

WELCOME TO THE FLAGSHIP ISSUE OF GLOBAL INSIGHTS.

In this issue, we tackle the single most important question any investor can ask: how can I generate above-average returns with the least amount of risk?

Answer this question wrong and it can mean working longer, postponing retirement, or worrying about whether you'll always have enough to provide for yourself and your family. Answer it right and it can mean living a life of total financial independence, free from concern about whether you'll have enough money to live your chosen lifestyle.

In essence, it is a simple choice: potential fear and worry . . . or peace of mind.

We believe an informed investor is a better investor. Our goal is to bring you information that is instrumental to making you a better manager of your assets. With that in mind, I hope you find this Flagship Issue both informative and enlightening.

I also encourage you to visit our website – www.iaac.com – to learn more about International Assets Advisory, LLC and how we are uniquely positioned to help meet your investment objectives.

To learn more about the topics discussed in this issue, or how our team may be of assistance to you in other areas of your portfolio, please contact us at 800-432-0000.

We look forward to hearing from you.

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Why We're Combining Some of the World's Best Money Managers with a Nobel Prize-Winning Idea . . . And How You Can Too

The extreme market volatility has many investors angry, disgusted . . . or even a bit frightened. Traditional investment advice like "buy and hold" or "stay fully invested" seems to have lost its luster in today's unruly markets.

Serious investors approach the management of their capital in a serious way. And the question becomes "what will give me the statistically highest probability of maximizing my returns while minimizing risk?"

And for this question, there is indeed an answer. A very good one. In fact, a Nobel Prize was awarded to Harry Markowitz in 1990 for supplying a ground-breaking answer. Many of the world's major foundations, endowments and corporate pension plans now invest some or all of their funds in accordance with his breakthrough findings. And now you can too.

In the next few pages, we're going to describe why the pioneering work of Harry Markowitz won him the Nobel Prize in finance, how we've tweaked his ideas in the pursuit of still better returns, and how you can use this system to seek superior returns while still keeping risk acceptably low.

Maximizing Returns While Minimizing Risk

The idea which made Markowitz a Nobel Laureate in Economics is called Portfolio Optimization Through Mean-Variance Analysis. That's a mouthful to be sure. But while it may sound obscure and mysterious, it's not. In fact, like many things in science and mathematics, it's beauty lies in its simplicity.

Here are the essential components of his Nobel Prize-Winning Idea:

The most critical choices you will make in constructing your investment portfolio is how you divide your money among different asset classes. This is known as asset allocation. And studies have shown that up to 90% of the return generated by an investment portfolio can be attributable to this one factor. Security selection and marketing timing are responsible for the balance of the return.

(That means asset allocation can be ten times as important as security selection and market timing combined! This surprising fact underscores the supreme importance of asset allocating your money properly.)

Different asset classes include stocks, bonds, real estate, cash, etc.

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But that's only the beginning. Within the category of stocks, for example, are large companies and small companies, foreign companies and domestic companies, growth stocks and value stocks, etc.

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Within the fixed-income category, we have long-term and short-term bonds, governments and corporates, high grade and high yield, foreign bonds, mortgage bonds, inflation-adjusted bonds, etc.

As you can see, asset allocation grows in complexity, along with your choices.

But owning different asset classes is of key importance. Here's why.

Each asset class has different risk and return characteristics. That means combining them different ways in a portfolio will generate very different results. For instance, stocks have historically been higher returning (and more volatile) than bonds. Small companies have been higher returning (and more volatile) than large companies. And so on.

The same is true of fixed-income. Corporate bonds have historically been higher returning (and more volatile) than treasuries. Long-term bonds have returned more (and been more volatile) than short-term bonds.

While Some Assets Zig... Others Zag

Importantly, these different asset classes generally do not move in tandem. In other words, when one asset class is declining in value, another may be advancing. This is known as a "negative correlation." If the returns on two asset classes move in the same direction at the same time, they would have a "positive correlation."

History demonstrates that the major asset classes show differences in correlation. And by combining asset classes with low or negative correlation, an investor can increase his risk-

adjusted returns. Eureka! Higher returns with less risk. This is known as the efficient frontier.

