



Quarterly Memo

January 2007

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Christmas at Waffle House

If you enjoy studying people, Waffle House is an interesting place. And even more so on Christmas Eve. That's where we found ourselves the evening of December 24. My wife and I, her sister, and brother-in-law occupied one booth. In the next one were five of our kids ranging in age from 14 to 22, carrying on several raucous conversations at once as cousins are prone to do.

As I munched on a so-so omelet and looked around the somewhat smoky interior, you couldn't help but notice individuals and wonder. What about the scruffy looking guy sitting at the counter? Did he have no family? Was there no other place to go? What about the elderly couple over there? No kids to be with on Christmas Eve? Then there's the three biker buddies a little further over who seem to be full of

Christmas spirit - or something.

So why were we there, you may ask?

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“New and improved” client quarterly memo

You may notice that this looks a bit different from the quarterly memo you have been accustomed to receiving for years. We noted from responses to our 2006 client survey that while the quarterly memo received some positive remarks, the previous newsletter *Money Watch*, did not. After some analysis, we concluded we should turn the quarterly memo into a newsletter. The content and personal theme will remain the same while the format will change to a

(hopefully) more readable and visually appealing newsletter style.

By combining the newsletter and quarterly memo into one, the result is a better publication than either one separately. This new publication can serve all the purposes of the old newsletter while bringing to you the content of the quarterly memo. It also brings the content of the memo to a new audience (professionals and prospective clients).

We believe *Money Watch*

served its purpose. While we selected and edited informative articles written by a professional financial journalist, using this format will allow us to bring you information more focused on your issues.

This change is a result of your feedback. We always welcome and value your ideas and suggestions on how we can serve you better.

Christmas at Waffle House (continued from page 1)



“What can we baby boomers do to avoid spending Christmas Eve at Waffle House?”

This was the meeting that occurs in many families at some point. This was the What Do We Do With Grandma Meeting. We had just come from the local hospital where Grandma was comfortably resting but would be discharged the next day. It was obvious to all that her days of living alone were over. So while the conversation at the next booth was about iPod's and movies, ours was on my mother-in-law's long-term care needs and durable powers of attorney.

The term “sandwich generation” is becoming a reality for more and more people. As couples postpone having children (both my wife and I were born to parents over 40), the likelihood increases that they will be faced with the challenges of adolescent children while simultaneously dealing with the needs of aging parents. It can be a very stressful sandwich!

What can we baby boomers do to avoid spending Christmas Eve at Waffle House? Dealing with the issues around an aging parent facing incapacity can be emotional, heart wrenching, and evoke all sorts of guilty feelings. For that reason, many families choose not to deal with them at all. It's a risky discussion! There's no deeper hurt than to have your best motives wrongly perceived and misconstrued. When an elderly person perceives their cherished lifestyle and surroundings may be changed contrary to his/her wishes, you can expect a backlash. I can't offer any easy solutions, but can only say that some difficult experiences can only be lived through and seldom avoided. Nevertheless, there are some steps that anyone with aging parents should undertake.

Have The Conversation.

The only television interview in my career a few years ago (on the Channel 64 News at 10:00 – what, you missed it?) was on this subject: There should come a time in every child's life when they begin to see their parent's planning as being part of their own planning. It's in a child's best interest, as well as the parent's, that basic planning be done and certain key documents are executed – a will, durable power of attorney, health care power of attorney, and perhaps a “living will”. Few parents want to subject their families to the complications where one of these documents is needed, but doesn't exist. Yet statistics show a large portion of the population never “gets around to it.”

Do you know the status of your parents' documents?

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Matrix to Relocate Offices in Second Quarter 2007

Matrix has executed a letter of intent to relocate its offices effective May 1 to The Addison Building at 831 East Morehead Street. If you have been a client prior to 2002, you may recall that Matrix was located in this building from August 2000 through

December 2001. Built in 1926, The Addison combines the charm and elegance of early 20th century Charlotte with the amenities of a modern, state of the art building, with a covered parking deck conveniently located adjacent to the building

and easy access off Morehead or McDowell Streets.

