

Review & Summary



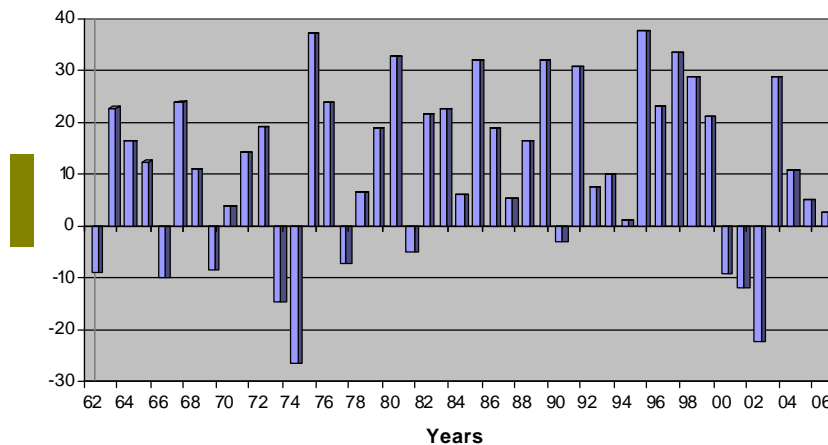
By Jordan
Gary, CFP®

2006 started with good stock market returns with a continuation of more than 3 years of steady upward movement. I begin to expect a normal and healthy 10 percent correction as these usually come once or twice a year. As more and more people worry that a market has moved up too much too quickly, then a correction sets in. We finally saw this during May and early June. The DJIA fell about 8% in June and then started up, now recovering about half of the decline. The DJIA finished up .94% for the quarter and the S&P 500 finished down 1.44% for the quarter. Most stock market categories are up YTD and most bond categories are down slightly YTD. The economy continues to be very healthy with low unemployment, growing sales and profits, and very modest overall inflation. The Federal Reserve Board has now raised short term interest rates to 5.25% which is about normal. Speculation is that they are about to quit raising these rates. Worriers are concerned that they may raise them as much as 6% and slow the economy too much. I don't think that they will. The average balanced mutual fund was up 1.85% YTD. The S&P 500 index was up 2.71% YTD. The Average Bond mutual fund was up .17% YTD. Most of our clients were up 3% or 4% year to date. This out performance was because we over emphasized Mid Cap, International, and Global Natural Resources. We have also strongly outperformed the average Balanced fund over the last 1 and 3 years. Please see your performance reports to see how you have done.

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Annual Returns of S&P 500 Index w/ Dividends (44 Years)



Forecast

By Jordan Gary, CFP®

A growing economy and growing corporate profits forecast a higher stock market. As I wrote in the last newsletter, corporate profits have grown more than the stock market for each of the last 3 years. This means that the stock

market is showing more value now than it has in 12 years. The last time that values on growing, quality blue chip stocks were as cheap as today was in 1994. So I believe that the stock market should go up this year and if it

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Forecast (Cont'd from Page 1)

keeps the same value ratios, then it should go up about 10%. The strongly positive first quarter of 2006 indicates, and the quick rebound from the recent correction shows, that the majority of investors are thinking the same thing. I have also been expecting the bond market to have some trouble with rising interest rates. This is why we have reduced clients' holdings in bonds and bought more short term bond and bank loan funds to replace longer term bond funds. These have been nicely positive last quarter while intermediate and long term bonds have been slightly down.

The FED has raised short term inter-bank lending to 5.25% and most expect the Fed to stop raising rates in a very few months at a 5.25% to 5.5% range. This is considered to be a normal and neutral range. Most people consider a 5% CD rate to be about average over the years. We are almost there and it should allow the economy, stock markets, and bond markets to do well.

However, many investors are always worried. Many are worried about the housing markets slowing down after they have been growing so quickly, that they have been a large contributor to the healthy national economy. Also there is a general worry that the FED will raise interest rates too much and thus slow down the growth of the economy too much. Likewise there is a worry that consumers have run up so much debt buying things, that they will slow down their spending and that high energy prices will cause less spending on other things. But on the positive side corporations have delayed hiring and spending for several years, and they are due to pick up hiring and spending and should support the expansion of the national economy.

