

Fast Facts:

Economy— Despite this year's run-up, the S&P's trailing PE of 18x is equal to its long term average, and well below its March 2000 high of 32.8x.

Commodities- On May 4, 2007 one barrel of OPEC crude oil sold for \$64.42 which translated to \$3.06 per gallon at the pump. Of the \$3.06 per gallon paid, fully 48% of that retail price was driven by the cost of the OPEC crude oil.

Estate Planning- In 2004, 71% of treated stroke sufferers were age 65+. Having a Durable Power of Attorney for Health Care (DPOAHC) completed in advance allows you to appoint a decision making proxy who will communicate your wishes upon your incapacity.

Demographics- Estimates point to 12 million people over the age of 65 will need some form of long term care by 2020. Having a firm understanding of the options, costs, and funding sources for long term care is part of financial preparedness.

Retirement- Social Security benefit increases, known as cost-of-living adjustments (COLA's), have been in effect since 1975. COLA's are updated in October (for 2006 it was 3.3%) and effective with benefits payable for December each year.

The President's Letter

Fred Hayek, President/Founder



I maintain a "Value Investor Hero's" file in my office that I continually refer to and update as appropriate.

The first file contains information on Sir John

Templeton who I

met back in 1982. Since that time, Sir John has impacted my life profoundly.

The second file contains information on Warren Buffett, an investor who has been described by legendary money manager Peter Lynch as "the best investor in history."

Having recently returned from my hometown of Omaha, where I attended the annual Berkshire Hatha-

way shareholder meeting, I came away with the impression that it really isn't a meeting anymore and characterize it more like "an investor's Woodstock" complete with a cult-like following. I'm a capitalist and proud of it, but Friday evening's reception was, well, appropriately held under a circus tent!

On Saturday I attended the shareholders meeting which allows the "Oracle from Omaha" to share his views of Berkshire, the economy and the world in that Midwestern folksy way that has become so endearing.

Seems at every Berkshire annual meeting the same question is asked, "Mr. Buffett, when are you retiring and who is going to take over when you're gone?"

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Market Insight

Eric Kallen, Managing Director



Being held to a higher standard is oftentimes a good thing as long as everyone involved knows the meaning and implication behind the standard.

This point was recently reinforced by a study from the National Association of Personal Financial Advisors that focused on the level of understanding clients had (or more accurately their lack of a clear understanding) of what a fiduciary standard is and how it applies to their financial advisor. These results

highlight a need for further clarity on this concept, which I will attempt to do here.

In order to build the argument, it is important to establish the definition of a fiduciary as it is key to making a distinction between providers of financial advice.

Simply stated *a fiduciary is legally appointed and authorized to manage assets for the benefit of another individual rather than for his or her own profit.*

Furthermore, as an independent Registered Investment Advisor with the Securities and Exchange Commission (SEC), Hayek Kallen Investment Management is required to act as a fiduciary when managing your

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Market Insight

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Legally and ethically we're required to put your interests ahead of ours, at all times and in all instances.

Client Dispatches

Joe Vosicky, V.P. Client Services

Our world is fast evolving into one that communicates and transacts business electronically.



accounts as required by the Investment Advisors Act of 1940.

Legally and ethically we're required to put your interests ahead of ours, at all times and in all instances. When investment decisions are made, they are appropriate for you and in your best interest.

The next question one might ask is who out there is able to provide financial advice *without* meeting the fiduciary standard as governed by the SEC and defined by the Investment Advisors Act of 1940.

First, there are your broker/dealers. Broker/dealers are registered and regulated by the National Association of Securities Dealers (NASD), not the SEC. Included in this are most of your traditional retail brand name brokerage houses (think Wachovia, Morgan Stanley, Merrill Lynch, Edward Jones, etc.) but also broker-dealers who operate independently with a relationship through a brokerage house.

Adding complexity to an already

Recently I received notification from my insurance company that both my umbrella and home owners insurance were in the process of being cancelled due to non-payment.