Based on your survey results, we decided to remain in the same general area. We will send you more details in the near future.

Meet Donna Barrow, Office Manager

Donna brings over 20 years of executive administrative and office management experience to clients of Matrix. She has attended college at Middle Tennessee State University and Tennessee State University with a concentration in business. Before joining Matrix, she was with Finkler & Company CPA's, Inc. in Ohio, with a broad array of responsibilities including acting as an office manager, recruiting, developing procedures, managing projects and technology, as well as doing accounts receivable and payable. She has extensive experience in

organizing, managing, and integrating administrative activities at not only a public accounting firm, but also at a manufacturing business, and for the State of Tennessee. In addition, she has previously been licensed as an independent real estate appraiser. Her key roles at Matrix include office management, maintaining firm information systems, retirement plan implementation and reporting, assisting investment and financial planning personnel, accounts payable and receivable, and coordinating client meetings. The greatest gift

that she brings to clients of Matrix is her strong commitment to providing exceptional and comprehensive service to meet their needs.

In addition to her work as an Office Administrator, Donna enjoys spending time with her husband, Jeff, her son, Payton, and rooting on the Buckeyes of 'The' Ohio State University, where her daughter, Rachael, is a student.

Donna can be reached at 704-940-4296 or dbarrow@matrixwealth.com.



Donna A. Barrow

SEC Proposes New "Accredited Investor" Restrictions

The Securities and Exchange Commission (SEC) has proposed an additional requirement for the definition of an "accredited investor" that will serve to keep many private investment opportunities out of the hands of all but the most affluent. In 1982, the SEC set a standard (Rule 501(a)) designed to protect small investors from private investments that could be risky or complex. The 1982 standard generally required either \$1,000,000 of net worth or \$200,000

of annual income in order to invest in "private placements".

The SEC staff is concerned that with the dollar thresholds not adjusted for inflation, a much larger portion of the population now meets the standard due to the increase in investment and residence wealth since 1982. They are also concerned that many new complex investments (i.e., hedge funds) are now available that are beyond most investors' ability to understand.

The new standard adds a third criterion: an investment portfolio of at least \$2.5 million. By the SEC's estimate, only 1.3% of US households would meet the new standard.

Our concern is the new rule could result in the gentrification of investment opportunities, where only the very wealthy can access the best investment management talent utilizing non-traditional strategies.

Continued on next page.

"...the new rule could result in the gentrification of investment opportunities..."

“If a professional is evaluating the investment, the investing public should be reasonably protected.”

New “Accredited Investor” Restrictions cont. from Page 3

Many alternative investment strategies are neither risky nor inordinately complex. Many managers prefer to deal with a smaller number of investors while avoiding the tremendous expense of registering an investment for the general public. Private placements have functioned to efficiently raise capital for smaller investment managers while allowing reasonably affluent and sophisticated investors access to the private investment marketplace.

In fairness to the SEC, they are responding to the challenge of the burgeoning hedge fund industry with its few but notable blow ups. (Remember Amaranth or Long Term Capital management?) Many hedge funds disclose few

details about their investment strategies. Even with disclosure, the strategies may be so complex or arcane that it’s difficult for even a knowledgeable person to evaluate the merits and especially the risks of the strategy. We would agree that the unregistered investment world is not a place for the uninitiated or inexperienced investor to be.

However, we would argue that unlike the world of 1982, modestly affluent investors have resources that can help objectively evaluate private investments. Registered investment advisors (RIA’s) now number over 29,000, many of which work with people of less than multi-millionaire wealth. We believe that the current definition of

accredited investor is fine – if the investor is a client of a registered investment advisory firm that is managing the investor’s portfolio, including the private investment. If a professional is evaluating the investment, the investing public should be reasonably protected.

We hope that most of our clients will not be shut out from legitimate investment opportunities because they have not yet reached the \$2.5 million portfolio.

