

Money Matters

Volume 1, Issue 2

Advising, Educating & Inspiring you to a better life

August 2003

What is the one thing you want to pay more for?

Educating, advising and inspiring you to a better life

Most people try to get the best “deal” on anything they buy. Whether you want to purchase a home, car, computer, office equipment, food or services you always want the best possible price. I don’t know anyone in their right mind who would want to pay more for something than they had to. This is one of the reasons the word “Sale” is so powerful in our society. Research has proven that the very term sale motivates the average person to spend money.

Think about the one thing you almost demand paying higher prices for! Is it gasoline? Is it health care? I think most of us are disgusted at the price of many things, including homes, autos, health care and education. We continue to buy them-some of them at a staggering pace regardless of their inflated prices. The one thing most people want to pay a higher price for is investments. If you invest \$10,000 in something that is fundamentally sound and has an appraised value of more than your original investment and it goes up to

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Stock options – bailout and perhaps abandonment

The premise of stock options is to tie the long-term financial performance of a corporation to its employees. This provides an “upside” where employees can make substantial profits if they all work in harmony and cause the business to perform well and increase the share price. Stock options are often “granted” to employees with no cost to the employee and a “strike” price. This strike price is the floor where the employee can begin making profits. If you were issued options in ABC stock and the stock price was currently \$15.00/share, a likely options strike price may be \$25.00/share. When the stock appreciates to more than \$25.00/share you gain any equity above that price. If the price of the stock remains below \$25.00/share the options are worthless.

Stock options likely have been a large contributor to the recent string of scandals and corporate greed including Enron, Worldcom, Tyco & HealthSouth. Employees and executives tried so hard to drive stock prices ever higher, at any expense, that they lied and committed crimes. This ultimately became known as “cooking of the books.” The motivation to drive stock prices higher was to increase the value of the stock options.

Many people who have received stock options in the past few years find themselves with worthless pieces of paper. This is because the current price of the stock is well below the strike price on the options granted. This is part of the stock option deal-when things go well you have the opportunity to make a lot of money and if things don’t go well you gain nothing. You lost nothing because the options didn’t cost you anything to

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Prices (from page 1)

\$15,000 you'll likely want to invest more, at a higher price. If you invested \$10,000 in something and it went down to \$7,000 you would likely want to sell. You should want to buy more now, at a lower price. If it was good enough for you to buy at the original price, shouldn't it be even better to buy at a 30% discount? How much tuna fish would you buy this week if it were on sale for 30% off? This is not logical but when it comes to money people are very emotional about it and make the wrong decisions. Try to separate your emotion from your logic in making financial decisions, especially those involving large sums of money.

You should have the opposite instinct. When a fundamentally sound investment goes down, you should be inclined to buy more. When it goes up, you should be cautious and re-appraise the investment to see if value still exists in it. This is the only thing people want to pay a higher price for and it amazes me every day. Be sure to make this investment proportionately balanced with the rest of your portfolio and continues to fit with your asset allocation plan.



Turnover hurts mutual fund return

Turnover in a mutual fund is the frequency in which individual holdings within a fund are bought and sold. Higher turnover results in two negative things, trading costs and taxes. In all of the funds you are holding with us, you can be assured turnover is minimized. We spend a lot of time and energy trying to make your money grow as efficiently as possible with as little risk as possible. The last few years have been hard on everyone but the holdings we all own are solid and nothing is fundamentally wrong. If you are holding assets away from us, call the office and we'll be happy to give you a free report on your outside holdings so you can assess the turnover situation. This is one of the small things most people never consider but it has a dramatic impact on returns in the long run.



Why do people retire?