With all this in mind, I am guessing that 2006 should give, maybe, 4% returns to bond investors and 10% to stock investors. International stock investing should continue to be better than US investing, as much of the world is growing at a faster rate than the US. Many US and international investors are increasing their investing in international markets. I also believe that growth investing will outshine value investing for the first time in 6 years and then continue for a couple of years, but this has not happened yet. This pattern has tried to happen several times in the last few months but failed so far.. The recent correction caused a return to value stocks and midcap stocks. Large and middle sized, fast growing companies may yet be the best place to invest in the US for 2006. All of these forecasts lead us to make allocation shifts within our clients portfolios. During the 4th quarter 2005, we shifted from the Clipper Fund, which is a large cap value fund, into the Bridgeway Large Cap Growth fund. The quarter before, we shifted from mid cap value to mid cap growth using the Munder Mid Cap Growth Fund. This first quarter we sold an under performing Franklin Equity Income fund and bought a similar income stock fund, Ivy Dividend Income, which has been doing better. All of these moves have improved returns for our clients so far this year. We have just moved from an Eaton Vance Floating Rate fund share class A to share class Institutional. We can now make this change to reduce your fees by .25%/year because we have enough millions of client's money in the fund to qualify for institutional share class. We try very hard to get the best funds and the lowest expenses for our clients.

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Lipper Stock and Bond Fund Benchmarks

Investment Objective	Performance						
	June	2nd Qtr	YTD	1 Yr	-- Annualized --		
					3 Yrs	5 Yrs	10 Yrs
Stock Fund Types:							
S&P 500 Funds	0.10	(1.57)	2.46	8.06	10.62	1.92	7.85
Large-Cap Growth Funds	(0.20)	(5.01)	(2.36)	5.43	7.90	(1.22)	5.49
Large-Cap Value Funds	0.16	(0.04)	4.53	10.30	12.79	4.15	8.28
Small-Cap Growth Funds	(1.06)	(7.26)	4.79	12.61	14.87	3.24	7.15
Small-Cap Value Funds	(0.06)	(3.36)	7.20	12.82	19.53	12.14	12.18
Equity Income Funds	0.35	0.23	5.13	10.12	12.80	4.96	8.47
Utility Funds	1.95	3.80	6.91	10.57	17.77	3.97	9.09
International	(0.59)	(0.73)	9.00	26.34	22.28	8.89	n.a.
European Region Funds	(0.63)	0.79	13.51	26.83	25.28	11.95	10.62
Emerging Markets Funds	(0.58)	(4.96)	6.88	34.42	32.97	20.66	7.14
Avg. US Stock Fund	(0.22)	(3.27)	3.04	10.09	13.05	3.76	7.83
Bond Fund Types:							
General Municipal Debt Funds	(0.44)	(0.05)	0.21	0.71	2.83	4.31	4.91
High Current Yield Funds	(0.51)	(0.12)	2.41	4.65	7.72	7.36	5.25
Intermediate U.S. Government Funds	0.15	(0.05)	(0.59)	(0.77)	1.13	3.90	5.28
Intermediate Investment Grade Debt Funds	0.11	0.20	0.08	0.09	1.21	3.70	5.02
Avg. Bond Fund	0.01	(0.02)	0.17	0.68	2.91	4.73	5.17
Balanced Funds	(0.03)	(1.30)	1.85	6.20	7.99 (27.0%)	3.41 (18.6%)	n.a.

Source: Lipper Analytical Services, Inc., Summit, NJ 07901 and Wall Street Journal - July 5, 2006

These are averages of all the reported funds that have the stated objective. Average total returns based on NAV with all distributions reinvested. An investment cannot be made directly in an index, including the Lipper indices listed. Some funds are normally front end commission funds. Our clients do not pay commissions in their managed accounts. We buy shares at Net Asset Value (NAV). Past performance is not indicative of future results. The performance presented is for illustrative purposes and is not indicative of any investment.

The investment return and principal value of an investment may fluctuate. An investor's shares, when redeemed, may be worth more or less than their original cost. Investments outside the United States involve special risks such as currency fluctuation, political instability, differing securities regulations and periods of illiquidity. For a prospectus containing more complete information on any fund, please contact Investment and Asset Planning, LLC or Jordan Gary & Associates at 940-

The balanced stock/bond is a moderate risk way to invest. The traditional balanced fund has a portfolio of approximately 60% Blue Chip stocks, 35% conservative bonds and 5% cash. We have highlighted the above because we suggest that you use these numbers as the benchmark we are trying to beat in many of your portfolios. Our method of out performance is that we have far more diversification into different types of stocks and bonds, and we more actively manage the portfolio choosing the best mutual funds we can find to build your portfolio. Our priority is to match or beat the performance of the balanced stock/bond return. Check your quarterly report. How have we done?