In researching the issue, I confirmed that I had mailed a physical check for the umbrella and the bank had mailed the home owners, yet neither payment arrived at their intended destination. What went wrong with their system?

Placing blame is not my intention and I'm reminded of the American proverb "too many cooks spoil the broth." This point is best illustrated by the United States Postal Service and the multiple times they physically or mechanically handle a first class letter, with each "touch" representing an opportunity to fumble the delivery.

Our world is fast evolving into one that communicates and transacts business electronically. Had my insurance payments been made electronically via secure networks, this would have been a non-event.

As an example of how business is moving toward an electronic commu-

nication platform one has to look no further than Charles Schwab or TD Ameritrade.

nous landscape, insurance providers have recently emerged into this arena as well. Keep in mind that insurance agents and those registered reps associated with a broker/dealer typically receive compensation through a product sales commission. This commission may or may not be fully disclosed to the buyer and they are not being held to the fiduciary standard of putting your interest ahead of theirs.

As with many situations in life, it is vital to have a clear understanding of who is providing advice, what their motives are, the facts supporting their recommendations, and legal obligations prior to acting.

Hayek Kallen is pleased to be held to a higher standard as it allows us to serve your investment needs in a manner that stands both the test of time and light.

Each custodian is making a concerted effort to reduce the amount of physical mail they send by offering clients the opportunity to receive both trade confirmations and statements via an email attachment. Leveraging the Internet in this manner is timelier, more cost-effective and less prone to error. Feels like a win-win.

At Hayek Kallen, we're managing this shift onto the electronic communication platform and remind you to move at a pace that is comfortable to you. As you do, keep in mind the following points:

At Hayek Kallen, we're managing this shift onto the electronic communication platform and remind you to move at a pace that is comfortable to you. As you do, keep in mind the following points:

- Use only your computer to communicate confidential information.
- Avoid using a wireless network when transmitting secure information.
- Exchange information (via email attachments) with trusted parties.
- Keep all passwords confidential / secure.
- Let us know when you change or establish an email address.

Tax Planning Notes

Xavier Hartmann, CPA
Melissa Thomas, CPA

Too Good To Be True!

History has proven that it is rarely a good idea to make investment decisions based solely upon tax considerations.

With current preferential tax treatment allowed for qualified dividend income and capital gains, as well as tax law changes for real estate post Hurricane Katrina, investors need to know the facts before proceeding.

Equity Investors

For those investing in equities today, current Federal tax law affords you preferential tax treatment on both qualified dividend income and long term capital gains as both are taxed at 15%. Keep in mind that long term capital gains result from the sale of capital assets (i.e. stock, bonds) held for more than one year while short term gains are taxed at ordinary income tax rates.

The good news continues as both dividends and long term capital gains after December 31, 2007 are tax free for individuals in the 10-15% bracket. These income thresholds are likely to increase for inflation starting in 2008 with the reduced tax rates set to expire after December 31, 2010.

Real Estate Investors

For real estate investors, Gulf Opportunity Zone incentives (GO-Zone) are in part fueling the flow of capital into real estate along the Gulf Coast today. As you may recall, Congress created GO-Zone incentives to drive rebuilding and rehabilitation within predefined areas of the Gulf Coast, including Mobile and Baldwin Counties, after Hurricane Katrina.

While at first glance provisions of the GO-Zone incentives are attractive, know they are also complex and filled with requirements that if not met could be problematic later.

One provision of the GO-Zone incentive is a 50% bonus depreciation deduction for nonresidential real property and residential rental property. This law allows taxpayers to claim an additional first year depreciation allowance equal to 50% of the adjusted basis of the cost of qualifying GO-Zone property acquired on or after August 28, 2005 when placed into service by predefined dates.

Qualifying for GO-Zone incentives begins by meeting these requirements:

- It must be depreciable property with a recovery period of 20 years or less including qualified leasehold improvement property, off the shelf computer software, residential rental property or nonresidential real property.
- Substantially all use of the property must be in the active con-

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duct of a trade or business within the GO-Zone. The original use of the property in the GO-Zone must commence with the taxpayer on or after August 28, 2005.

