

## Roth IRAs: A Smart Strategy for the Young Investor

By Roger Geuweke, Jr., CFA,  
Vice President

A Roth Individual Retirement Account (IRA) is a terrific investment vehicle, particularly for a young investor who has many years to save and invest before retirement. An individual investor who has earned income\* can contribute a maximum of \$4,000 in 2007, and the limit rises to \$5,000 in 2008. A Roth IRA differs from the traditional IRA or 401k plan in that earnings from the account may be withdrawn tax-free after the account owner reaches age 59-1/2; there is also no required minimum distribution from a Roth IRA. Roth accounts may only be funded with after-tax contributions. The following tables illustrate the power of consistent contributions, compound interest, and long investment horizons. Consider these for your young, wage-earning children or grandchildren.

### \$5,000 Contributed Annually for 40 years

RATE OF RETURN	DOLLAR VALUE
5%	173,596
6%	194,963
7%	219,325
8%	247,114
9%	278,822
10%	315,012
11%	356,323
12%	403,493

### \$5,000 Contributed Annually for 40 years

RATE OF RETURN	DOLLAR VALUE
5%	634,198
6%	820,238
7%	1,068,047
8%	1,398,905
9%	1,841,459
10%	2,434,259
11%	3,229,134
12%	4,295,711

\*Earned income must at least equal the contribution amount. Contribution limits may be reduced if income is too high.



IN OUR OPINION

## Looking Ahead

The following comments represent excerpts from a recent discussion on the outlook for 2007 led by Max Pray, CFA, Principal.

### EQUITY OUTLOOK

#### Positive Signs...

- Solid Economy
- Low Unemployment
- International Growth
- Moderate Inflation
- Dividend Growth

#### With Attention To...

- ⚠ Energy Prices
- ⚠ Interest Rates
- ⚠ Geopolitical Risks
- ⚠ Housing Market
- ⚠ Slowing Corporate Profit Growth

### INVESTMENT THEMES

#### Product Cycle Growth

- Medtronic: Cardiology medical products company
- Adobe: Digitization of content and new "rich" media

#### Positive Industry Trends

- ExxonMobil: Integrated oil business generating cash
- JP Morgan: Consolidation synergies

#### Steady Growth and Cost Control

- Johnson & Johnson: Pharmaceuticals, medical devices, and consumer products
- 3M: Graphics and medical products

#### Attractive End Markets

- ⚠ Symantec: Norton Antivirus software and storage
- ⚠ Stryker: Orthopedic products (hips, knees, tools)

#### Attractive Valuations

- Wal-Mart: Increasing return on investment capital and low price/earnings ratio
- Citigroup: Low price/earnings ratio, high yield, stable growth

#### Steady Growth Best of Breed

- PepsiCo: Soft drinks, salty snacks, international expansion
- Target: Upscale discount retailer

#### Globalization

- Citigroup: International is 44% of earnings; Asia is 14% with double digit growth in banking
- Procter & Gamble: 50% of sales outside North America with 21% in developing markets
- British Petroleum: Over 60% of sales are outside the US
- Qualcomm: South Korea and Japan account for 60% of revenues with growth opportunities in Europe and the US
- Emerson Electric: 5-year growth rate in emerging markets of 12%-14% (China is the largest segment)
- UPS: International (18% of revenues) is growing faster than US with recent expansion to China and Philippines ♦

### The Swan Report

January 2007, Number 2

## Dividends Make A Difference

Swan companies have increased dividends at an average rate over 15% per year since 2004.

- ⚠ Illinois Tool Works has a yield of 1.8% and increased the dividend 17% in 2005 and 22% in 2006.
- ⚠ Automatic Data Processing has a yield of 1.9% and increased the dividend 13% in 2005 and 21% in 2006.
- ⚠ Home Depot has a yield of 2.3% and increased the dividend 23% in 2005 and 69% in 2006.

