

Economic Excess!

In the past decade we've seen it all. In the mid to late 90's people became superstar investors regardless of what they actually knew due to the markets going up like a rocket – virtually all of them. Just about anyone who owned securities or mutual funds made a lot of money. Then in 2000, 2001, 2002 the reverse happened – all those who made lots in the 90's gave most of their gains back and perhaps some of their principal – depending on when they began investing. In the past few years we've seen much less extreme – just a few average or flat years and one exceptional year in 2003. Moving forward there are many things to consider and I want to take a closer look at some of these issues. The first issue is executive compensation – in the world of public companies most of them are downsizing, eliminating jobs and pensions, cutting costs wherever they can – and the executives of those companies are getting paid ludicrous amounts of money. Overall, executive

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The Greenspan Effect



Arguably the second most powerful man in the world – for a few more weeks until he retires. The position of Federal Reserve Chairman isn't one to be taken lightly. Mr. Greenspan is responsible for controlling monetary policy for our juggernaut of an economy. Everyone watches everything he does. The words that come off his lips are studied and dissected – by hundreds of financial gurus in an attempt to gain an edge moving forward. Let's learn a little bit about this amazing man. He'll be turning 80 years old on March 6, 2006. His father was a stockbroker and his mother worked in retailing in New York City. He is the 13th chairman of the Federal Reserve and served that post for 222 months – the 2nd longest tenure of any Fed Chairman in the 93 year history of the Fed. He became chairman in 1987 and just 10 weeks after his appointment the US stock market suffered its worst one day loss in history – October 19th 1987 – the 20% decline of the S&P500. He was certainly challenged with the need to coordinate funds to maintain liquidity to handle the sell off. He studied at the Juilliard School of Music in NYC for two years in the 1940's. He played Jazz clarinet and traveled the country for 1 year with the Henry Jerome swing band. In his last year as Fed Chairman he was paid \$174,500 in salary. He served as economic advisor to Richard Nixon in his successful presidential campaign. He was initially appointed by Ronald Reagan, reappointed by George Bush Sr, Bill

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compensation is totally out of control – nobody needs \$50,000,000 in annual compensation – nobody. Let’s face it, once you’ve accumulated \$20 - \$30 million you can do just about anything you want to do. Why someone needs that each year is beyond my wildest dreams. Does that make the company, economy, country stronger? No – as a society we need to get on a path that looks out for the greater good. The corruption of recent years has put a lot of light on this issue – Enron, WorldCom, Healthsouth have been poster children for what not to do with corporate greed. How has the Government reacted? They reacted and enacted new laws but they’re not for the greater good, they’re just new laws and layers of minutia to show they did something (Sarbanes Oxley Act SOX) – now everyone is treated as a criminal. I define this as stupid non productive legislation. Each CEO, CFO or control person associated with public firms is now assumed to be criminal and subject to onerous regulation that does not seem to be about investor protection but about just doing something. This level of minutia, although with good intent, has the effect of detracting from American Capital Markets. Foreign firms are not going to subject themselves to this level of aggravation and minutia unless they absolutely need access to American Capital Markets. This isn’t what we want, we want people to come to American and invest. Wealth isn’t created by spending, it’s created by investing and building – which the Government should incentives. Smaller companies cannot afford to comply with SOX. An example of great legislation would be the investment company act of 1940 meant to control investment companies and has given the public full faith in the industry and that money managers can be trusted. All disclosures are standardized, there is no more lack of disclosure nor are certain people given special treatment.

