How Much Is Enough?

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Game shows and Roller Coasters
Anatomy of An Investor

One of today's hottest new television shows is "Who Wants To Be A Millionaire?" Now all major networks have their own version of a "get rich quick" game show. Formats match one contestant against another, sometimes in an elimination round and other times throughout the game, with even one option to challenge an opponent and if successful, to eliminate him and take the money yourself. That game was very appropriately titled "Greed."

Have you seen these shows and watched the drama develop throughout the contest? And it is centered around drama, and that elusive prize at the end, sometimes a million dollars, sometimes more. A few nights ago I watched a woman of simple means answer a set of questions, and as the pot built up she continued, knowing she could lose it all in an instant, which she did, to the tune of $60,000 in about 45 seconds. The look on her face was similar to that of someone who just missed the prize at a carnival game, shrugs it off, and goes on. She was able to shrug it off because she had already won and got to keep $600,000.

If you've watched these shows, what does it do to your insides as the questions are asked, and as the stakes grow? Do you get nervous or excited? Do you feel more butterflies or adrenaline? Do you cry out "Stop, don't risk it!" Or do you chide in with a "Go for it all! What's there to lose?" How you answer these questions in part is a reflection of your temperament when it comes to risk-taking, gambling, competition, fear and greed, as well as a host of other feelings and emotions tied to money matters we all face in our daily walk.

Here's another situation I saw last year. It was a challenge to see who could ride a roller coaster the longest, staying on almost 24 hours a day, with very brief stops for very basic needs. The prize was a sport utility vehicle. And the winner stayed on that roller coaster something like a week and a half. You've likely ridden a roller coaster in your lifetime, maybe several. Remember that feeling in the pit of your stomach as it began to climb up the rickety incline, you could hear the chains pulling you? And then with a brief stop at the top you began a very sudden and steep decent, accompanied by screams of terror, only to be whipped to one side, then another? Remember? If you're like my wife, you'd get off and want to rush back on for more. Though not a big risk-taker, she loves the thrill of the ride.

Would you participate in that event? What would possess a person to experience those feelings of exhilaration, motion sickness, nausea, excitement, fatigue, and whatever else you might feel during a 24-hour ride? The answer to what draws people into such an experience may lie in the ultimate prize to be won, or the competition, or simply the journey itself. How that journey sits in your "gut" may give further insight into what I will call your "I-anatomy." Since I have no formal medical training, and know little of the technical human anatomy, let me explain my "I-anatomy."

The "I-anatomy" consists of six component parts, that when placed in connection with one another produce results that can be studied, measured, monitored. The goal is to understand how your own "I-anatomy" is connected, or possibly disconnected, in order to more accurately predict how the system will function when placed under stressful conditions. If you've ever had an EKG, or been tested on a treadmill, or had to breathe into a lung machine, you know what stress can do to the anatomy. If you are in good shape, the impact may be minimal. If you are out of shape, or even sickly, the impact can be dramatic and even dangerous.

The I-anatomy works like this. As I mentioned, there are six inter-connected parts to this anatomy. Thought impulses are generated from *part one, the I-brain*, which connects directly to a complex distribution channel called *the I-transmitter (part 2)*. This I-transmitter generates nerve impulses that send out data to *parts three and four, the heart muscle and stomach lining.* At this point a critical anatomical process begins to occur, called the initial I'mprint (no, that's not a misspelling, it's I'mprint). This process is appropriately named due to the personal nature of what is taking place, namely I myself am (I'm) being impacted by this transfer of information and stimulation. What happens next can only be experienced by the individual, and it is as different for each person as the response one feels to watching a million dollar question on a game show or riding a roller coaster. Some are thrilled, other sickened. The I'mprint causes a biological process to occur, the result of which leads to *part five, I-feelings.* And finally and most critically, the final anatomical part of the "I-anatomy" lies at the very center of this complex process, and coincidentally at about the center of the body as well. *Part six is the I-ntestines.* And herein lies the final processing unit of all six component parts, which when brought together, make up the "I-anatomy" or as it is more commonly known, *the anatomy of an Investor.*

Whether you know it or not, you possess this anatomy, and to the extent you invest in any form, you have experienced its impact in your own life. My hope today is to give you some guidelines for maintaining your optimal level of health in this complex anatomical structure. The fruits of your labor will be better sleep, reduced stress and worry, less fear of the unknown, and a greater sense of control of your destiny.