The SEC is soliciting comments on the proposed rule (S7-25-06) until March 9, 2007. If you believe private investment opportunities should remain available to clients of RIAs, we urge you to comment at the SEC’s web site <http://www.sec.gov/rules/proposed.shtml>.

Meet Rob Nance, Student Intern



Rob Nance

Rob is in his senior year at Winthrop University in Rock Hill, SC pursuing a Bachelor of Science in Business and is participating in the Certified Financial Planner® Board registered program. Upon graduation in May of 2007, Rob plans to take the Certified Financial Planner® examination.

Rob brings us previous financial planning and

regulatory experience from the banking industry. Rob is working in all functional areas of the firm, including financial plan preparation, investment research, and portfolio analysis.

In addition to his work with Matrix, Rob is involved with the Department of Student Affairs at Winthrop University, helping new students and families adjust to college

life. Rob also volunteers for the Multiple Sclerosis Society and the Relay for Life.

Rob can be reached at 704-940-4295 or rnance@matrixwealth.com.

Fourth Quarter Investment Synopsis

Most equity asset classes did well in 2006, with smaller-caps once again leading large-caps for the year, continuing their run of outperformance that began in 1999-2000. The small-cap Russell 2000 index was up 18.2%, while the large-cap S&P 500 was up 15.6%. The value indexes vastly outperformed their growth counterparts across all market caps. As a group, the broad universe of diversified equity fund managers underperformed their benchmarks, with value managers having a particularly tough year. Despite a multi-year run of great returns and uncompelling valuations, REITs surged by 35.1% in 2006 as investors continued to pile into the asset class. It is hard to imagine them performing as well as the broader equity market in coming years given current valuation levels.

On the fixed-income side, domestic high-quality, intermediate-term bonds had a respectable year, with the Lehman Aggregate gaining 4.3%. Foreign bonds were aided by a currency tailwind, lifting developed markets foreign bonds to a 6.1% gain.

A broad observation about returns in 2006 is that riskier asset classes generally did best. With a gain of almost 27%,

foreign stocks did very well. And as noted, smaller-caps once again outpaced larger-caps. Investors' willingness to take on risk implies a lower risk premium.

Meanwhile, real interest rates are very low, which usually means bond investors are worried about recession (suggesting risk aversion). We don't know who will turn out to be right. Valuation analysis is complicated by the participation of foreign investors and hedge funds, which have their own agendas that may have little or nothing to do with the aforementioned observations—for example, interest rates might not be low because of recession fears, but rather because foreign investors currently prefer our bonds to their own.

Recapping 2006, it was an eventful and at times tumultuous year. The ongoing difficulties in Iraq and the related shift in power in Washington D.C. were two big stories, but not as interesting from an investment standpoint as the stories on oil prices, the housing market, and Fed policy.

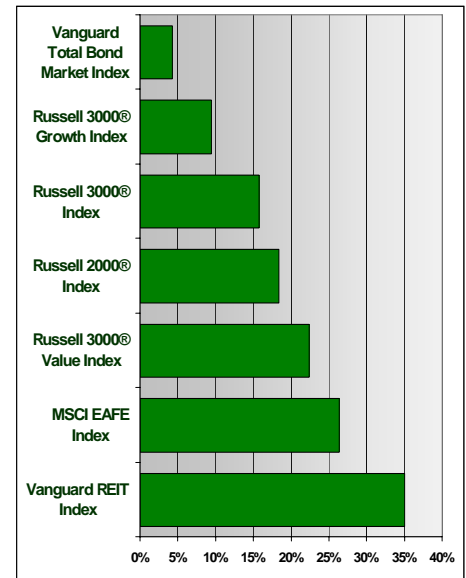
After beginning the year around \$60 per barrel, oil peaked near \$80 per barrel and fostered the belief among many that higher oil prices would continue indefinitely

(remember talk about \$100 per barrel oil?). Our energy contacts believed that oil prices would come down, which turned out to be true, and oil ended the year at roughly the same place at which it began.

