

Capitalizing On Infrastructure Growth Beyond The U.S.

A new “Amazing Race” is under way, and we’re not talking about a TV show.

Governments worldwide are racing to build infrastructure to support a global development boom, and they are increasingly seeking private sources of capital. Given the recent lackluster performance of the U.S. economy, it may pay to “follow the money” and take a close look at companies and funds involved in this worldwide effort.

The global population is growing 1.6% a year and should reach 8.3 billion by 2030, according to the United Nations. That alone will place tremendous stress on water, energy, and sanitation systems. Add the accelerating demand of global economic growth and the need for capital becomes even more pressing. Even wealthy countries such as the United States and the United Kingdom urgently need funds to repair and maintain aging infrastructure.

An Ernst & Young report, “Investing in Global Infrastructure 2007: An Emerging Asset Class,” concludes that the private sector will play a major role in this effort. Non-government sources may provide 10% to 15%, or \$240 billion to \$360 billion, of the money required—each year—for infrastructure projects, according to the report. And though it notes there’s nothing new about

private capital supporting public initiatives, “what is new is the extent and the sophistication of private investment. It is truly emerging as a new asset class.”



While the infrastructure investment trend goes back nearly a decade, it’s now picking up speed. Consider that:

- Demand is soaring. More than \$8.5 trillion will be spent on infrastructure between 2006 and 2016, according to a May 2006 report from The Collaboratory for Research on Global Projects at Stanford University.

- The need is long term. In 2005, Britain’s Foresight Programme estimated the world will need to spend \$32 trillion on infrastructure through 2030, and last year Booz Allen Hamilton put the cost at \$41 trillion over the next 25 years.

- Asian requirements are accelerating. The Asian Development Bank has estimated the need to build and improve infrastructure in East Asia alone to be \$20 trillion to \$30 trillion between 2006 and 2016. (This study considered need, while the Stanford study focused on demand.)

- The population is exploding. The United Nations estimates 1 billion new people will be living on Earth within 10 years. Most will be born in developing countries, fueling the need for roads, utilities, electricity, airports, bridges, and other infrastructure.

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“This Time” Is Never Different

Those of you with long memories may recall the difficult investment markets of the early 1970s, when the Dow oscillated between 800 and 1,000 for ten long years before breaking out and heading up on an almost twenty-year run.

Since the peak in early 2000, we’ve been suffering from a similar malaise, as the S & P 500 has gone nowhere on a net index basis since then.

Are we done with the decline? Are we set for the next bull market? We don’t know, and while it seems that we are closer to a bottom now, volatility will probably continue, perhaps for years.

What we are doing is reexamining each and every investment holding in your portfolios and redoubling our search for different kinds of assets. (See the article on infrastructure in this issue.)

In addition, we are well into the process of making the best use of the situation by locking in tax losses and choosing investments that are likely to produce significant tax-free gains in the future—one of the hidden ways in which we can add value to your portfolio.

This time is not different, just as the late 1990s were not different. Then, we had folks who thought the market would always go up; now, many of those same people think it always goes down.

We are confident that over time the market will do both, and “up” is next.

Your team at Lasecke Weil

After Wall Street Failures, A New Order

Last September, as stock prices plunged and one after another Wall Street institution had its day of reckoning, wealthy investors finally got mad. In a survey by Prince and Associates of Redding, Connecticut, 70% of clients at major Wall Street brokerages who had investable assets of more than \$1 million said they wanted to fire their financial advisors, and nine of 10 were determined to pull at least some money from the brokerage accounts. Those percentages compared with 38% and 68%, respectively, just two months earlier. Although these firms have always dominated the money management business and handle more than five times the assets managed by independent advisors, this sentiment suggests real change could finally be at hand.

One reason, no doubt, was the failure of Lehman Brothers and the takeover of Merrill Lynch, as both investment banking giants found themselves crippled by their bets on mortgage-backed securities. Yet any shift toward independent advisors probably isn't the sole result of the latest turmoil. Time and again, large brokerages have

failed to put clients' interests first, and this latest instance may have been the last straw for many investors.