You see, as an investor you are much like a game show participant or a roller coaster rider, inasmuch as you participate in activity that stimulates thought, emotion and responsiveness. I believe that to the degree you are prepared for this activity (i.e. investing), and to the extent that you are aware of and understand the possible outcomes and their implications in your own life (risk and reward, gain and loss), and to the degree you have a pre-determined game-plan with possible exit strategies, you will be ready to participate and enjoy the journey. To the degree you find yourself in the midst of the activity, and everything seems to be spinning around you, and the clock is ticking and your palms are sweating, and you are unclear as to which way you should go, you will allow emotion to drive, while rationale sits in the passenger seat (awaiting the likely crash).

Let me give you some tips to prepare yourself for dealing with and understanding your I-anatomy. We'll take this one part at a time.

1. **The *I-brain***: As an investor you have the best tool available for preparing your investment program…your brain. You may not want to know all there is to know about investing, but to the extent you invest some time, energy and brain-power into educating yourself about investing, you will greatly enhance your long-term prospects for creating wealth. **HEALTH TIP**: Learn something each year about investing, how it works, what it means, historical trends, future trends. Read a book, ask your investment advisor to teach you, listen to a tape, go to a seminar (not to buy something, but to learn!). Next month I will include my recommended reading list for investment learning.

2. **The *I-transmitter***: As an investor, you need to learn to sense when this part is at work, or asleep. It transmits impulses of data from your brain to your heart and stomach, making possible the process of thought transformation into feeling. And when you have a feeling about something, with adequate knowledge to filter the feelings, you

have the basis for a very healthy investor profile. Where you get into trouble is when the brain receives data via public media and marketing, or better yet friends and relatives, bypasses the screen of knowledge and interpretation, and acts purely on emotion. Because when emotion drives the investment vehicle, the road is bumpy and usually ends in a bad crash. Have you experienced this in your investment lifetime? **HEALTH TIP**: Write yourself a letter. Back-date it to about the time you made your first investment in stocks, bonds, mutual funds, real estate, gold, insurance, art, or whatever it was. Briefly describe in the letter how you felt when preparing for and making the investment, then during the time you owned it, and how you felt when you sold it (or otherwise were relieved of ownership). Repeat this, in brief paragraph form, writing about each significant investment you've made, how it came about, took place, and ended, and how you felt along the way. Write without thinking too much. Just try to quickly revisit the events and capture the moment, as if you were quickly sharing with a friend this history. Then set it aside for a few days, returning to read it thoughtfully and making notes in the margin where you see patterns of behavior that helped or hindered your success as an investor.

3. **The *heart muscle and stomach lining:*** If you have trouble completing the health tip in #2, refer to these parts to help you clarify any fogginess. Don't be afraid to use them and exercise them, and even recall how they felt in the process. For many, investing is a thrill that makes the heart pound. For others, it is an ulcer creator that causes stomach upset. For you, these parts shouldn't just tell you how you feel about investing, they should act as guide to help you realize when you are in dangerous territory. In the end, investing for your future should not be a game, or a competition to see who wins the most, but a lifetime work in process, that continues until your final days. **HEALTH TIP**: Gather your investment statements, review them until you understand what you own, how it is diversified, what you are invested in, and how your investments are performing. If you don't know the answer to these questions, call and ask a professional that is assigned to your account. If they don't help, change professionals and/or refer to part one (the brain) and do some research about what you have. I suggest you begin by checking your stocks and mutual funds in the Value Line and Morningstar references at the library, or online. Next month I will include my "Tips for Research" that will walk you through both Value Line and Morningstar analysis of individual funds and stocks.

4. **The *I-feelings:*** Earlier I asked you about investing based on emotion or on educated decision, and how you felt under either circumstance. Losing on an investment when you've done your homework is much easier than losing because you rolled the dice without any sense of discretion, discernment or knowledge about what it was you were buying. Do you know your annual rate of return on investment for last year? What about since you began investing? Have you made or lost money overall? Are you making enough to get to your goal in time? Is your goal clearly defined? If you can't fully answer these questions, with conviction and a sense of clarity, I suspect you're feeling uncertain as to your investment health. So let's do an investment check-up. **HEALTH TIP**: Go back to your letter in step two. Get three colored highlighters. Re-read the letter and highlight in blue everywhere you were at peace with your decisions, feeling confident you were in the right place. Highlight in green the places where greed was driving your thoughts or decisions. Highlight in yellow those times when fear was crowding in on your feelings about investing. Now take a red pen and mark with a "+" the points when you were successful in your investment work, and a "—" when you were unsuccessful. See if you recognize a pattern of negative signs near the yellow and green (fear and greed) highlights, and positive signs near the blue (peace) highlights. (Note: blue should not be an