The big question on the housing market was when or if the housing bubble would burst, and what would the fallout be. While some regions were hit hard, analysis suggested that the magnitude and spill-over into the broader economy was not sufficient to derail an otherwise strong economy. As of this writing, the housing market has already cooled off considerably, but it's still too soon to say how much further it might have to go.

Fed policy was a big driver of the markets in 2006. Early in the year, investors were growing concerned about an interest-rate overshoot causing a recession. By summer, the Fed had hiked rates by another 125 basis points (1.25%), and stocks suffered. Once the Fed announced that it was on hold for future hikes, the market spent the rest of the year bouncing higher. Today, there is growing talk of the possibility of a recession that would lead the Fed to begin cutting rates again. This illustrates the fickle nature of short-term sentiment.

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“A broad observation about returns in 2006 is that riskier asset classes generally did best.”

Christmas at Waffle House [continued from page 3]

“The goal of The Conversation is to make sure your parents have taken care of the basics, not to do detailed estate planning with them or discover their financial net worth.”

Some parents are very open about discussing such matters and you may already know that your parents' documents are in place and up to date. Others never bring it up with their children, either out of reticence to discuss less than pleasant life situations, privacy concerns, or simply the fact that nothing has been done. If your parents have never discussed anything about their planning documents with you, as uncomfortable as it may be, you need to initiate The Conversation.

The Conversation should never be confrontational, adversarial, or prying. The Conversation is initiated because you care deeply about your parents, because you are for them and their interests. Your own interests are involved, too, but they are secondary.

The Conversation is ideally initiated in a casual, matter of fact manner. The best time to have it is when you have taken some action of your own in this area. For example,

“I was meeting with my planner/attorney/CPA last week. He mentioned that my will might need to be reviewed due to a North Carolina law change.

Have you heard anything about that?”
or,

“My attorney drafted new health care powers of attorney for us to add “HIPAA language”. Has yours been updated?”

The goal of The Conversation is to make sure your parents have taken care of the basics, not to do detailed estate planning with them or discover their financial net worth. A good outcome is that they assure you that they have consulted with good legal counsel and their documents are up to date. Other possible outcomes are that the documents exist but are out of date, only some documents exist, or that no documents exist. It would be appropriate then to ask if they have a good attorney experienced in such areas to help them and you can offer to give them contact information for one or more.

Once the initial conversation takes place, follow up conversations should be easier. At a later date, you could inquire if your parents ever sat down with the attorney. If not, some, but not all, parents would appreciate an offer to facilitate setting up a meeting with the attorney.

Some parents may actually welcome The Conversation. They know vaguely that things need to be addressed, but don't know who they should turn to. Of course, not every parent will be receptive to The Conversation. You may get a steely look in return that says, in no uncertain terms, that you have attempted to invade an area they consider personal, private, and none of your business. All you can do at that point is state that your motives are honorable in bringing up the subject. “Our planner / attorney / CPA has told us many stories showing how important it is to have these documents in place. I just wanted to make sure you had done what we have already done for ourselves.”

Encourage grandparent-grandchild relationships.

In my grandparents' time, there were few, if any, long term care facilities. Families took care of their own. Those were the days of large families living locally, and there could be a multitude of siblings, children, grandchildren, and cousins to help with the care of an aging parent. Now, of course, families are much smaller and potentially

living across the country. Nevertheless, to the extent possible, it makes sense to encourage a close relationship between grandparents and grandchildren. There is the potential that a grandchild could be called upon to assist (even temporarily) in the care of a grandparent. In such a case, the grandparent does not want to feel in the care of a stranger. Neither should the grandchild feel that he or she is caring for a distant, unknown relative.

