



SHERPA INSIGHT

Detterbeck Wealth Management, Inc.



Season's Greetings



DECEMBER 2006

GETTING AROUND IN A "FLAT" WORLD



Many of you are familiar with Thomas Friedman's best selling book "The World is Flat" which describes the "Third Age" of Globalization in which we live.

Brett just returned from the Schwab IMPACT conference in Washington, D.C. at which Tom Friedman (along with Alan Greenspan, Richard Branson and others) spoke. And, Les just returned from a business conference in Singapore which focused on business in China, India and Asia. We thought it would be helpful to provide you our Sherpa Insights on globalization, particularly as it relates to investment strategies.

By way of background, 1000 years ago the most flourishing and dynamic societies in the world were Asian. Europe was still struggling out of the Middle Ages and North America hadn't been discovered. 1000 years later, you get the exact reverse of that; the most dynamic and flourishing societies are in North America, Europe is one tier below and Asia is currently behind.

Friedman believes that the first age of globalization began in 1492 and continued through the 1800s. The second picked up in the middle 1800's and lasted until 2000. The third age shrank the world from small to tiny and "made it flat". According to Friedman, the "new, unique, exciting and terrifying thing about this Third Age of Globalization, is that it enables and empowers individuals to compete, communicate and collaborate with each other anywhere and everywhere.

China and India, with almost 3 billion people, have formed a powerful interdependent influence that affects almost every aspect of world affairs. While there are still hundreds of millions of people in both countries that are still below the poverty line, many others are stepping up to "plug and play" in the world economy right now. Furthermore, as the baby boomers start retiring in the U.S. and Western Europe, China and India's population's are younger, and their economies should continue to grow for another ten to fifteen years. On top of this, they are clearly more motivated than their US counterparts.

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MORTGAGE ALERT

As economic conditions (as well as your personal situations) change, you want to be sure you still have the best home financing arrangement for your current and long-term financial goals. With mortgage rates recently taking a dip back down to near-record lows and interest rates potentially on the rise in the near future, now may be the time to consider refinancing from an adjustable-rate mortgage (ARM) or a negative amortization (Option ARM is one common name for these) loan to a more predictable fixed-rate mortgage.

Most ARMs adjust annually, either up or down. So even at a below-market start rate, it's possible your ARM interest rate may exceed interest rates in the future. Some people may have started with an ARM because they intended to be in the property for a short period of time, but now because of a change in their family, employment or one of many other possible reasons, they may now want the stability of a fixed rate or possibly another ARM that will give them the 2-3 years that they still need (at a lower rate than what they'll adjust to) before they move onto the next place.

With today's rate environment, refinancing to a fixed-rate mortgage may result in significant long-term interest savings. We would be happy to coordinate the running of various loan program scenarios to help you balance all the factors and make an informed decision.



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Detterbeck Wealth Management, Inc.

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Welcome to Detterbeck Wealth Management, Inc. We design and implement wealth planning strategies for high net worth individuals and their families. Our unique approach integrates financial and estate planning with comprehensive implementation and monitoring.

Our exclusive group of clients has found that we provide them with peace of mind and more free time to enjoy it. We invite you to learn more about Detterbeck Wealth Management, Inc.

Our approach to investment management
Detterbeck Wealth Management conducts extensive research and uses state-of-the-art, mean-variance optimization techniques to position your portfolio for maximum returns while minimizing risk.

Our Sherpa@ Process
Detterbeck Wealth Management uses a proprietary planning and monitoring process – SHERPA@ (Systematic Human Error Reduction and Prediction Approach) – to assess your current financial situation.

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As the world becomes a global community, mutual understanding among people of different cultures has become an indispensable requirement for global citizens to live together peacefully and productively. We believe that the flat world ahead results in the following Sherpa Insight:

It used to be that the domestic and international equity markets were not very correlated and hence by having a portion of your allocation in international equities, you could actually reduce your overall portfolio volatility risk. However, in the past decade or so, correlation between domestic and international markets has increased significantly and that trend will only gain strength within a flat world.

That is not to say to get rid of one or the other. In fact, now may be a compelling time to increase your international equity allocation as the rest of the world is truly emerging. Great opportunities lie in territories abroad and by investing in international markets, you can benefit. DWM has been and continues to increase its recommended allocation on international equities within

its clients' portfolios. Nonetheless, historically the international marketplace exhibits a great deal of volatility—much more than the domestic marketplace—and hence should be used accordingly.

Furthermore, because of the increasing correlation of these two equity styles, it would be wise to look at other asset classes as a way to reduce your overall portfolio risk. Fixed income such as bonds and cash are less correlated to both the domestic and international market and should be considered. An even better solution may be within the alternatives asset class. "Alts" such as equipment leasing, oil & gas, and hedge funds are great examples of investments that are little correlated to the domestic and international equity markets and hence can significantly reduce the risk in your portfolio. With their relatively high cash flow yields, they also can improve your overall portfolio's expected return.

Please give us a call to if you'd like to talk about your portfolio construction and/or this flattening world of ours.

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