Being Safe ~ How Can You Have It?



By Jordan Gary, CFP®

Trust God with your life and trust expert management with your investments.

I heard a song written and performed by Carole King on her latest album. It goes something like: "I want to be safe again. I want to be like a little girl again and go outside in the yard and know that everything will be okay." I feel much the same way.

Lately, I have been remembering my childhood. I grew up in Dallas during the 1950's when the cold war was so frightening. In first grade my teacher and principal brought model air planes to school to teach us children to be civil air patrol watchers. We were to learn the difference between Soviet bombers and US bombers. We were told to watch all the planes in the sky, and if we saw a Soviet bomber, we were to tell our parents so that they could notify authorities. For years I worried about that, watching the sky, wondering if I could tell the difference. I worried and felt inadequate to do my job. Imagine the foolishness of my teachers to think that a little child in Dallas would be the first to know that the Soviets were invading the US.... My distress and fear in life got so bad during that year, when I was 6 years old, that my mother took me to a doctor who ran tests on me to see why I was having so many stomach aches. The doctor told me that I was worried more than any boy that he had ever seen.

It seems to me that one of the chief roles of parents is to help children feel safe. They should protect them and shelter them from the evils and fears of the world. Parents should not teach children to worry about adult problems or small dangers which lurk in the world, small dangers like anthrax and terrorists. There is almost no real danger from these to us in North Texas. And we need to reassure our children and help them to feel safe again. Parents should ask children about their fears, nightmares, and worries. Parents should help them talk about them. Talking alone helps to dissipate anxieties. Parents then need to teach their children how to cope and how to trust God. My parents asked me what I was so worried about, when I was age six, and I could not tell them. They should have guessed. They might have asked me what my friends were worried about, or what my siblings were worried about. They might have asked me what was scary to other children. I would have come up with answers that would have told them what I was afraid of and too scared to tell them about.

As an adult I am afraid of things that I cannot control. However, I cope with these fears by trusting in God and the truth of his word. Psalm 31: 3 and 5 reads: "Indeed you are my rock and my fortress... Into your hands I entrust my spirit. You have rescued me, O Lord, God of truth." Romans 8: 37-38 says: "The One who loves us gives us overwhelming victory in all these difficulties. I am convinced that nothing can separate us from God's love which Christ Jesus our Lord shows us." I have a faith that God will help me in life and protect me from so many dangers. He will protect my children and family because we love and serve God. My family and I worship Him regularly and seek His will for our lives. I often recommit my life to the safekeeping of God; I place my life and spirit into the hands of God.

Investing with us should not provoke fear as almost all long term risks can be eliminated. We use broad diversification into many investment categories, professional management, choosing sound long term investments which have succeeded over all long term periods, and avoiding emotional investing and greed which cause people to make tragic mistakes. We invest in the greatest economy and business markets of all time. We carefully and expertly design portfolios with the aim to greatly reduce short term risk and almost eliminate all long term risk. Trust God with your life and trust expert management with your investments.

However, just as a child I was taught to be afraid of Russians and their bombers, many children are taught to be afraid of investing. Also insurance companies and banks make a living teaching people to be afraid of investing and let the banks and insurance companies take the investment risks and get higher profits. So just as a parent, my job was to provide reasonable safety for my children and teach them to have the confidence to cope with the uncertainties of life; so it is my job as a financial planner to educate my clients, teaching them of the real risks of investing and managing money and their financial lives. It is also my job to provide a great deal of safety to my investing clients and help them cope with the financial uncertainties of life. Never hesitate to talk with us about your investing fears. Talking about them allows knowledge to replace anxiety.

“Kiddie” Tax Reaches Deeper Into Parent’s Pockets As Tax Law Changes



By William Nilles, CPA

Parents who thought they were finished with the "kiddie tax" received some bad news in the Tax Increase Prevention and Reconciliation Act of 2005. Unearned income, such as interest, dividends and capital gains that would have been taxed at the child's rate under prior law, will now be taxed at the parent's rate until the child turns 18.