If a situation arises where Mom and Dad are called upon to help care for a grandparent, children are much more likely to be cooperative and understanding (rather than resentful) if they have a positive, loving relationship with the grandparent. It's also an opportunity for parents to teach children lessons for the time when they may face similar situations. Children should learn the need for planning ahead and how a difficult situation needs to be handled with compassionate firmness, decisiveness, and resolve. As the tongue-in-cheek bumper sticker says: "Be nice to your kids – they will pick out your nursing home!"

Find out about long-term care alternatives.

My mother-in-law was blessed. My sister-in-law is a nurse and was

already familiar with a good assisted living facility in the area and was able to secure her a room there. Most people aren't so fortunate. It's difficult enough to locate a quality facility in your local area, let alone one in a distant locale. In Charlotte, for example, there are dozens of facilities. If you have an aging parent, you may want to begin a due diligence process for the time when/if a long-term care facility is needed. You could begin with phone requests for information packages and visits to web sites. References from friends and relatives can be invaluable. And nothing will replace an actual site visit.

If all this sounds too daunting, a geriatric care consultant may be a valuable resource. Such a consultant can become an important member of the professional team serving the family – more about that next quarter.

Pre-submit powers of attorney.

Perhaps your parent has been diligent and did consult with a competent and experienced estate planning attorney. They now have an expertly drafted and duly executed durable power of attorney. But there's one question – will it work?

Surprisingly, the answer may be "no" or only a conditional "yes". A financial institution, for obvious legal liability reasons, may unilaterally refuse to deal with a person named in a power of attorney. We have heard anecdotes of financial institutions declining to honor any power of attorney except one on its standard form.

Most institutions are less draconian, but there still may be unanticipated hoops to jump through and inconvenient delays.

The lesson here is to plan ahead. If you want to be certain a power of attorney document will be accepted by financial institutions, it should be submitted now – before the need to utilize it arises. If there are forms to be completed and submitted, the present is the time to do it – before Grandma's checking account is empty and no one has the ability to pay her bills!

Can we help? If you would like to make sure your power of attorney document will be accepted by Schwab or Vanguard, please let us know. We will submit the necessary documents and obtain the required forms for your and/or your attorney-in-fact's signature.

More ideas next quarter.

"Children should learn the need for planning ahead and how a difficult situation needs to be handled with compassionate firmness, decisiveness, and resolve."

Fourth Quarter Investment Synopsis (continued from page 5)

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In less than six months, the market went from concerns about rising rates damaging the economy, to relief that the rate hikes were over, to fears of a cyclical recession (which would lead to falling rates). In the real world, underlying fundamentals seldom change that quickly. We think the message is that objective analysis that focuses on the long-term is an advantage. Being in “reactive mode” is an almost sure-fire way to get whipsawed, since the market reflects investors’ sentiments instantaneously. But short-term investor sentiment rarely impacts long-term fundamentals.

With the S&P 500 putting up good numbers in 2006, and some market indexes reaching record levels, stocks may “seem” like they should be getting expensive. In truth, though, the valuation picture has actually changed very little. This is because earnings have gone up along with stock prices, leaving the relationship between prices and earnings at about the same place. It’s worth remembering that the new highs reached by some indexes are only now eclipsing levels that were first seen nearly seven years ago.

Where does this all leave us? Reasonable valuations tell us the

market is either cheap—meaning returns going forward are likely to be better than average—or that the market is discounting a meaningful decline in the fundamentals. We’ve seen signs of slowing earnings growth and a deceleration in the economy. Part of this is normal cyclical behavior, and some may be in response to the slow-down in the housing market, but in either case it is clear that we’re coming off of a spectacular period of earnings growth, and things are likely to cool off. But at current valuation levels a pretty big margin of safety is already baked into the market.

About Matrix Wealth Advisors, Inc.

Planning is in the process of allocating limited resources among unlimited alternatives according to a system of values to achieve life goals. Founded in 1990,

Matrix uses a very personalized, principle-centered process to offer comprehensive financial planning and investment management services that help clients take action

and grow, to close the gap between where they are now and where they want to be. Matrix is a fee-only, fiduciary firm and is compensated solely by our clients.



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