1929 Crash Then vs. Now

In the 1920’s things operated very differently than they do today. The manipulation that went on in the market back then cannot happen today. In the 1920’s’ excess credit was granted, misappropriated customer securities held in “street name” to obtain loans from banks to finance the firms trading activity. Companies reported their financial results any way they saw fit – there were no standardized reporting requirements. Company officers made huge profits trading in their companies stock on what we now call “inside information.” The SEC didn’t exist prior to 1934 and there were very little policing of the financial markets. Bear Raiders were allowed to continuously short sell a company, driving down its price to ridiculously low levels, and then buy the company – at unfairly low levels and without shareholder approval – that’s where we get the term hostile takeover. This is illegal today and cannot happen. The proxy votes you get that you mostly ignore are a result of these rules designed to protect you. They’re clearly too complicated in layout and presentation – perhaps if we could standardize a simple, uniform format everyone would get a whole lot more out of them. Back in the 20’s corporations weren’t required to file annual or quarterly reports – the joy we now know as “earnings season” didn’t exist 75 years ago. ☺ Margin was out of control back then – consumers could deposit \$1000.00 and buy \$10,000 worth of securities – 90% loan rates. Today the controls that are in place basically make the market manipulation of the 1920’s and the great depression impossible. The markets will certainly fluctuate but the outright fraud that happened then can no longer. The thieves of tomorrow will find ways around today’s laws to defraud tomorrow’s customers – then they’ll have to make new laws preventing the new crimes. A never ending battle – lets hope they make good laws, not useless ones. ☺ ☺ ☺

Noteworthy News! ! !

Our condolences to the LaMonico Family on the passing of Phil, a wonderful man, father and grandfather.

Our condolences to the Snow and family on the passing of Brad's father Worthing, a wonderful man, father & grandfather.

Congratulations to Shawn Franklin & his band the Scallions on the release of their new CD.

What Box?

The Morningstar mutual fund rating system is arguably the most popular tool used to rate mutual funds. I use it and it provides a lot of useful information. The style boxes are a different issue – they claim there are 9 boxes of investments – small companies, medium sized companies and large ones. Within the size zones there are three investment theories – growth, value and a blend of growth and value. If a money manger leaves a particular box Morningstar accuses said manager of style box drift. This is a joke – I'm looking to make investment decisions based on what's a good opportunity, not a box. Just because a manager may shift through different types of firms, different sized firms, etc. does not make the firm and they grow and grow and grow into a large firm does that make you an unsuccessful manager? On the contrary if the company grew from a \$500 million dollar firm to a \$30 billion dollar firm I think you'd have hit a home run. I'll submit that I feel we need diversification, discipline and a complete disregard for style box metrics. When buying equities the bottom line is assets – liability = equity. In order to grow equity value management must turn revenues into income and reinvest it into the business. Return on Equity (ROE) best measures management's ability to do that. Never pigeonhole an investment firm to do only one thing, the more latitude available, the better the results will likely be, assuming equal expertise. Want to break out of your boxes? Call us anytime to discuss this further. ☺

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Clinton twice, and lastly George Bush Jr. He's been married twice to women named Mitchell – Joan in 1952 and Andrea in 1997. He's been at the helm of the Fed for 5 terms – 18 years overall. During his tenure, the S&P 500 has advanced by 492% on a total return basis, equal to 10.1% compounded annually. At the same time, inflation has averaged 3% per year and stocks advanced in 15 of his 19 years running the show. Some of his more famous phrases are starting in 1996 – "irrational exuberance" describing the bullish performance of the domestic equity markets; 2005 the behavior of the world bond market as a "conundrum"; 2005 seeing "signs of froth" in the housing sector and just recently "I worry incessantly that I might be too clear." With Alan, you get an economist and a comedian in one package. ☺ In 29 of the past 32 votes taken by the 12 member Federal Open Market Committee (FOMC) the votes have been UNANIMOUS supporting the position taken by Greenspan. The last dissenting vote was cast by Mark Olsen on 9/20/05. Under Greenspan rule, the Fed bailed out failed hedge fund Long Term Capital Management in 1998. Shortly thereafter the Russian Ruble collapsed and that countries central bank stopped supporting its currency. At the time of failure, the hedge fund had \$27 of debt for every \$1 of invested money – leverage at its extreme. The Fed initiated 11 separate rate changing cycles during Greenspan's 18 ½ years – the 10th of those cycles was a series of 13 rate cuts from 1/3/01 to 6/25/03 taking rates down to 1% from 6.5%. The 11th cycle took rates from 1% to the current 4.25% with 13 rate hikes. The US economy suffered 2 recessions in the same 18 year period and flourished from 3/91 – 3/01 producing the longest period of economic expansion in our countries history. He did a lot for this country – I worry more about the next Fed Chairman than the next President. Good luck to Mr. Ben Bernanke moving forward, he'll put that MIT education to the test in the coming years. ☺