indicator of the “ignorance is bliss” methodology. If so, go back to see if your parts are all connected and working properly.) Then if you want to test your I-feelings to be sure they’re working properly, read your letter to a close friend or confidant and ask them to answer as honestly as they can based on the letter, “How would you rate me as an investor, on a scale of 1-10, and why?” Hint: choose wisely someone who loves you and will be honest and direct, but with a sense of compassion.

5. **The *I-ntestines:*** My good friend Dr. Bob Frazer from Austin, Texas had an investment advisor in his early career that had a great deal of wisdom. One of his sayings I’ve always liked was, “Too many people are born with 26 feet of intestines, but have no guts.” Anatomically speaking, it’s where stuff gets processed, used or discarded according to what is needed and what is waste. Figuratively speaking, it’s the “crap detector” that keeps you alerted to something that sounds good, but just doesn’t feel right in the final analysis. **HEALTH TIP**: Use this powerful part of your anatomy to be your final investment partner, your “gut-check.” Don’t be afraid to take reasonable risk for reasonable return. And yet, don’t ignore your guts when they tell you to move or sit tight. This part will only fully function, when the other parts of the anatomy have all done their job to keep you healthy, wealthy and wise as an investor.

Choosing a Mutual Fund

Resource: Morningstar Mutual Funds

1. Pick a fund; find the one-page sheet of investment analysis, read the "Analysis" section in the bottom left to learn what the analyst thinks of the fund. Then in the top left read the "Objective" to see how the fund invests. And below that read the "Portfolio Manager" to get information about who is making the investment decisions.

2. Check the top middle box "Historical Profile" for the Morningstar rating (1 to 5, with 4 & 5 being the better and best selections). Look for above average or better "return" with average or lower "risk." This risk/return relationship is one of the best guides for a fund, to let you know how well they perform in relationship to the amount of risk they are taking with your money.

3. More detailed "Risk Analysis" is found in the middle of the page. It gives the performance (adjusted for commissions) for 1, 3, 5 and 10 years. It tells you how well the fund did in risk and return vs. the Morningstar standard. More than 1.00 means above normal and less than 1.00 means below normal. So seek funds with "Return" of above 1.00 (i.e. higher than normal return), with "Risk" of below 1.00 (i.e. lower than normal risk). My goal is return score of 1.20 or better with risk of 0.80 or less (meaning 20% more return than normal, with 20% less risk than normal).

4. More detailed risk measures in the middle of the page under "Other Measures" include the "Beta" which measures risk in relationship to the market. Again, above 1.00 has more risk and below 1.00 has less risk than the average stock market. The "Standard Deviation" measures volatility of this fund (how widely the price swings up or down and how often). The higher the standard deviation, the more volatile the fund (which means more ups and downs in price) Deviation above 15.0 begins to get volatile, and above 20.0 is very volatile. The bar graphs at the top right of the page reflect how much the fund made or lost in relation to their group average (+ or – 10%). The longer the bars, the more volatile the fund.

5. Under "History" at the top right quadrant, the "Total Return" shows how much the fund grew each year. Be sure to check for small triangles above the bar graphs that signify a change in the investment manager. A new manager may mean style changes and more risk in the future performance.

6. Look under total return for "Expense Ratio %" and "Turnover Rate %." The expense should be 1.25% or lower for most funds, and the higher the turnover, the more they trade, which means more commission cost and more possible taxable gains they make you pay tax on at year-end. Low expense and low turnover mean lower likely tax exposure. For further tax efficiency look to the middle left of the page for the "Tax Analysis." The "% Pretax Ret" shows how much of the return you kept after taxes.

7. Look at the "Portfolio Analysis" at the middle right of the page to see what stocks the fund has invested in, what % of the fund is in each stock, and how the stock has performed this year.

8. At the bottom right you'll find how much of the fund is invested in cash, stocks, bonds, other, foreign, and what sectors the fund is heaviest in (such as technology, financial, etc.).