A recent survey by the National Council on Aging asked people over the age of 65 who consider themselves "retired" what the most important reason or reasons they decided to retire. The biggest reason was qualifying for social security at 72%. Other reasons included:

- 71% - Accumulated savings
- 50% - Reached a specific age
- 46% - Family Reasons
- 40% - Decline in health
- 20% - Pressure from employer



Automotive Reliability Rankings

The results of the J.D. Power and associates 2003 vehicle reliability survey are in. Consider these statistics when you or anyone you care about is shopping for a car. The most reliable are on top left, the least reliable on the bottom right:

Lexus (Best)	GMC	Mitsubishi
Infiniti	Chevrolet	Hyundai
Buick	Saturn	Isuzu
Porsche	Oldsmobile	VW
Acura	Mazda	Suzuki
Toyota	Pontiac	Daewoo
Cadillac	Ford	Land Rover
Lincoln	Chrysler	Kia (Worst)
Honda	Plymouth	
Mercury	Dodge	
Jaguar	Mercedes	
Saab	Audi	
BMW	Jeep	
Subaru	Volvo	
Nissan		

NOTEWORTHY NEWS ! ! !



Congratulations to Ziggy & Virginia Machiocas on their recent move to Florida. Enjoy your retirement !

Congratulations to John & Luda Saltourides on the opening of their new business, the Redwood Diner in Winsted !

Congratulations to Phil LaMonico on turning the corner and beginning the road to recovery in an almost deadly battle with Lyme disease !

Our Condolences to Chris Cosgrove on the loss of his grandmother.

If anything special occurs in your life, good or bad, be sure to notify the office and you'll be included in the noteworthy news section of the newsletter. Should the news require advice, you'll certainly get it.



CALENDAR OF EVENTS

FINANCIAL CONCERNS FOR RETIREMENT SEMINAR

PLACE: THE SILO, MAIN STREET FARMINGTON, CT

TIME 6:30

DATE: SEPTEMBER 16, 18 & 23

Educating people on financial issues. This seminar series is for people who are close to or already retired. It is also for those who have recently lost a job through layoff or job transfer. How to increase returns without increasing risk. How to increase your monthly income. Beat the investment returns on CD's. *(Last time someone told me they were renewing their CD, they had to pay the bank 1.5% annually for that privilege 😊)* What to do with your pension plan? Stop the bleeding on your investment portfolio. Stop paying taxes on your social security income. How to deal with the issues of long-term health care.

If you or anyone you know would like to attend any of the events, contact Kari at the office to get your invitation and tickets now. Please respond quickly as seating is limited.

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Options (from page 1)

acquire. When a stock option has a current price that is lower than its strike price it is worthless and often called "underwater." Just recently Microsoft began a program where employees can sell their underwater options to a bank and get a return on their investment. This is fundamentally flawed because it now allows the employees to gain financially even if the company doesn't do well.

Stock options became the "rage" in the 1990's when things were going extremely well for growth investing. Companies preached that this would be the best way to put management and employees interested in line with that of the owners of the company, the shareholders. Now in 2003 after the largest bear market since the 1920's there is a new plan. This new plan is to give employees regular shares of stock that do not expire. It will also allow the owners to participate in company dividends, which they were not able to do with stock options. I believe this will be better for everyone in the long term but the newfound bailout provision for currently worthless stock options should be illegal.



Educational Books

In the world of finance, several of my favorite books include the following:

- The Intelligent Investor by Benjamin Graham
- Secrets of the Temple: How the Federal Reserve runs the country by William Greider
- Manias, Panics and Crashes: A history of financial crisis by Charles Kindleberger
- Moneyball: The Art of Winning an Unfair Game by Michael Lewis



MONEY QUIZ – TIME TO SHARPEN YOUR PENCIL !!!

Last month there were no correct answers. Nobody went to dinner on us last month !!!

- 1) You just won some type of lottery (lottery is a voluntary income tax and I do not suggest you “play” it – even for 260 Million) and you have the choice of two prizes. Option one is \$1,000,000.00 in cash. Option two is a magic penny that doubles every day for thirty days. Which prize would you choose and what is value of the penny on the 30th day?

The first person to call the office with the correct answer will win a free dinner for you and a guest at the place of your choice.

Buffet with Buffett

This is no blue plate special !

A few weeks ago one person was willing to pay \$250,000 to have dinner with the world’s second richest man, Warren Buffett. Mr. Buffett has an annual charity event for kids and auctions off dinner seats. This is a record price tag for dinner. Mr. Buffett is arguably the best investor of our time. He runs a company named Berkshire Hathaway. There are concerns of succession for the great Warren. His partner for the last few decades, Charlie Munger is about the same age as Warren and they are currently forming plans for succession of management. Berkshire Hathaway is a stock that has never split and now sells for around \$72,000 per share. Yes, per share. Mr. Buffett was a student of Benjamin Graham in the book section of this newsletter. Stock splits addressed on page 5.