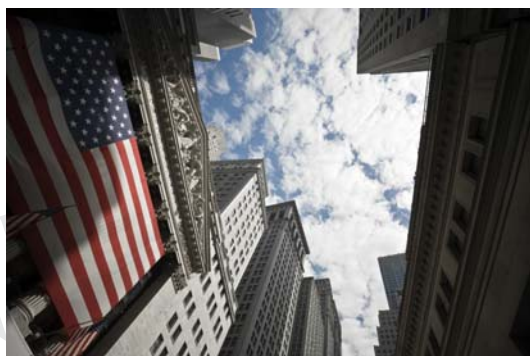
The first problem was Wall Street brokerages' traditional business model. Their brokers earned commissions every time they bought or sold an investment for a client, and the firms structured compensation so brokers earned more selling whatever was most profitable for the firm. Often, as with limited partnerships and variable life insurance, the products they pushed turned out to be terrible investments. It was a system rife with conflicts of interest that ignored what might be appropriate for a particular client.

Eventually, faced with competition from independent financial advisors who charged fees rather than commissions, gave impartial advice, and provided access to investments from a variety of sources, stockbrokers began to call themselves advisors

and to offer slightly wider product choices. But then, earlier this decade, came another scandal, when mutual funds at several firms were caught favoring their own traders, hedge funds, and other major clients. Late trading, market timing, and front-running let investors on the inside increase profits at the expense of individuals.

Through all of this, the big firms' marketing managed to portray them as investors' allies. But this time, it really may be different. Wall Street companies took on so much inappropriate risk that they've been brought to their knees. And though they'll continue in some form, providing investment products and services, they may no longer dominate.

We are independent advisors not tied to Wall Street, and our goal is what it always has been—to help investors formulate and achieve their financial objectives. ●



Insuring A Collection Of Fine Wines

If you're a serious wine collector, you may want to consider protecting your investment against fire, theft, breakage, flood, the breakdown of a storage unit, power failures, improper handling, and a range of other potential misfortunes. An insurance policy can often offer in-depth coverage at an affordable price.

Your standard homeowner's policy may provide adequate protection against damage from fire, lightning, explosion, or theft, and you can extend that insurance with specialized coverage. Insuring a collection valued at \$100,000 would

likely add about \$450 to your annual premium. If your home has a fire alarm, sprinklers, and a theft-deterrent system, you may get a more favorable rate.

For a large, investment-grade collection, you'll need additional coverage, and that will likely require receipts for your purchases and a professional appraisal. Your insurer may also want to examine your storage area, and could ask for a photographic or video recording of the collection. "You should expect to pay 0.4% to 0.5% of the declared value of the wine annually," notes Theresa Lawless, property product

manager at the Fireman's Fund Insurance Company in San Francisco. "Protection extends to normal risk factors such as theft and fire but also breakage and power failures that lead to wine damage."

In addition to Firemen's Fund, AXA's fine art division and Chubb offer wine-collection insurance, and auction houses such as Sotheby's and Christie's can refer collectors to qualified appraisers and merchants. To help keep track of your collection for insurance purposes, Vinfolio (www.vinfolio.com) offers software that automatically values a collection, provides recommended

Dealing With Market Risk Right After Retirement

The greatest retirement plan in the world is not complete if it doesn't take into account the possibility of bad timing.

The technical term for it is "sequence risk," and it's a major threat to your financial well being in retirement. Sequence risk refers to the chance that the economy may take a bad tumble just when you leave the workplace. Such unfortunate timing can wreck your rate of return over the long term.

Consider Joe and Jane, a fictional couple setting up a retirement plan when he is 49 and she is 51. Joe earns \$85,000 a year and Jane makes \$55,000. She wants to retire in 2016 and he wants to retire in 2023.