The important thing to understand is that no one asset allocation is right for everyone. An investor who is

young, aggressive and has a long time horizon is going to asset allocate his portfolio very differently than someone who is closer

to retirement, conservative and has a shorter time horizon.

In fact, we've developed a complimentary questionnaire that will help you determine your appropriate asset allocation given your particular circumstances.

In our view, however, many investment advisors make the mistake of assuming they can arrive at the proper asset allocation today by looking at what the best asset allocation has been in the recent past. This can be an enormous mistake.

There are periods when growth stocks will lead the market. And then leadership will switch to value stocks. Sometimes domestic stocks perform better. Other times foreign markets shine. We have developed a strategy which gives investors exposure to all these areas but emphasizes the sectors we feel are most undervalued and therefore likely to give superior performance in the future.

And an essential component of any asset allocation strategy is rebalancing. This refers to periodically selling a portion of your appreciated assets and adding those proceeds to those asset classes that have lagged.

To use a simple example, suppose you decided that your portfolio's asset allocation was 25% U.S. large-cap stocks, 25% U.S. small-cap stocks, 25% foreign stocks and 25% bonds. As time goes by, these assets will fluctuate in value. So from time to time, you must sell a portion of your appreciated assets to bring them back down to the 25% target level. And you must add these

proceeds to the depreciated assets, to bring them up to the 25% target level.

Why do this? Because rebalancing is an important part of generating above average risk adjusted returns. And secondly, the habit of rebalancing instills in investors the discipline necessary to buy low and sell high.

There are differing views about how often an investor should rebalance. Our research points to approximately once a year. In fact, we would recommend making it at least twelve months and a day. Why? So that any gains you take will benefit from long-term capital gains tax treatment.

There are several benefits to asset allocating your portfolio. Number one, it encourages you to be widely diversified. (Well-publicized corporate disasters like Enron, Global Crossing and K-Mart point out the advantages of making sure no one security can derail your financial plan.)

Secondly, as we've mentioned before, asset allocation has the power to reduce risk while increasing returns. Investors who didn't fare well during the bear market of the past couple of years often made the mistake of seeking higher returns by concentrating their investments in only one or two sectors, a high risk strategy.

Thirdly, it encourages a long-term strategic approach to investing that allows investors to reach their goals more efficiently. It has been said that investors do not plan to fail. Instead, they often fail to plan.

By using a disciplined asset allocation strategy, you have in place a workable plan with a mountain of statistical evidence supporting it.

Finally, rather than relying on your own intuition or some new and untested market approach, you are using a strategy that has withstood the test of time. And that helps achieve another of major investment goals: peace of mind.

PROTECTING YOUR WEALTH

Would you be interested in an investment product that offers compound-growth tax deferred with unlimited contributions? That allows you the full upside of the market combined with complete protection of principal? That allows you guaranteed payout options for the remainder of your life, if you desire, regardless of the markets performance? That can offer asset protection in case of civil litigation? And that features the sort of guaranteed death benefits associated with insurance products?

If your answer is "yes," you'll be excited to learn that International Assets has launched a new financial planning division to help meet the diverse investment needs of clients like you.

Retirement and Estate Planning

Historically, we have built our reputation on successful portfolio management. However, in an effort to bring an even broader scope to our services, IAAL has established a complete retirement and estate planning division. Money management will always be an essential to gaining and maintaining financial independence. But successful investors often need to reach beyond these goals. Their objectives may include tax management, protection from claims of creditors or litigants, guaranteed income for retirement, insurance of the education and comfort of future generations, and minimizing estate taxation, to name a few. Proper financial planning can make sure these important goals are met.

In the future, we will feature in these pages ideas and solutions for effective retirement and estate planning. Among the many subjects we plan to address are retirement plan options, long term health care insurance, annuities, life insurance and asset protection.

This issue's discussion features perhaps the most commonly used retirement planning tool, the annuity. There are several types of annuities, fixed, variable, deferred, immediate, and indexed.