Attitude & Altitude

These two words sound very close but have tremendously different meanings. They can both have tremendous impact on your life. For most, the attitude you choose to live your life by will determine how high (at what altitude) you'll go in life. Whatever your aspirations are there is a pinnacle in everything – whether you want to build an empire, preach, help others, volunteer, teach, etc. Every person on the planet should do something that's good for themselves as well as for the greater good – effectively making the planet better for everyone. If you choose, and it is a choice – regardless of the cards you're dealt – a positive attitude things will go well for you or better than they would have if you chose to be pessimistic. I thank god every day how good we have it – a wonderful family, a prosperous business that impacts many lives on a positive basis every day and we're all healthy. Some people in this world live in or through true misery – look at those who were hit by hurricanes Katrina & Rita, the Tsunami, the Earthquakes – those living in War or unrest. From time to time there are biographies of people who lose limbs and parts of their bodies and go on to accomplish great things. There was recently a family in Florida that lost five children, two nieces and a grandfather. That's a problem, a disaster – one I hope nobody ever has to bear. Our "problems" are hopefully minor compared to other people yet some of us still CHOOSE to see all of the pitfalls and problems with life rather than try to see all the opportunity in the world. Here in America we can do virtually anything we want, providing it's legal. Where are you going today? Where are you going in life? How can you help the greater good and impact lives on a positive note? Not all of us possess earthshaking talent, however common sense, desire and love applied correctly will do the trick. Good luck. ☺



Money Quiz

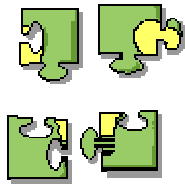
Last months' winner was Phil Engle; the S&P 400 index hit a high on 11/25/05. This month's challenge is to figure out what percentage of workers do not have access to an employer funded retirement plan – either a defined benefit or defined contribution plan. Work quickly, once this newsletter hits the public I'm inundated with answers - good luck. 11:16:06

Tax Technique ☺

For 2005 income taxes there is a way for certain taxpayers to simply shift money between accounts and save money on taxes, gain tax benefits and lose nothing – a rare combination when the IRS is involved. There is a tax credit – not a deduction but a dollar for dollar credit for those who save for their retirement. If you have an AGI of \$50,000 or less and are married filing jointly you can simply shift money from a non retirement account to a Roth IRA and get a 10% - 50% tax credit depending on AGI (adjusted gross income). This is a real winner – with the Roth your money now grows tax free and if you're already over 59 1/2 you can take the money out anytime. The only catch here is you need earned income to do this. If you have a W-2 income or self employment income this will work. It works for all filing statuses and has a sliding schedule for the actual tax credit. If your filing status is single you can earn up to \$25,000 and take the credit – for the heads of households you can earn up to \$37,500 and still take the credit. If you'd like to see how you or anyone you love can benefit, as always, contact us anytime. ☺

Inspirational Quotes

- The most terrifying words in the English language are: I'm from the Government and I'm here to help, Ronald Reagan.
- The trouble with certain people is not that they're ignorant: It's just that they know so much that isn't true, yours truly. ☺
- I have wondered at times what the Ten Commandments would have looked like if Moses had to run them through the U.S. Congress, Ronald Reagan.
- The taxpayer is someone who works for the federal government but doesn't have to take the civil service examination, Ronald Reagan.
- If we ever forget that we're one nation under God, then we'll be a nation gone under, Ronald Reagan.



Radio Trivia

- What was the price of a stamp in 1960? 4 cents.
- China is a fast growing economy – while the US is the largest economy. What #, ranked by size, is the Chinese economy? 6th.
- Unemployment in America is currently at 4.9% - what is it in the 12 nation Euro zone? 8.3% ☺
- The members of the Euro zone are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal & Spain. ☺

The timeliness of the newsletter has been off for a few months – our partner at FAVARH, Pat Clark, has been battling cancer – please bare us and keep him in your prayers. ☺

We can piece the puzzle together and make your money work for you. ☺

If anyone you care about would benefit from receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart.

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