

J. L. BAINBRIDGE  
& COMPANY, INC.

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Dear Mr. & Mrs. Client:

This month's letter addresses the so-called economic crisis various "experts" predict will develop over the next twenty-five years as the United States attempts to cope with the Social Security and Medicare costs of the retired "baby boomer" generation. The pied piper of this hype is David Walker, U.S. Comptroller General, a political appointee of Congress. Why Mr. Walker has decided his role is to run around the country scaring people, I do not know. Is he possibly positioning himself to write a dire best seller when he leaves office? He predicts the economy will collapse under the weight of the \$46 trillion of debt that will be incurred to meet the needs of the next generation of retirees.

The fact is this so called debt the nation faces is not contractual debt, but is a political obligation that can be altered by the government and in our view will be altered. For this reason, we have been advising clients for over a decade to assume both Social Security and Medicare will evolve into programs for the needy. Less someone think politicians will never cut a program like Social Security, the truth is they already have. Today if your income is over \$25,000 for single or \$32,000 for joint taxpayers, 85% of your Social Security payments are taxable. Hence retirees with incomes above these modest amounts have a portion of their benefit taken back. Prudent retirement planning should be based on the assumption Social Security payments will be reduced drastically for retirees that have successfully acquired the wherewithal for an enhanced retirement.

Relative to Medicare the political options are to ration access to healthcare or care for only the needy. Canada and England are two examples of rationing. In both of these countries the queues are long and the care is less than desirable. For example, last month the high court of England ruled against a woman seeking an expensive breast cancer drug based on the law of the land which allows the Health Authority to determine the woman's appropriate treatment. In Canada, the law of the land prohibits private healthcare facilities, and as a result, residents that can afford to cross the border and pay for their own care. Due to experiences like these, in our view rationed healthcare in America is highly unlikely. But the key point is whether we face rationed care or a system that provides care for only the needy, retirees with the means will pay their own way.

Consequently, in our view the only viable retirement planning approach is forget about the naysayers and prepare to build and preserve the wealth to realistically meet ones retirement needs. This is the objective and mission of our investment program. Consider \$250,000 invested for ten years at a 15% compounded return grows to \$1,056,775. Upon retirement, seven percent annual withdrawals with a 15% return results in the \$1,056,775 growing to \$2,660,646 after ten years. In the event the actual return turns out to be 10%, the value would be \$1,503,095, and ones retirement remains secure. A future letter will address the gloom and doomer's myth of America's low rate of personal savings.

Jerry L. Bainbridge, President