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Investment Insights

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Sir Galahads and Parachutes

Once upon a time, during combat tours in Vietnam, we pilots were required to wear Sir Galahads for our search-and-rescue missions. The Sir Galahad was an oblong piece of boiler plate about half an inch thick curved to contour around and protect our torso. There was a protrusion centered at the bottom of this torso armor that rested on the seat between our legs. It was held to our bodies by two curved, welded-on metal straps at the top that fit over our shoulders. It was very, very heavy but that weight was resting on the seat and not our bodies. Yes it was somewhat awkward but did not really get in the way of flying our aircraft. The back and bottom of our seats were also armor plated. This was before the days of the lightweight composite armors such as Kevlar.

We were also required to fly with parachutes per Navy regulation. While flying helicopters, we considered parachutes one of those ludicrous regulations since the odds of using it successfully out of a chopper were somewhat suspect. So, rather than wearing them, we used the parachutes as flak suppressors in case we were vectored over North Vietnam's anti-aircraft guns, to pick up a downed fighter or attack pilot. Our judgment was that wearing a parachute would be uncomfortable and impractical given the nature of the aircraft and our missions, and so they went on the deck under our legs as flak suppressors.

Our call sign for those rescue operations was Big Mother. At that time we were flying Sikorsky H-3 helicopters that had been rube-goldberged with armor, machine-guns and in-flight refueling systems, to support our search and rescue work. That, in addition to our flying and our maintenance proficiency, and some of our flight safety gear, constituted our risk-management system. Beyond that it was luck.

Managing Your Risk

We have risk-management tools in the investment field too. The general goal is to "bullet-proof" a portfolio to the extent that we can against significant losses in line with our mantra "**Do no harm and make money**"* (please read the sidebar).

In the short term we know and expect that there will be normal fluctuations of five to ten per cent but the idea is to make money over time and not let the collapse of any one investment do serious long-term damage to a portfolio.



A primary means of "bullet-proofing" a portfolio is through various means of appropriate diversification and continual due diligence.

At the top level we diversify across asset classes dividing them into six categories: Cash, Fixed Income, Domestic Stocks, International Stocks, Currencies, and Commodities. We also apply position sizing to individual stocks and generally will invest less than 5% of a total composite portfolio value in one stock. Investors often become emotionally attached to certain investments. As Financial Advisors our job is to take the emotion out of investing. We feel strongly that it is unwise and imprudent to have a portfolio over weighted in one stock no matter how great you might think the name is. For example you remember Enron, Lucent, Rite-Aid, Fanny Mae, and the list goes on of great names that crashed. In our judgment, it's just not smart to be heavily weighted in one stock unless you don't care about your money. Yes, a single stock could double or triple in value and in that case you would be lucky but not necessarily smart. When it comes to life savings we want to err on the side of wisdom and caution rather than luck.

The Markets Right Now

Domestic and international stocks continue to lead the pack from a relative strength standpoint. The level of stock market risk is high, generally marked by over bullish, over priced and over valued conditions. Also, interest rates, beyond two-year maturities, have been on the rise since last November. These ingredients have historically not ended well and so we continue to exercise caution, having some money in cash and fixed income, to somewhat cushion portfolio values in the case of a market turndown.

(continued)

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S&P 500 Look back

2000	-9.11%
2001	-11.89%
2002	-22.10%
2003	+26.68%
2004	+10.87%
2005	+ 3.00%
2006	+13.62%
2007	+ 3.52%
2008	-38.5%
2009	+18.9%
2010	-11.33%

NASDAQ Look back

2000	-39.18%
2001	-20.78%
2002	-31.25%
2003	+50.76%
2004	+9.14%
2005	-1.4%
2006	+7.87%
2007	+ 9.27%
2008	-40.5%
2009	+30.5%
2010	+14.46%

YTD thru 2/28/2011

S&P500	+5.53%
NASDAQ	+4.87%

10/11/2007 HI thru 2/28/11

S&P500	-13.53%
Mar 2000 HI thru 2/28/11	
NASDAQ	-47.99%

*There is no risk-free investment! Investment portfolio values fluctuate and past performance is never a guarantee of future results. "Do no harm" translates into structuring and managing an investment portfolio to conform to a client's risk tolerance and time horizon. Proactive asset allocation, diversification within asset classes, and continual monitoring and risk management of each position are methods we use in structuring and managing portfolios. Our approach includes corroborating fundamental research, with capital markets supply-and-demand research, also called technical research. At times we will use conservative hedging techniques to limit downside risk.

Financial Planning Matters: 529 College Savings Plan

Most of us would agree that taxes in general are going to be increasing in the years ahead. I like to view our present tax code using a star wars perspective. The IRS tax code is divided into the Forces of Good and the Forces of Evil. I say that tongue in cheek but you get the gist.

The idea is to plan ahead and put the Forces of Good to work for you wherever possible. Plan and then take advantage of:

- Tax deferred and tax free investment strategies, and;
- The tax deductions and tax credits embedded in our tax code.

Today I'd like to put a plug in for the College Savings 529 Program. It's a way to invest in the future education of your child, or grandchild, or whoever you may want including yourself, to help finance their, (or even your own – if you are also the beneficiary,) future education. It's a program in which you can invest money, grow that money tax-deferred, and then use the entire amount of the money federal-income tax free toward funding the beneficiary's education. It has to go to an educational institution that qualifies, typically state, and many private, colleges and universities. Realize though, that if you withdraw the money and do not use it for that purpose you will incur taxes and penalties.

There is no federal tax deduction but you do get to grow the money tax-deferred and spend it, on qualified educational programs, tax free.

Each state administers its own plan. You can use any state plan that you wish no matter where you live. However, for you, the owner of the plan, to get your state tax deduction, you may, depending on the state, have to use your own state- sponsored program. In Georgia for instance, if you use the Georgia-sponsored program, you can deduct up to \$2,000 per plan or beneficiary/per year and there is no limit on the number of beneficiaries or plans you can establish. Your beneficiary does not need to reside in the same state as you. Check with your accountant to determine what the state tax deduction is for the state in which you reside and whether or not you have to use the state-sponsored program to get the tax deduction. It differs across the states and also laws can change from year-to-year, so do check with your accountant on the tax deductibility issue.

The 529 also offers an estate tax planning tool in that the money in a 529 plan may be exempt from estate taxes. Married couples can fund a 529 plan up to \$13,000 each or \$26,000 as a couple, per year. There is also a provision to fund up to five years in advance, \$65,000 each or \$130,000 as a couple, to reduce the amount of the estate. There may be unusual circumstances or changes in the law so always discuss these estate and all other tax matters with your accountant.

Most plans have a single owner and all plans are tied to one beneficiary. However, the owner can change the beneficiary, and also, can have more than one beneficiary but, again, each beneficiary would require a separate plan.

It usually costs very little to start up and fund a plan. In Georgia startup is as little as \$25.00.



A few websites that may be helpful are: www.savingforcollege.com and in Georgia you can use www.tath2college529.com or in Georgia call 888-381-8283 for help. www.fafsa.ed.gov will help you determine what educational institutions qualify for 529 funding.