- The property must be acquired by purchase on or after August 28, 2005.
- No written binding contract for the acquisition of the property may be in effect before August 28, 2005.
- The property must be placed in service on or before December 31, 2007 for all property other than nonresidential real property and residential rental property, which must be placed in service before December 31, 2008.

Once you've met the previous list of requirements, you'll need to keep the following in mind as well:

- Property acquired with tax exempt bonds (including GO-Zone bonds) is excluded from the depreciation rules.

- Rental property must meet the "active conduct of a trade or business" requirement and the owner must "meaningfully" participate in the management of the property.
- If your adjusted gross income, modified for certain non-taxable income is \$150,000 (married filing joint) or \$100,000 (single filing), you can deduct only up to \$25,000 of this loss against your income.
- Qualifying real estate professionals may be able to deduct all current rental real estate losses.

Putting complexity aside for now, if you are one of the few who may be able to use this GO-Zone deduction, you may not want to. There are severe recapture rules that, upon sale, will cause all or a portion of your gain to be recaptured and taxed at higher ordinary income rates rather than the preferential capital gain rates.

Admittedly the tax code is complex, confusing, contradictory and changing. Therefore it may be worth consulting your tax professional before proceeding.

Xavier Hartmann, CPA, is CEO of Hartmann, Blackmon & Kilgore, P.C., CPA's and Consultants. His area of focus is on estates, trusts, and income tax planning.

Melissa Thomas, CPA is a tax manager and tax consultant for Hartmann, Blackmon & Kilgore, P.C., CPA's and Consultants.



Just A Reminder

Robin Causey,
Client Relationship Specialist

HKIM's role is similar, interpreting today's news and market events with integrity while keeping you informed along the way.

The President's Letter

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"And That's the Way It Is"....a lesson from Walter Cronkite.

A few weeks ago this trusted news anchor we know so well had a tribute in honor of his 90th birthday. However, our family did not watch the show together in the living room in front of the one television set; we downloaded it on our Blackberries instead!

Mr. Cronkite told us truthfully about pivotal events that shaped where we are today: JFK's assassination, the Civil Rights movement, Vietnam, Apollo 11's landing on the moon, and Watergate. We all remember where we were when these events happened and even how these events affected the stock market.

Why go down memory lane again?

His paraphrased answer is reassuring and one that I'd answer the same way. "Why would I retire from something I love doing so much? We have a succession plan in place, and the people who will be taking over are much better than me, in fact things will probably improve when I'm gone, but as long as I am able I'm going to do what I look forward to every morning,

The reason for the journey is to remember the value of having a trusted advisor: one who understands how factual information has an emotional impact.

Our role is similar, interpreting today's news and market events with integrity while keeping you informed along the way.

Whether news delivery is by television, phone, internet, PDA, or to your mailbox, HKIM is here as your trusted advisor. And in the words of Walter Cronkite, "that's the way it is."



me and Charlie (Munger) running Berkshire Hathaway."

I trust you'll look forward to my future "Value Investment Notes" as I'll relay some valuable teachings learned from Mr. Buffett and others who are in my "Value Investor Hero's" file.

Main Office:
121 Fairhope Ave.
Fairhope, Alabama 36532
251.928.8999 Fax 251.928.8991

Contact Information:
Fred Hayek, President/Founder
FredH@HayekKallen.com

Eric Kallen, Managing Director
Eric@HayekKallen.com

Joe Vosicky, Vice President Client Services
Joe@HayekKallen.com

Robin Causey, Client Relationship Specialist
Robin@HayekKallen.com

Birmingham Office:
Ben Stewart, Director, Birmingham Office
One Chase Corporate Center, Suite 400
Birmingham, Alabama 35244
205.313.6550 Fax 205.278.6980
Ben@HayekKallen.com

Visit [www. HayekKallen.com](http://www.HayekKallen.com)

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