9. Funds with high return and low risk, with long-term managers, and high star rating, with good measures of tax efficiency and low expense and turnover are the best bets for future gains.

10. In the bottom left you will find information on how to invest, the minimum investment, where to call or write, and what brokerage firms may allow you to invest with no fee (NTF is no transaction fees). Many of the funds have lower minimums if you set up an automatic investment plan where the money is taken out of your checking account automatically.

Choosing a Stock
Resource: Value Line Investment Survey

1. Pick a stock, find the one-page sheet of investment analysis, read the "Business" section in the middle to learn what the company does, then read the narrative below it to see what the analyst thinks of the stock's prospects today.

2. In the top left corner of the page look at the grades of "Timeliness, Safety and Technical" measurement and be sure they are all 1, 2 or 3. Timeliness suggests how timely the stock may be to buy today (1 is the most timely stock rating). Below these figures is a "Beta" score that measures this stock's volatility (risk) in relation to the general stock market. A score above one is riskier than the market, and below one is less risky than the market (my goal is 0.80 or less which means the stock has only 80% of the normal market volatility). And below the beta is the "Projections" section which shows the expected price target, high and low range, of the stock 3 to 5 years into the future. It also shows the expected total return over that timeframe and the annual return expected. I like to see the low price target have at least a 12% annual return estimated 3 to 5 years out.

3. In the middle of the report is historical financial data. Above this data on the right is a box showing the stock's 1, 3, and 5 year historical return. Look for performance of at least 10% or better in each of these timeframes. In the bottom right box the company is graded on financial strength (A to F) and price stability and growth factors (1 to 100). Grades below a B or below 60 suggest financial strength in the mediocre to poor range and should be carefully considered.

4. In the bottom right box the company is graded on financial strength (A to F) and price stability and growth factors (1 to 100). Grades below a B or below 60 suggest financial strength in the mediocre to poor range and should be carefully considered.

5. In the middle of the page to the right are line items that represent the financial data of the company. At the top are sales, cash flow and earnings and dividend data by year. Glance across the lines from left to right and see what trend you see in the growth or decline in each of these areas. How much do they move up or down? How many uninterrupted up years are there? The down a few lines is the "Sales" figure for total company sales (similar to production in the office). Are sales growing? Operating margin is next, and 10-20% is a good number, with a wide fluctuation among different industries. Then Net Profit margin is ideal between 5% and 10% or more. Long-term debt divided by "Shr. Equity" is best if it is 0.25 or lower (meaning 25% or less debt to equity, or what you "owe" vs. what you "own."). And the "Return on Total Cap'l" and "Return on Shr. Equity" should be at least 12% or better.

6. If you want to know about dividend payments, look in the bottom right corner to see how much they have paid annually and quarterly. Then in the footnotes at the very bottom in the middle you will find the dividend payment dates.

7. A stock with a "Timeliness" of 1 or 2, and "Safety" of 1 to 3, with a beta of 1.00 or less, and projected growth of 12% or more annually, with 12% or more historical growth for 1, 3 and 5 years, and reasonably good numbers for the targets mentioned in #5 above, is at least a good place to start to begin your search for quality stocks to own in your portfolio. Keep in mind this is more of a "value investing" approach and it will not apply to high risk and very high growth stocks such as internet companies.

Mutual Fund Select List

My Rating:	Favorite	Good	OK	?
Small Company				
Acorn		X		
Berger New Generation Inv		X		
Berger Small Company Growth Inv				X
Medium Company				
First Eagle Fund of America		X		
Janus Enterprise			X	
Pin Oak Aggressive Growth	X			
Weitz Partners Value	X			
Large Company				
Domini Social Equity			X	
Janus Equity Income			X	
Janus Growth and Income			X	
Janus Olympus			X	
Safeco Equity No Load		X		
Torray		X		
Papp America-Abroad			X	
White Oak Growth Stock		X		
International				
Janus Worldwide		X		
UMB Scout Worldwide	X			
Vanguard European Stock Index	X			
Select Sectors				
CMG Realty			X	
Firsthand Technology Value				X
Gabelli Global Interactive Couch Potato	X			
Invesco Financial Services			X	
Vanguard Health Sciences	X			
Invesco Leisure		X		
Invesco Telecommunications	X			
Janus Global Technology			X	