A single unmarried individual who can be claimed as a dependent must file a return if the individual has earned income (wages) of over \$5,150 (for 2006) or unearned income over the minimum standard deduction for dependents, which is \$850 for 2006. Ordinarily, the individual would then be taxed at the regular income tax rates.

The kiddie tax, however, short-circuits the use of the regular income tax rates in these circumstances. Instead, the kiddie tax taxes the child's "unearned income" at the parent's income tax rate, which will almost always be a higher rate.

Unearned income includes dividends, interest, capital gains, rents and royalties. It also includes pension and annuity income, income received as the beneficiary of a trust, and any taxable Social Security benefits. On the other hand, earned income refers to wages, tips, salaries, professional fees and or other amounts received as pay for work actually done. Earned income of the child is always taxed at the child's income tax rate, and the kiddie tax does not apply to a child who is married and files a joint return.

Prior to the new legislation, the kiddie tax generally applied if the child could be claimed by his or her parents as a dependent and did not reach the age of 14 before the end of the tax year. Parents report the kiddie tax on Form 8615 and attach it to the child's tax return. There are a couple of different ways to report this type of income, each with its own benefits and consequences. You should consult with your tax preparer to determine the best method for your circumstances.

The new legislation did not change the threshold amounts. However, it raised the age limit so that the kiddie tax applies to children who may be claimed as a dependent and who will not reach the age of 18 before the end of the tax year. Thus, in-

vestment income for children ages 14 to 17 is now taxed at the parent's bracket when overall income exceeds \$1,700.

The change is effective immediately and applies to tax years beginning after December 31, 2005. Thus, parents who had planned to sell a child's stock portfolio in 2006 after age 13 have no opportunity to accelerate that planning technique, even if the child turned age 14 in 2006. Worse yet, parents who already sold the 14-17 year old's stock in early 2006 but would not otherwise have done so without the kiddie tax rate, have no opportunity now to "undo" the sale. If you are in this group, you should consult with your tax professional as soon as possible to evaluate possible work-around plans.

Critics have charged that the change in the kiddie age limit increases taxes for teenagers and reduces the chances of saving money for college. The Senate Finance Committee, however, responded that the change in the law "shuts down a form of tax avoidance for wealthy individuals."

The Committee noted that the kiddie tax was enacted in 1986 to stem the income-splitting tactics of parents and their children. Some parents "were transferring large amounts of unearned income, such as dividend and capital gain proceeds, to their children's accounts" so that the amounts would be taxed "at the children's lower tax rates," the Committee declared.

It should be noted that there are still vehicles for investing money in your children's names for purposes such as education which do not fall under the "kiddie tax" provision. If you desire to make this type of arrangement you should consult with your financial advisor and tax professional for advice. They can explain tax-free accounts such as 529 plans.



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You should consult with your tax preparer to determine the best method for your circumstances.

Yea! Foreign Investments



By Oscar Jackson III

The international markets have been doing quite well. Through our guidance, you have enjoyed some significant returns in these areas, and we expect to continue in the international arena. In essence these markets reduce volatility and increase returns over the long haul. We definitely believe in this asset class. Right now, they are short term winners, and it is easy to get excited about short term winners. Let's not do that, but let's simply remember in the future what they did.

Asian markets offer clear opportunities. They show better valuations than US stocks. Korea, Thailand, Malaysia, Taiwan, Singapore and some other smaller Asian markets have more

attractive ratios of price to earnings, price to sales, cash flows and book than American markets. Their economies should continue to gain from growth in their main trading partners, China and the U. S. China and India are among the fastest growing economies in the world and their companies and stock markets have been doing very well.

Developing markets are the most volatile of international mutual funds, so we limit client's investment amounts to about 5% of a portfolio. We put larger amounts into such places as Europe. Since there are several types of international mutual funds, we use several of these funds.

Coming Soon the Christian Financial Newsletter

Jordan has decided to start a new newsletter for financially well off Christians. We expect the first issue to be this summer.

It will be filled with information aimed at Christians who want to know more about questions such as:

- * "How much is enough?"
- * "How can I be a good steward of my financial wealth?"
- * "What are the Biblical principals about money and stewardship that I should follow?"

* "How can I find happiness and success with my wealth?"

The newsletter will include articles and reviews of magazines, books, and web sites that would be of interest to Christians.

You can help us by giving us the names and addresses of Christians that you know who are financially well off. We can use regular mailing addresses or web addresses. Please send them to Jordan or Gena.



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