Management Shakeup at Fidelity

Fidelity investments recently lost one of its star money managers who ran three flagship funds. David Glancy, recently departed and had been managing the following three funds:

- Fidelity Leveraged Company Stock Fund
- Fidelity Capital & Income Fund
- Fidelity Advisor Leveraged Company Stock Fund

This is bad news for the shareholders of the funds as he was responsible for the success of the funds. One of the big problems with single management is continuity in succession. This is a sobering reality that has recently happened at many other investment firms such as Janus, Putnam, T Rowe Price & American Century. Call the office if you would like more information on management tenure of your investments.

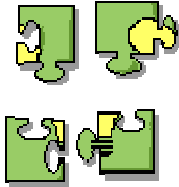


Student Loan Refinance Relief ???

There is pending relief in site for those with student loans. The new laws will allow people to consolidate and refinance their student loans more than once. Many have done this in the past at rates of 6, 7 or 8% and now rates are at levels of 3 or 4%. The new proposed law, the College Loan Assistance Act will create an opportunity to refinance student loans just as we now refinance mortgages and auto loans. This is needed in today’s low interest rate environment. The law will also raise the limits on annual Pell grants for both undergraduate and graduate students. Let’s hope this passes before Connecticut’s politicians can pass a budget!

Inspirational Quotes

- A fool builds his home in the sand and a wise man builds his home on a rock, the bible
- You cannot control what happens to you in life, you can only control your reaction to it, author unknown
- A man is not considered old until he is asked to slow down by his physician, not the police, author unknown
- If everyone were right about money, they'd all be rich, they're not. Don't listen to them, Don Blanton



Stock splits, real value or paper magic ???

There is zero economic benefit to a stock split. There is tremendous emotional benefit for the novice investor, not the professional or institutional investor. When buying stocks or shares of a company, the price per share is not important. The price of the whole organization is indeed important. Let's look at a local example. You want to buy a local business, Joe's bar and grille. Joe is asking \$100,000 for the place. You are paying \$100,000 per share because there is only one share. If Joe sells 100 shares, they are priced at \$1,000.00 each. With 5,000 shares, they are \$20.00 each. Any way you slice it, the product of the number of shares and price per share will be \$100,000. What's the price of the place? Its still \$100,000.

Joe is selling 5000 shares at \$20.00 per share today. Tomorrow he declares a 2 for 1 stock split. Tomorrow there will be 10000 shares at \$10.00 each share. Has the price of the business changed? Either way the price of the business is \$100,000. Many people are under the false impression that after a stock split, there is an immediate return to the investor. This is a case of paper magic, not real value.

If you would like anyone you care about to begin receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll also get a note with their first issue telling them you suggested they receive the newsletter. They certainly will benefit from this information and I'm sure they'll appreciate you thinking about them and having their best interests at heart.

Name _____

Address _____

City _____ State _____ Zip Code _____

Name _____

Address _____

City _____ State _____ Zip Code _____

Call us with the information or
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Please think of us whenever you or someone you care for needs the following:

- Stock option analysis, diversification
- Pensions - qualified and non qualified
- Family Protection Strategies
- Life Insurance
- Investments & Investment Advice
- Business Protection & Succession
- Retirement Plans
- College Funding
- Tax Savings Strategies
- College Financial Aid Strategies
- Required Minimum Distributions
- Debt & Cash Flow Management
- Employment contract negotiations
- Settlement option analysis
- Financial Advice - hourly or annual retainer
- Fee based investment management
- In depth portfolio analysis
- Estate & Income Tax Planning
- Distribution of Assets – IRA, 401(k), etc.
- Retirement Income–Guaranteed or variable
- Disability Income Insurance
- Widow/Widower Assistance
- Nursing Home Asset Protection Strategies
- Long Term Care Insurance & Issues
- Key employee retention strategies
- 401(k) & Retirement Plan Rollovers
- Philanthropic gifting & charitable planning
- Trust, inheritance and foundation planning

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