#### The "Power" of Dividend Growth!

- ⚠ A \$10,000 purchase of Procter & Gamble in 1986 would have produced \$21,116 in cumulative dividends over 20 years, which is more than double the original investment.
- ⚠ The current dividends received for the original \$10,000 purchase are \$2,572/year, which is equivalent to a 25.7% yield on the original purchase amount. ♦

## Email or Paper?

Swan Associates is exploring the possibility of providing clients' quarterly portfolio reports via email as an alternative to the paper copies we currently send. If possible, would you prefer to receive your reports via email?

If email, please ensure we have your most recent address on file. Feel free to send story ideas for *The Swan Report* as well!

Email us at [ldt@philipswan.com](mailto:ldt@philipswan.com) with your information and thoughts.

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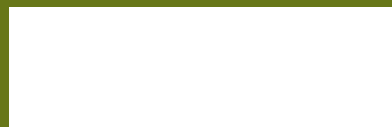
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# The Swan Report

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INVESTMENT COUNSEL FOR INDIVIDUALS, FAMILIES AND FOUNDATIONS SINCE 1984

January 2007, Number 2



Welcome to 2007 and the second edition of *The Swan Report*, an update on the firm for our clients and friends. We encourage you to pay special attention to the section on the back panel asking for suggestions for future newsletter topics as well as information about how we can communicate with you more effectively. Most importantly, we thank you for the opportunity to work with you over the past year and we are grateful for our continuing association. Happy New Year!

### FIRM NEWS

Several of us recently participated in a conference organized by our corporate partner, Convergent Capital Management, LLC (CCM). Along with ten other investment advisory firms affiliated with CCM, principals from Swan Associates heard presentations from experts about trends in the investment management industry. We were particularly proud to be joined by several Swan clients who led a discussion on what they expect from their investment advisors and how we might better serve them in the future. One suggestion from our client participants was to provide you with more information about how our own business works, particularly the relationship we have with Convergent and its investor, City National Corporation.

In 1998 CCM provided capital to assist in Phil Swan's retirement and the subsequent

includes principals of CCM and Swan Associates. The Board meets quarterly and converses more frequently about challenges, opportunities, and strategies.

In addition to ongoing areas requiring attention such as increasing regulatory and compliance requirements, attracting and retaining talented staff, and keeping abreast of best practices in our industry, our partnership with CCM provides a forum for considering new initiatives to improve the capabilities we offer to our clients. While we are continually assessing our business and looking for ways to improve it, our primary focus remains on you and how our management of your financial investments can increase your financial "peace of mind." We welcome any questions you may have about "the business of our business." ♦

growth and development needs of our firm. Today the principals of Swan Associates retain significant equity ownership in the firm and have seen the value of that equity increase by more than 60% over the past three years. We have a revenue sharing plan that provides CCM with a return on its investment while maintaining independence for the principals of Swan Associates to manage and operate our business. Our vehicle for addressing our business issues is a Board of Directors which

### CONVERGENT CAPITAL MANAGEMENT — COMPANY OVERVIEW

*Convergent Capital Management is a diversified asset management holding company. The firm currently consists of 10 affiliates with more than \$24 billion in assets under management. CCM's affiliates provide world-class investment services to individuals and institutions throughout the United States.*

*Convergent Capital Management's parent company is City National Corporation (NYSE: CYN), a publicly-held financial services firm with a long term commitment to the asset management business.*

Convergent Capital Management LLC  
190 South LaSalle Street, Suite 2800, Chicago, Illinois 60603

## Guarding Investors' Privacy and Cautions Against Identity Theft

As a registered investment adviser, Philip V. Swan Associates, LLC must comply with regulations (SEC Regulation S-P) which require us to adopt policies and procedures to protect our clients' identity and privacy. The specific regulations, as well as Swan Associates' Privacy Policy, are described below.

Your privacy is very important to us. As a registered investment adviser, Swan Associates has policies and procedures in place to protect your non-public personal information in accordance with Federal and State regulations. Ongoing reviews are conducted to monitor and insure the firm's policy is observed, implemented properly, and amended or updated, as appropriate.