The investment product we highlighted above, offering compound-growth tax deferred with unlimited growth potential (and many other benefits), is the variable annuity.

Variable Annuities

Variable annuities are investment management and insurance contracts created to build long-term wealth for a future income source. Performance in these products is driven by sub-accounts which are invested in the financial markets, similar to a mutual fund. With a variable annuity, you get tax-deferred growth and compounding of earnings, including dividends, interest, and capital gains, similar to an IRA or other tax qualified retirement planning vehicle. However, you have neither the investment limits nor the required distributions those plans impose.

The variable annuity marketplace has exploded over the last few years. The reasons are clear. More and more investors are seeking to maintain control over their assets, have access to professional management, invest in the stock

market with a guarantee of future values, and have it all wrapped in a tax-deferred vehicle. Best of all, this explosion has worked in investors' favor as insurance companies have grown more competitive in their effort to attract new investors. This competition has ultimately created better-quality, lower-cost annuities.

It is important to note that the guarantees provided by annuity contracts are backed solely by the insurance company issuing the contract. It is crucial, therefore, to only work with financially stable companies. Our independent approach allows us to search the entire industry for financially solid companies offering the most competitive products.

Until recently, some investors avoided variable annuities for a number of valid reasons. But times have changed:

- Variable annuities used to be limited in terms of available investment options.

This is no longer the case as you can now choose from many investment options from a wide variety of fund families.

- Variable annuities often were inaccessible in terms of liquidity.

This has also changed with time. It's now common to have access to 10% or substantially more of the principal, plus all the growth of the investment, every year without penalty.

- Variable annuities used to be synonymous with high fees.

No more. In 1992, the cost difference between mutual

The major benefits of a variable annuity are these:

- *Tax-deferred, compounded growth*
- *Unlimited contributions*
- *Guaranteed payout options for the remainder of your life if you desire*
- *Higher guaranteed benefit bases for both living and death benefits.*
- *Asset Protection*
- *And much more*

funds and variable annuities was over 100 basis points, a full 1% or more. By 1996, it was 60 basis points. The 2001 figures yet to be released will show an even smaller discrepancy.

Let's look at a few of the basic benefits a little closer.

First, the earnings enhancement death benefit. Subject to certain limitations, this allows the insurance company to credit, upon the owners death, up to 70% of the investment's growth into the account to help offset taxes!

Another new benefit, called the annual step-up, locks-in your highest value on every anniversary date of your account as your new guaranteed minimum death benefit.

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"Protecting..." –continued from page 3

For example, suppose you invested \$100,000 in a variable annuity in 2001, and it had risen in value to \$250,000 in 2009. Then the market stumbled, bringing your value back to \$200,000 by 2011. If you died at that time, your beneficiary would still receive the \$250,000 even though that value hadn't been seen in over two years. By combining the earnings enhancement with the annual step-up, your beneficiary would have received \$320,000. At the time of death, the annuity had \$100,000 of gains, creating a \$70,000 earnings enhancement deposit added to the \$250,000 annual step-up value. This creates a total of \$320,000 for your beneficiary on an asset valued at only \$200,000 at death.

In addition, a short list of other new variable annuity benefits would include:

Guaranteed Minimum Income. This is a living benefit that pays contract owners a guaranteed income regardless of the actual performance of the sub-accounts in which the variable annuity was invested.

Guaranteed Minimum Account Value. This is another living benefit that enforces a minimum policy value if held for a specific duration. This allows you to invest your money in any manner you choose among the annuity's sub-account options knowing that you have a safety net of future growth.

This allows you to have stock market opportunity without all the stock market risk that typically comes with it.

Signing Bonuses. The competition for assets has actually driven these insurance companies to offer you money to choose their offerings.

7% Solution. This is a death benefit that guarantees that your minimum-return scenario is a compounded rate of return of 7% on your assets. But, similar to the Guaranteed Minimum Account Value benefit listed above, should the sub-accounts earn, say 10% compounded, you benefit if this higher rate of return is achieved.

Combining these benefits create additional unique opportunities.