The couple, who lives in Virginia, has a 13-year-old daughter planning to attend college. Their nest egg totals \$341,500 and includes Joe's 401(k) plan with \$255,000, Jane's Roth IRA with \$68,000, and a 529 savings plan with \$18,500 for their daughter's college education. They are contributing the maximum to Joe's 401(k) plan, \$15,500 a year.

Joe also has a \$30,000-a-year pension coming, and both plan to take Social Security benefits at age 66.

Their plan includes three goals:

- **Living expenses.** When Jane

retires in 2016, the couple wants income of \$65,000 (in current dollars) a year from their investments. After Joe retires in 2023 that goes up to \$110,000. The plan then assumes Joe will die in 2041, when Jane's income needs will fall to \$85,000. Inflation is factored in at 4.64% a year.

- **College.** Since their daughter plans to attend an in-state school, the couple will need \$12,573 per year for four years (in current dollars; inflation at 6%).

- **Travel.** Joe and Jane want to have \$4,000 (in current dollars) available after 2023 for a big trip. Inflation is factored in at 4.64%.

Assuming an average return on their investments of 9.6% over the life of the plan, Joe and Jane will be able to fund all three goals and still have \$268,859 in current dollars (this would be \$1.69 million in future dollars) left at the end of the plan.

However, that result assumes a smooth progression of market returns, especially in the early years. If the market plunges just as Joe retires, all bets are off. For instance, assume the couple's portfolio falls 30% the first year after Joe retires and 15% the next year. Even if in subsequent years their returns recover enough to achieve the

9.6% average rate, Joe and Jane will only have enough money for 79% of their living expenses and 35% of their college goal. They would have no money to travel, and no money left over.

The reason? They are starting out with far fewer assets, and so the return they earn builds on a much smaller base. Starting their withdrawals then compounds the problem.

Here's how to guard against this type of catastrophe:

Change the emphasis: Build asset allocation adjustments into your financial plan. As retirement approaches, a higher percentage of your portfolio dollars should go into less volatile financial vehicles, such as bonds and fixed securities, to mitigate the effects of a market plunge. While you need stocks to protect against inflation, the proportion of stock investments in your portfolio should decline as you get older.

Spread the risk: Diversify both stock and bond investments. Among your stock investments, you may choose a mix of domestic and international stocks and a mix of large-cap and small-cap stocks. In your bond investments, choose a mix of domestic and international corporate bonds, state and municipal bonds, and U.S. Treasury bonds, bills, and notes.

Keep a cash buffer: Set aside six to 18 months of living expenses in cash before retiring, so if the market drops, you can delay withdrawals.

Be realistic: Finally, keep in mind an important psychological factor — when you are young, you can afford to have a high tolerance for risk because you have plenty of years left to make up for downturns. But as you approach retirement, risk tolerance becomes less relevant, and "risk capacity" emerges as the more important consideration. You may still feel psychologically OK with a high level of risk, but you cannot in reality afford it any longer. In other words, if your portfolio takes a 30% hit, you no longer have the capacity to rebound from it financially. ●



drink dates, and uses a bar-coding system to check off what you consume. The company's auto-valuation service, which adjusts the value of a collection as market prices change, can be helpful in setting insurance limits. A wine's value often increases as it approaches its peak drinking years and decreases once it passes them.

Any good wine insurance policy should provide protection from a wide spectrum of perils and also offer new-purchase coverage that takes into account additions to itemized collections. Such protection automatically provides coverage for up to 100% of the itemized limit for new wine purchases for up to 90

days. During that window of time, policyholders can report new acquisitions to their agent. Worldwide insurance coverage protects wine while it is in transit anywhere in the world. To replace wine that has appreciated in value, the better policies pay up to 150% of the agreed-upon amount.