### NON-DISCLOSURE OF CLIENT INFORMATION

We maintain safeguards to guard each client's non-public personal information. We do not share any non-public personal information with any nonaffiliated third parties, except in the following circumstances:

- As necessary to provide the service that the client has requested or authorized, or to maintain and service the client's account;
- As required by regulatory authorities or law enforcement officials who have jurisdiction over Philip V. Swan Associates, LLC, or as otherwise required by any applicable law; and

- To the extent reasonably necessary to prevent fraud and unauthorized transactions.

As an affiliate of Convergent Capital Management (CCM), Philip V. Swan Associates, LLC, has adopted guidelines to protect the confidentiality of clients' names and personal information in dealings with other Affiliates. Under no circumstances will clients' name be used, or clients' non-public personal information shared, with an affiliate or an unaffiliated firm without the prior consent ("opt-in") of the clients. A copy of these guidelines is available to clients upon request.

Employees are prohibited, either during or after termination of their employment, from disclosing nonpublic personal information to any person or entity outside the company, including family members, except under the circumstances described above. An employee is permitted to disclose nonpublic personal information only to such other employees who need to have access to such information to deliver our services to the client.

### SECURITY OF CLIENT INFORMATION

We restrict access to nonpublic personal information to those employees who need to know

such information to provide services to our clients.

All electronic or computer files containing nonpublic personal information are password secured and firewall protected from access by unauthorized persons. Any conversations involving nonpublic personal information, if appropriate at all, must be conducted by employees in private, and care must be taken to avoid any unauthorized persons overhearing or intercepting such conversations. Our employees are required to shred any client non-public personal information prior to disposing of same. ♦

## Contingency Planning and Disaster Recovery: Lessons from Katrina



During the past year we have reviewed and strengthened our plans should our regular business functions be interrupted due to a disaster or other emergency. In addition to improving our back-up technological and data storage systems, we have conducted drills on our processes to provide for continuity in serving our clients as well as the safety of our staff. Katie Habegger, Vice President and Chief Compliance Officer, is responsible for ongoing development of all such procedures and conducts regular training sessions. ♦

## Form ADV and Code of Ethics

As required by the SEC, when a client relationship is established we provide each client with a copy of our Code of Ethics and Form ADV describing our firm and our investment practices. If you would like a copy of our current Code of Ethics and Form ADV, just give us a call.

## More on Identity Theft...

We offer the following suggestions in the event your wallet is stolen or should your personal information be compromised in some way:

1. Cancel your credit cards immediately. The key is having the toll free numbers and your card numbers handy so you know whom to call. Keep those numbers where you can find them and in a safe place.
2. File a police report immediately in the jurisdiction where your credit cards, etc., were stolen. This proves to credit providers you were diligent, and this is a first step toward an investigation (if there ever is one.)
3. Call the three national credit reporting organizations immediately to place a fraud alert on your name and contact the FTC. Also call Social Security if your SS# was stolen.

EQUIFAX: 1-800-525-6285  
 EXPERIAN (FORMERLY TRW): 1-888-397-3742  
 TRANS UNION: 1-800-680-7289  
 FEDERAL TRADE COMMISSION: 1-877-438-4338  
 SOCIAL SECURITY ADMINISTRATION (FRAUD LINE): 1-800-269-0271



## Insurance: Not the Same Old Song and Dance Anymore

By Mike Gillespie, Jr.

Over the last year many of our clients have sought advice regarding a variety of insurance related matters. To assist us in responding to clients' questions, we often consult with Mike Gillespie, an independent insurance advisor in our area. We asked Mike to share his observations about trends in the insurance industry.

Life insurance has continued to evolve over the years, and there have been considerable changes in product design and industry practices. Over the last several years we have witnessed a transition from an emphasis on flexibility and policy cash values to guaranteed "no-lapse" policies. Rather than rely on interest rate fluctuations to sustain values, virtually every insurance carrier now offers products that

provide the most critical policy guarantees—life insurance benefits to cover estate and asset protection goals, regardless of where interest rates may move. If you hold older policies it is always a good idea to have them reviewed to be sure today's policy values are intact and providing you with adequate coverage for the future.