Wisely structured variable annuities can now help investors enjoy the peace of mind that comes with more conservative investments, like CD's for example, while maintaining the unlimited growth potential of the stock market for you and your heirs - all on a tax-deferred basis.

As you can see, the variable annuity landscape has changed dramatically in the past few years. To learn more about how you can enjoy the benefits of a variable annuity - or to have our financial planning division review your existing annuity holdings - contact your International Assets representative today .

"World's Best Money Managers..." –continued from page 2

Combining Asset Allocation With... Tiger Woods?

So let's review our findings.

1. Asset allocation is the most important decision you will make in constructing your investment portfolio.

2. Not only has asset allocation proved to be more important than security selection and market timing, but it offers investors a reasonable chance of reaching their goal of maximizing return while minimizing risk.

3. Periodic rebalancing is necessary to keep your asset allocation on track and your risk acceptably low.

Of course, the big question that still remains is "how do you put your money to work in these different allocations?"

Some advisors recommend using index funds. Their logic is that since three-quarters of all money

managers fail to beat their benchmark each year, indexing your portfolio is a worthwhile strategy.

That seems sensible enough. But is there a better way?

We think there is. While it's true that only a small minority of money managers have beaten their respective benchmarks over the long haul, why not follow a strategy of selecting only those money managers who have managed to succeed in doing this? For instance, over a period of decades, very few money managers have outperformed in the large-cap growth area. But there are certainly some.

If you had invested \$10,000 in an S&P 500 index fund thirty five years ago, for example, it would be worth approximately \$385,748 today. Not bad. If instead, however, you had put the same \$10,000 in Berkshire Hathaway, run by Warren Buffett, over the same period it would have

grown to well over \$18 million dollars. Quite a difference.

And it powerfully illustrates what can go right when an active money manager outperforms his benchmark over an extended period of time.

So while we concur that the majority of money managers do not beat their index, some do. And by a wide margin. The difference this can potentially make to your future portfolio returns are not insignificant.

This is a worthwhile consideration, especially when investing in asset classes that are less efficiently priced than large-cap U.S. stocks. For instance, there are many active money managers that have outperformed in sectors like small cap stocks, foreign shares and real estate investment trusts.

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Using one of the very best money managers available instead of simply replicating an index strikes a responsive chord with many investors. After all, if you were going to have heart surgery, for instance, would you use a competent surgeon, an above-average surgeon or the very best heart surgeon you could find?

The answer is obvious.

If there were an enormous cash prize being offered at your golf club's annual member guest tournament, who would be your ideal partner? A low-handicapper? A local golf pro? Or Tiger Woods?

If you could get him, of course you'd want Tiger himself.

By the same token, if you're using an active money management strategy, why would you want your money manager to be anything less than the investment equivalent of Tiger Woods?

Sometimes you can overlook an effective strategy simply because the answer is so obvious.

However, most people are not financial experts. Not only are they not great money managers themselves,

they don't know who the world's best money managers are today. And even if they once knew, do they still know where those managers are?

We've reached an age where superstar money managers are treated like superstar athletes. They're offered an awful lot of money to move around. And so they do. Investors often find that they

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bought a particular fund for the exceptional track record only to find later that the individual responsible for that record has left.

Highly-talented money managers are offered big financial incentives to change jobs. And so they move on. Yet a mutual fund will go on touting the long-term returns achieved by a former manager as if the fund itself is responsible for the returns, not the manager.

Yet that's patently absurd.

We have conducted a thorough survey of the investment field and developed a list of the individuals we feel

are simply the world's best money managers. And we intend to track their performance and stay with them as long as it's up to snuff.

We've examined virtually every major asset class, the best managers of large caps, mid-caps, small-caps, foreign stocks, emerging market shares, high-grade bonds, high-yield bonds, real estate investment trust, and precious metals. And we've chosen only those we feel are the best of the best. Each of these managers has a long-term audited record of outperforming his investment benchmark. In other words, these are proven world-beaters.

If you would like to learn who these elite money managers are - and how you can capitalize on their abilities - please contact your International Assets representative.