If you collect wine for investment purposes (as opposed to collecting for future consumption) you should also consider paying for storage space in a professional facility that offers its own insurance. That saves both the premium of the additional wine insurance as well as the costs of maintaining your own cellar. ●

Passing More Than Money To Your Heirs

In the 2006 film *The Ultimate Gift*, spoiled young Jason Stevens expects a large inheritance from his eccentric grandfather. But when the man passes away, his will stipulates that Jason will get the money only after he accomplishes 12 unusual, demanding tasks. Each is designed to change the way the young man views wealth, human relationships, and the meaning of life.

You're not likely to demand that kind of quest from your heirs. These days, though, it's not unusual to include provisions in a will or estate plan that go beyond financial wealth and relate to personal or social values. It may be possible to encourage your children or grandchildren to continue a family tradition of philanthropy, for example, or to understand the important role your ethnic heritage has played in your life.

But it's tough to pass along your values if your heirs don't know who you really are. Whereas we once routinely gained wisdom and perspective from our elders, that opportunity often gets lost in the shuffle of fast-paced contemporary life. Yet young people

still long to comprehend what their families stand for and to feel a sense of belonging and purpose.

Family storytelling is the most natural and direct means of imparting essential elements of your identity. Around the family table, young people can share in the evolution of your attitudes, traditions, and values. When were you happiest? How did you first experience kindness, self-sacrifice, ambition, and generosity? What were the things that mattered to you as a young person, and how have your views changed? What were the turning points in your life, and what do you wish you'd done differently? Though you may worry young people will be bored by your stories, chances are they'll be engaged, especially when the conversation involves them, too. Listening carefully as they relate their own experiences can help you gauge their values and ambitions.

Of course, just helping your heirs get to know you doesn't ensure they'll carry on your passions. Yet there are ways to expose your children and grandchildren to

organizations that matter to you, and to get them involved in your cherished causes. You can take them along when you attend meetings and events, and make sure they connect with key people. Your estate plan can help too:

- Set aside assets to help heirs visit your family's country of origin or places significant to your family's heritage
- Provide funding for family members' business or educational development
- Launch a 501(c)(3) nonprofit organization (or establish a community foundation "support organization") and name family members to the board of directors
- Establish a charitable remainder or lead trust that links philanthropic and financial interests. This can become a donor advised fund upon your death.

Create a donor-advised fund and let younger family members recommend grant recipients

Discussions with your family can form the foundation of a values-based blueprint. We can help you start these conversations and work with you and your attorneys to create an estate plan that incorporates your goals. ●



Growth Beyond The U.S.

(Continued from page 1)

• There are opportunities at home as well. The American Society of Civil Engineers estimated infrastructure needs in the U.S. alone would exceed \$1.6 trillion between 2005 and 2010.

• Costs are skyrocketing. In Australia, the average cost of building a toll road has doubled in recent years, from \$427 million to \$854 million (in U.S. dollars) per road project, according to Ernst & Young.

• China is opening its doors. The Chinese government, investing

heavily in infrastructure development, is also welcoming foreign investors and their advanced technologies, according to Ernst & Young.

• Governments can't do it alone. A May 2007 study by the Organisation for Economic Co-operation and Development urged governments worldwide to take "urgent action" to meet spiraling

infrastructure needs. "Infrastructure to 2030" concludes that governments must turn to private sources of capital at a time when government spending is increasingly focused on health care and pensions.

We're tracking the infrastructure development trend with interest. We can help you determine if an investment in this specialized asset class is right for you. ●

The information provided is not specific financial advice or a recommendation to buy or sell. We must review your profile, needs and accounts specifically to determine what is right for you.

Risks of foreign investment include currency fluctuations and economic, political, or social instability. These risks may be significantly higher in emerging markets.

Cashing In

These companies are among those likely to benefit from global infrastructure demand.

United States

Caterpillar Inc.
Chicago Bridge & Iron Co.
Manitowoc Co. Inc.
Aecom Technology Corp.
Jacobs Engineering Group

Overseas

Cemex SAB de CV, Mexico
Lafarge SA, France
Leighton Holdings Ltd., Australia
DP World, United Arab Emirates
Mundra Port, India