The second major change is the growing recognition of life insurance policies as a new "asset class." Over the years a viable secondary market for life insurance has been fueled by major institutional investors who are looking to diversify their portfolios. Rather than surrender under-performing or unneeded policies, individuals are receiving cash settlements in exchange for their policies, usually far in excess of the policy cash surrender value.

Estate taxes are not the only reason protection planning is crucial to your overall financial plan. As individuals continue to live longer, the likelihood of requiring some type of custodial care increases. Proper planning is critical to offset the potential cost of care. Long-term care insurance continues to evolve and offers much more than financial protection—it also protects one's

independence. Many policies are designed to include coverage for care in one's primary residence.

In addition to planning for life and long-term care insurance, it is often appropriate to consider a comprehensive risk management strategy that might include annuities, Medicare Supplemental Coverage (including Part D), as well as group benefits, if appropriate. ♦



Mike has worked with Swan Associates clients on a variety of insurance issues. Owing no allegiance to a particular insurance company, he has the flexibility to suggest products and solutions that are truly in the best interest of the individual client. He is available to Swan Associates clients to review existing insurance coverage to ensure that the goals of the client are being met.

## TAX TIPS FOR 2007

The following summary information was provided to Swan Associates by Charles Kiu, CPA of the firm Jenkins, Bowler, and Perkins, LLP; Certified Public Accountants. We recommend and welcome consultation with our clients' tax advisors regarding planning for individual situations.

### Tax-Free IRA Distributions to Charities

Under the Pension Protection Act of 2006, taxpayers age 70-1/2 or older can make tax-free distributions of up to \$100,000 directly from an IRA to charitable organizations in 2006 and 2007. To qualify for the tax-free treatment, donors cannot receive any benefit from charitable organizations and must obtain sufficient substantiation of direct charitable IRA distributions. California does not conform to this federal provision; therefore, each case will need to be carefully studied on a client-by-client basis. This federal provision does not necessarily benefit all taxpayers.

### 2006 and 2007 Contribution Limits for Retirement Accounts are as follows:

TYPE OF CONTRIBUTION	2006 LIMITS	2007 LIMITS
TRADITIONAL AND ROTH IRA	\$4,000	4,000
TRADITIONAL AND ROTH IRA – 50 YEARS OR OLDER CATCH-UP	\$1,000	\$1,000
SALARY DEFERRAL TO SIMPLE IRA AND SIMPLE 401(K)	\$10,000	\$10,500
SIMPLE PLANS – 50 YEARS OR OLDER CATCH-UP	\$2,500	\$2,500
SALARY DEFERRAL TO 401(K), 403(B) AND 457 PLANS	\$15,000	\$15,500
401(K), 403(B) AND 457 PLANS – 50 YEARS OR OLDER CATCH-UP	\$5,000	\$5,000
KEOGH AND SEP-IRA	20% of net self-employment income up to \$44,000	20% of net self-employment income up to \$45,000
INDIVIDUAL / SOLO 401(K) PLAN	20% of net self-employment income up to \$44,000, plus \$5,000 catch-up if applicable	20% of net self-employment income up to \$45,000, plus \$5,500 catch up if applicable

### Estate and Gift Tax Amounts

The annual gift tax exclusion of \$12,000 per person will remain unchanged in 2007. The federal gift tax exemption will remain at \$1 million, which is part of the estate & GST exemption. The federal estate tax exemption amount will be increased and the maximum estate, gift, and generation-skipping transfer tax ("GST") rate will decrease over the next several years as follows:

YEAR	ESTATE & GST EXEMPTION	MAX ESTATE, GIFT & GST TAX RATE
2006	\$2 million	46%
2007 & 2008	\$2 million	45%
2009	\$3.5 million	45%
2010	No Estate Tax	Gifts Taxed at Top Individual Rate
2011	\$1 million	55%

## **SUPPLEMENTAL INFORMATION**

### **Update to Convergent Capital Management Overview**

The Swan Report went to press in November 2006. As of December 31, 2006, Convergent Capital Management consisted of 8 affiliates with approximately \$23 billion in assets under management.

### **Dividends Make a Difference**

A complete list of Swan Selection List stocks, including details of dividend returns, is available upon request.