If you're interested in learning more about how a disciplined asset allocation strategy - using a selection of the world's best money managers - can help you reach your financial goals, we encourage you to give us a call.

As for getting Tiger Woods to join you at your member-guest tournament. . . you're on your own.

Ten Reasons to Invest Internationally Now

Lazard Asset Management is one of the most respected names on Wall Street. They have published a list of ten good reasons to diversify your portfolio into international markets now. We think it bears repeating:

1. Opportunity - A strictly U.S. portfolio greatly reduces your opportunity set and your ability to invest in many world class companies. The United States represents only 53% of the world's stock market capitalization, 5% of the world's population, and 32% of the world's gross domestic product.

2. Diversification - Historically, different countries' markets have moved independently of one

another; being exposed to uncorrelated markets across many sectors and asset classes will smooth out the ride.

3. Deregulation - With deregulation and the elimination of country and economic boundaries, companies will be able to compete for capital and customers on a global scale. Well-positioned companies should thrive, creating terrific opportunity for investors.

4. Euro - The launch of the euro has continued its positive impact on efficiency for companies doing business in Europe. According to most economists, the euro is significantly undervalued relative to the dollar.

5. Equity Culture Expanding - In the past five years, there has been a significant increase in the number of equity investors. As this trend continues, it should further spur demand for non-U.S. stocks.

6. Restructuring - As a result of global competition, companies are forced to do what it takes to become more efficient, more productive businesses. European merger and acquisition volume has dramatically increased since 1990, and this growth is expected to continue.

7. Tax Reform - In an increasingly competitive global environment, countries such as Germany and Japan have been forced to initiate

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tax reform. This reform will promote a more business-friendly environment around the globe.

8. Demographics - The number of workers per retiree in Europe is predicted to drop significantly over the next 35 years as the baby boomer population retires. Europe's pension system will therefore need higher returns in order to offset this smaller inflow of capital.

9. Financial Productivity - Europe's return on equity has been increasing consistently since 1993; conversely, the U.S.'s was stagnant throughout the late 90's and dropped in the past 3 years.

10. Valuations - There are many opportunities in international markets to invest in great businesses that trade at significant discounts to some of their U.S. counterparts.

Using a Partner to Help Manage Your Portfolio Seven Reasons to Work with Our Fee-Based Consultants

1. You will gain a partner. When your interests are aligned with those of your financial consultant conflicts of interest are virtually eliminated. In effect, you and your advisor become one team managing your investment portfolio. We only earn more if your investments are growing. As a result, you both are sitting on the same side of the desk. The sole incentive for you and your consultant is to maximize your total return.

2. No Commissions. There are never commissions charged in our fee-based accounts. Instead of transaction charges, you pay a flat fee that's tied to the value of your portfolio. This way, your interests are always aligned with those of your consultant.

3. Great Service. Our goal is to unite our financial expertise with your personal investment goals. Investments selected for your account will be based on your financial objectives and constraints. Once your plan is in place, you will receive regular account updates through the mail and directly from your investment consultant.

4. Objective Analysis and Advice. Your financial consultant will recommend and implement specific investments based on your personal asset allocation strategy. There are never quotas to reach or investment vehicles that give the consultant a higher payout; all advice is strictly for the best interest of the client.

5. Less paperwork. Consolidating your holdings eliminates the hassle and confusion of receiving multiple statements from numerous investment companies. Our fee-based programs streamline all accounts and statements, creating a high level of efficiency for both the consultant and client.

6. Full Disclosure. Your consultant is paid to look out for your best interests. We reward advice and service . . .not sales. Your fee structure will be fully disclosed with no hidden costs or surprise charges.

7. Freedom. By delegating the management of your portfolio to a qualified professional, you eliminate the hassle and worry of constantly tending to your investment portfolio. With the client's direction and guidance, we put all of our resources to work. You can feel confident that a team of individuals is watching your money carefully and using all their efforts for the benefit of your portfolio. With this financial freedom, you can spend additional time with your family, your hobbies, or whatever you choose.

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