-0.5%</b>	<b>3.8%</b>	<b>5.2%</b>
<i>Intermediate (Tax Free)</i>	Benchmark: Morningstar Muni CA Intermediate Category Avg.			
	Vanguard CA Insured Intermediate Tax-Exempt Adm	-0.1%	2.2%	2.3%
		-0.5%	2.0%	<b>2.5%</b>
<b>Real Estate</b>				
	Benchmark Index: Morgan Stanley REIT Index			
	Benchmark Fund: Vanguard REIT Index Fund	3.6%	26.6%	25.0%
	Columbia Real Estate Equity	1.8%	21.2%	24.3%
	Scudder RREEF Real Estate	2.7%	<b>27.5%</b>	<b>27.3%</b>
	*Prana Growth (performance updated bi-annually)	NA	NA	NA
<b>Balanced</b>				
	Benchmark Index: 60% Wilshire 5000 and 40% Lehman Brothers Aggregate Bond			
	Benchmark Fund: Vanguard Balanced Index	2.1%	9.8%	12.4%
*	DFA Global 60/40	<b>4.1%</b>	<b>13.4%</b>	NA
	Dodge & Cox Balanced	<b>3.4%</b>	<b>12.9%</b>	<b>16.1%</b>
	Vanguard Asset Allocation	<b>3.5%</b>	<b>11.6%</b>	<b>16.6%</b>
<b>Absolute Return</b>				
	Benchmark Index: S&P Hedge Fund Index			
	Benchmark Fund: Rydex Sphinx	1.3%	3.9%	NA
*	Ironwood Partners	NA	NA	NA
*	Lazard Alt. Strategies	<b>3.5%</b>	<b>5.5%</b>	6.9%
*	Lighthouse Diversified, LP	<b>3.3%</b>	<b>10.1%</b>	7.7%
*	Silver Creek Low Vol 1	NA	NA	NA
*	Treffle Absolute	NA	NA	NA
*	Undiscovered Managers Multi-Strategy Fund	<b>3.2%</b>	<b>7.4%</b>	6.6%
<b>Large Cap: Domestic</b>				
<i>Blend</i>	Benchmark Index: S&P 500			
	Benchmark Fund: Vanguard 500 Index	3.6%	12.1%	16.6%
	Schwab S&P 500 Institutional Select	3.5%	<b>12.2%</b>	<b>16.6%</b>
	Schwab 1000 Select	<b>3.7%</b>	<b>13.7%</b>	<b>17.1%</b>
	S&P 500 ETF (SPDR)	<b>3.7%</b>	<b>12.3%</b>	<b>16.6%</b>
*	Tax Managed Index Separate Account (Parametric)	<i>Return based on individual client's portfolio</i>		
<i>Value Style</i>	Benchmark Index: S&P 500/BARRA Value			
	Benchmark Fund: Vanguard Value Index Fund	4.1%	15.7%	20.9%
	Berkshire Hathaway B	-1.7%	-4.3%	3.0%
*	DFA Large Cap Value	<b>5.7%</b>	<b>22.0%</b>	<b>22.5%</b>
*	DFA Tax Managed Marketwide Value	<b>7.2%</b>	<b>23.9%</b>	<b>23.9%</b>

\* Preferential Access Through Kochis Fitz

Returns are stated net of managers' fees, but before Kochis Fitz fees.

Figures in bold reflect performance equal to or better than benchmark.

*Continued on Next Page*

## PERFORMANCE RESULTS

		3 <sup>rd</sup> Quarter 2005	12 Months to 9/30/05	3 Years Annualized to 9/30/05
<b>Large Cap: Developed Overseas</b>				
<i>Blend Style</i>	Benchmark Index: MSCI EAFE			
	Benchmark Fund: iShares MSCI EAFE	10.4%	26.3%	25.1%
	Vanguard Total International Stock Fund	<b>11.7%</b>	<b>28.1%</b>	<b>26.2%</b>
<hr/>				
<i>Value Style</i>	Benchmark Index: MSCI EAFE Value			
	Benchmark Fund: Vanguard International Value	11.9%	26.8%	26.5%
*	DFA International Value	10.9%	<b>28.4%</b>	<b>31.0%</b>
*	DFA Tax-Managed International Value	11.4%	<b>29.9%</b>	<b>30.3%</b>
<hr/>				
<b>Small Cap: Domestic</b>				
<i>Blend</i>	Benchmark Index: Russell 2000			
	Benchmark Fund: Vanguard Small Cap Index Fund	5.2%	20.9%	25.3%
*	DFA US Small Cap	<b>6.0%</b>	20.0%	<b>25.9%</b>
*	DFA Tax Managed US Small Cap	<b>6.8%</b>	<b>21.9%</b>	<b>26.6%</b>
*	DFA US Micro Cap	<b>6.8%</b>	20.5%	<b>28.1%</b>
<hr/>				
<i>Value Style</i>	Benchmark Index: S&P Small Cap 600/BARRA Value			
	Benchmark Fund: Vanguard Small Cap Value Index Fund	4.0%	19.6%	23.3%
*	DFA US Small Cap Value	<b>6.2%</b>	<b>22.2%</b>	<b>31.2%</b>
*	DFA Tax Managed US Small Cap Value	<b>6.5%</b>	<b>22.0%</b>	<b>29.0%</b>
<hr/>				
<b>Small Cap: Developed Overseas</b>				
	Benchmark Index: MSCI EAFE Small Cap			
	Benchmark Fund: Morgan Stanley Intl Small Cap A	7.4%	28.1%	29.0%
*	DFA International Small Company	<b>10.8%</b>	<b>32.6%</b>	<b>34.4%</b>
*	DFA International Small Cap Value	<b>10.4%</b>	<b>37.4%</b>	<b>38.8%</b>
<hr/>				
<b>Emerging Markets</b>				
	Benchmark Index: MSCI Emerging Markets Free			
	Benchmark Fund: Vanguard Emerging Markets Index Fund	17.2%	46.4%	39.4%
*	DFA Emerging Markets Core Equity Portfolio (inception date 4/5/2005)	NA	NA	NA
	Oppenheimer Developing Markets	<b>18.2%</b>	<b>55.7%</b>	<b>46.9%</b>
	SSgA Emerging Markets	<b>18.4%</b>	<b>48.5%</b>	38.0%
	T Rowe Price Emerging Markets	<b>20.6%</b>	<b>55.0%</b>	<b>40.4%</b>
<hr/>				
<b>Special Situations</b>				
*	Brookdale Global Opportunity Fund	NA	NA	NA

\* Preferential Access Through Kochis Fitz  
Returns are stated net of managers' fees, but before Kochis Fitz fees.  
Figures in bold reflect performance equal to or better than benchmark.

The indices and benchmark funds included herein have been selected to allow for comparison of an individual investor's performance to that of certain well-known and widely recognized indices and funds. The inclusion of an index or benchmark fund should not be considered a representation by Kochis Fitz that it is an appropriate benchmark, in all client circumstances, for specific securities, or against overall portfolio performance, nor is it a guarantee of individual investor performance that is greater than the benchmark. The performance and volatility of an individual investor's portfolio may be materially different from those of the indices and benchmark funds. Further, an individual investor's holdings may differ significantly from the securities that comprise the indices and benchmark funds. An investor cannot invest directly in any of the above indices, but could potentially invest in the benchmark funds.

In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of all information (including performance statistics) available from public sources.

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